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Proximity effects in SMEs: up close and personal but strategically myopic

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ABSTRACT

Owner-managers of small to medium enterprises (SME) are the most common business operators across most industries. However, there is a relative lack of information on how these business operators work and their management practices. A common criticism of SME owner-managers is their tendency to suffer from "strategic myopia" whereby they are not focused on long term strategy but more operational, day-to-day issues. Where planning and strategy occur they tend to be modest and incremental in nature. This paper examines the role played by "proximity effects" in shaping this strategic myopia. It draws on a multiple case study of owner-managers and how they manage their firms. The findings suggest proximity effects play a role in shaping the strategic myopia owner-managers.

Keywords: proximity effects, SMEs, owner-managers, strategy

Small to medium enterprises (SMEs) – defined here as firms with fewer than 200 employees that are independently owned and managed, with the owner-manager providing most of the capital and making most of the strategic decisions (ABS, 2002) – are the most numerous type of firm across the world's economies (OECD, 2010). In Australia and New Zealand SMEs comprise more than 99% of all firms and generate more than half of all jobs (DIISR, 2011; MBIE, 2013). Despite their importance to the economy SMEs are predominately stable in terms of their growth ambitions and this is attributed to the characteristics of their leadership, the owner-manager (Penrose, 1959; Brockhaus, 1987; Hornaday, 1990; Blackburn and Smallbone, 2008; Nunes et al. 2013; Nightingale and Coad, 2014). Owner-managers are not entrepreneurs and focus less on growth and more on short-term objectives and local markets (Julien, 1990). They are typically concerned with furthering personal goals and often see the business as an extension of themselves (Carland et al., 1984). Torrès and Julien (2005) suggest that one of the main characteristics of strategy and management in SMEs is the strong influence of what could be called "proximity effects". These include managerial proximity, in terms of hierarchy (e.g. flat organisation, low hierarchical distance), differentiation of tasks inside the firm, communication and coordination modes (oral, informal, flexible) (Torrès, 1997), and in terms of marketing (rather word of mouth and relationship marketing) (Grönroos, 1994). It can also apply to the use of outsiders such as an advisors' network (Ben Letaifa and Rabeau, 2013; Freel, 2003), or the funding of the firm's development (Watson, Hoarth-Scott and Wilson, 1982).

This study explores the role played by *proximity effects* on shaping owner-manager strategy and planning behaviour. It aims to provide a better understanding of how SME owner-managers behave in relation to goal setting, growth aspirations and strategic planning, and how such behaviour is influenced by proximity. In doing so it is guided by a conceptual "proxemics" framework. The following research questions are investigated:

1. What are the major factors that comprise "proximity effects" within SME owner-managers?
2. How do proximity effects influence the strategic behaviour of SME owner-managers?

CONCEPTUAL FOUNDATIONS

The concept of "proximity effect" is derived from "Proxemics Theory", one of several interpersonal attraction theories within psychology (Roeckelein, 2006). The principle of *proximity* suggests that people are more likely to be attracted to those who live or work physically close to them. This concept is founded on the assumption that when people are physically closer to each other they are more likely to have greater understanding of and empathy towards each other. For example, Mencl and May (2009) explored the direct effects of and interactions between the magnitude of consequences and various types of proximity (e.g. social, psychological and physical), in relation to ethical decision-making and empathy. Their study found that no significant difference existed between different types of proximity and ethical decision making and that some evidence exists to demonstrate a causal link between proximity and such decision making.

Proximity effect also draws upon the "Gestalt Theory/Laws" that relate to how people perceptually organise their world (Wertheimer, 1912; 1982; Koffka, 1935). People tend to form a world view based on the things that are most familiar to them and this can include things, people and ideas that are close or proximate (*law of proximity*) (Thorndike, 1907). This has been recognised to have a strong effect on knowledge acquisition in small firms (Davenport, 2005) or in start-up ventures (Petruzzelli, Albino, et.al. 2009; Presutti, et al. 2011).

Within the context of small business owner-managers there is evidence that these 'proximity effects' influence how such individuals interact with other owner-managers who compete in the same market. For example, Glasser and Halliday (1984) found that small business wholesalers in Australia were more likely to cooperate than to compete where all owner-managers were physically located in the same agricultural produce market. This has also a consequence in terms of the feeling SME owner-managers will develop to "belong" to a local business context (Lähdesmäki and Suutari, 2012). Such influence is acknowledged to both prevent a more accurate analysis of the environment and to facilitate a quicker decision making process. Different individuals can be more or less likely to be influenced, depending on their personality. It is thus quite important to understand the way these effects operate and their consequences. Cognitive proximity has been found to have both direct and indirect effects on innovation performance in small firms (Molina-Morales, et al. 2014). However, excessive geographic proximity can result in spatial lock-in as originally found by Ben Letaifa and Rabeau (2013).

Moles and Rohmer (1978) suggest that these laws of proximity result in people being prone to considering events, things and other people of greater importance when they are physically close to them in time and space. This also seems to be applicable to owner-managers within SMEs (Mahé de

Boislandelle, 1996; Ballereau, 2012). At least four "magnification effects" have been identified. The first of these is "small number effect", which is where the fewer employees within a firm the more important each one is to the owner-manager. The second of these is the "microcosm effect", which is where the owner-manager focuses on events that are near in time and space. This can result in the owner-manager favouring short-term and spatially proximate issues in their decision making. Things that are spatially proximate are therefore more important to the owner-manager than those further away in time and space. A third issue is "proportion effect" where the small size of the business tends to amplify the weight and consequences of any decisions made. Finally, there is the "ego effect". This focuses on the owner-manager as the key decision maker and where their personal ego can influence how they make decisions. Their ego can – if not controlled – affect their ability to look objectively at situations and consider all perspectives (Mahé de Boislandelle, 1996; Torrès, 2003).

Insert Figure 1 about here

Figure 1 illustrates the "microcosm effect" as a conceptual framework that draws together the original conceptualisations proposed by Mahé de Boislandelle (1996) and Torrès (2003). These can be explained as follows. Owner-managers are characterised as having an operational or task environment (D'Amboise and Muldowney, 1988) in which they engage in relationships of a largely interpersonal nature. Most of these interrelationships are largely informal in nature. There is also commonly a sense of urgency in much of these engagements as the owner-manager and their employees (Boukar and Ngassam, 2011), customers or suppliers are typically under time pressure, or at least perceive urgency in most of their actions. More precisely, Levasseur, (2012) explains how this can create a temporal conflict between a short term proxemics perspective ("the apartment") and a more long term remote (hence strategic) future ("the world"). This might also have consequences on the nature of financial resources whereby SME owner-managers prefer to fund their ventures with retained profits rather than seek to raise capital via third party debt or equity sources.

The model also suggests that there is both a spatial and psychological proximity in the owner-manager's task environment. As noted above, spatial proximity (e.g. to customers and employees) results in the owner-manager considering these actors as of more importance than those more remote from them. At the same time the people, events and objects physically close to the owner-manager are also likely to impact more strongly on their Gestalt perception thereby creating a psychological proximity effect. The owner-manager is also likely to be emotionally connected to their business in a manner not as commonly found in more entrepreneurial managers (Carland et al., 1984; Hornaday, 1990). This creates an "emotional intensity" effect. Finally, there is a "frequent interactions" effect caused by the owner-manager being more frequently engaged with employees, customers and other key actors within their task environment.

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METHODOLOGY

The methodology used in this study is based on a multiple case study design comprising interviews of 289 SME owner-managers across 30 different industry sectors. It follows what Yin and Heald (1975) referred to as a "case survey method", which is an appropriate methodology where there are a large number of heterogeneous cases and the aim is to aggregate the characteristics of these cases. It also follows the structure for case study research design outlined by Eisenhardt (1989) commencing with the factors leading to the study, then moving onto the case selection process, design of case study protocols and data collection instruments, data coding and analysis development of research propositions and the enfolding of the literature, before reaching conclusions and implications for research, education, policy and practice. The use of case study design was considered appropriate as the research questions were exploratory in nature, the researchers had little control over the behavioural events being studied and the focus of the research was on contemporary issues (Yin, 2014). Further, a multiple case study design was deemed to provide a deeper understanding of the phenomena being investigated with the ability to provide "a good picture of locally grounded causation" (Miles, Huberman and Saldana, 2014, p.29).

Case study selection, interview protocols and data collection

Case study selection should be theory-driven (Eisenhardt, 1989) and cases should be chosen so as to represent the range of dimensions defining the key units of analysis that form the focus of the study (Garson, 2013). The cases were collected over a period of 11 years from 2003 to 2014 as part of an ongoing research project into small business management. The selection of cases was based on each firm having to comply with the ABS (2002) definition of an SME. Data collection procedures involved teams of 4 to 5 postgraduate MBA students focusing on a selected industry and using a common case study protocol supported by a diagnostic assessment questionnaire based in an EXCEL spreadsheet. Each field researcher conducted separate interviews with two owner-managers using a common case study protocol and the diagnostic assessment questionnaire. These were face-to-face interviews within the interviewee's business and typically lasted around 2 hours. Individual and later composite group reports were provided by the student-field teams.

The case study protocol was developed around the framework originally used by Hankinson et al. (1997) and Hankinson (2000) that examined small business owner-managers in the United Kingdom. This included seven units of analysis as outlined in Table 1.

Insert Table 1 about here

The diagnostic assessment questionnaire comprised 124 questions grouped into 12 categories that examined a wide-range of management practices within the firm. The items from which the diagnostic survey tool was designed include international benchmarks and formal management standards including ISO9001 (quality management), BMS4581 (business management systems), ISO4360 (risk management), ISO15504 (information technology), plus items developed specifically

for the tool. It had been piloted tested with owner-managers engaged in industry outreach programs run by the research team.

Insert Table 2 about here

Table 2 provides a summary of the key areas examined within the diagnostic assessment tool. The questionnaire used to collect the diagnostic information used a simple three-point scale for the various items coded 'Yes', 'Partially' or 'No' to each item, which asked specific questions about the owner-manager's operation of the business. It also collected data on owner-manager's past use of and attitudes towards outside assistance (e.g. sources of advice, use of consultants, mentors, business round tables and networking). In addition it gathered financial information on the business and examined the firm's gross profitability and break-even. The purpose for developing this diagnostic tool was to assist businesses, small or large to quickly determine areas of their business which were not performing to expectation, or needed to be improved. Using these tools will enable a business to develop a well-constructed management operating system (Fassoula and Rogerson, 2003).

Description of the cases

The owner-managers recruited for this study were drawn from 30 different industries with a high proportion in services, retailing (e.g. Newsagencies), accommodation, cafes and restaurants, communications, personal (e.g. hairdressing), business (e.g. consulting, IT) and health (e.g. retail Pharmacies). The majority (90%) of respondents described themselves as "owner-managers" meaning that they were the sole owner and key decision maker for the business. Most (65%) of the firms were aged less than 10 years with 41% younger than 5 years, a further 17% were over 20 years old, this profile is fairly typical of the true population as described by the Australian Bureau of Statistics (ABS, 2013). In keeping with the ABS definition of SME all firms had fewer than 200 employees, with 60% being small firms with between 5 and 20 employees, 29% micro-firms with fewer than 5 employees, and the remainder medium enterprises with between 20 and 200 employees. The majority of firms had annual turnovers of between $500,000 and $5 million, with most firms showing growth in their firms' turnovers in the preceding three years prior to interview. When asked about their use of outsiders for advice or support the majority (71%) indicated that they did actively seek such assistance, although 76% also felt that they could be more proactive in doing so. Owner-managers of the micro-firms were found to be less likely than those in small or medium sized firms to actively seek outsider assistance.

DATA ANALYSIS

A substantial amount of data was collected for this project. This included the diagnostic assessment surveys, individual interview reports with owner-managers and the group benchmarking reports from the field-research teams that summarised the collective findings from their industry specific analysis. Many transcripts and group reports were between 20 and 50 pages in length. The NVivo 10 software suite was used to undertake the coding and analysis.

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Data and coding

Two broad types of data were available for this study. The first was 'emic' data derived from the owner-managers in the form of the diagnostic survey and interview transcripts. The second was 'etic' data comprising the comments and analysis from the field notes provided by the student research teams. Both types of data are important in providing a comprehensive view of the phenomena being examined (Rovai, Baker and Ponton, 2013). The initial coding structure was based on the frameworks outlined in Tables 1 and 2, which formed the initial "parent nodes" in the NVivo analysis. However, the coding continued with attention to the issues associated with the seven elements comprising the "Microcosm Effect" framework illustrated in Figure 1, also examined where the "magnification effects" associated with small numbers, proportion and ego. The process involved the removal of any redundant or nesting nodes within the tree nodes to reduce the total number of overall themes to a reasonable level. This is generally around 5-7 main themes interconnected via layering (Rovai, Baker and Ponton, 2013).

FINDINGS

Our findings support the idea that proximity effects are one of the main characteristics influencing strategy and management in SMEs (Torrès and Julien, 2005). As noted earlier they can take a variety of forms. In the following sub-sections we outline the findings across the "magnification effects" and "microcosm effects" as suggested by Mahé de Boislandelle (1996) and Torrès (2003).

Spatial Proximity

Spatial proximity relates to the orientation towards and importance placed on events and people that are geographically near to the owner-manager. This includes managerial proximity, in terms of hierarchy (flat organisation, low hierarchical distance), differentiation of tasks inside the firm, communication and coordination modes (oral, informal, flexible) (Torrès, 1997), and in terms of marketing (rather word of mouth and relationship marketing) (Grönroos, 1994). It can also apply to the use of outsiders such as an advisors' network (Ben Letaifa and Rabeau, 2013; Freel, 2003). This was a characteristics found within the SMEs interviewed for this study. Word-of-mouth marketing was among the most commonly identified sources of generating new customers. However, it also related to the owner-managers' sense of expanding their businesses within close geographic proximity to their existing operations so as to retain the loyalty of their current customers. Table 3 outlines some of the evidence of this from our study. These included spatial proximity, in terms of the choice of customers or suppliers, or in terms of expanding operations.

Insert Table 3 about here

Interpersonal Interactions

Proximity effects also refer to more strategic behavioural traits, like the choice of countries for export or supply (geographical and cultural proximity) (Julien and Ramangalahy, 2003; Maskell,

1998). This typically also includes customer identification and customer relationship (lower market orientation), the recruitment and the choice of a successor (family or network) (Torrès, 2003). It also includes the type of management that is often found in SMEs, such as where the owner-manager is in direct contact with every employee in the firm. Finally, the type of growth (internal), and the source of funding (retained profit, debt or equity) can be included in these proximity effects. This influence of proximity results in the owner-manager being reluctant to trust external advice or to seek outside resources; and the further the source of information or resource is from the owner-manager; the less he or she will trust it (Gibb, 1988; Ballereau, 2012).

As a consequence, they tend to rely upon friends and family as advisors when making strategic decisions, or when testing new products or services that they want to launch into the market. However there are situations where small firms overcome proximity and develop partnerships beyond their traditional area of activity. For example, Teixeira et al. (2008) describe the case of international cooperative R&D projects where geographically distant partners proved more successful than closer ones. A similar result was found by Ben Letaifa and Rabeau (2013). This was a pattern found within many of the firms interviewed for this study as outlined in Table 4 where it can be seen that these interpersonal interactions were associated with networking both within their families and across a wider range of contacts including other business owners and their customers.

Insert Table 4 about here

The most common outside advisor used by these owner-managers was their accountant with around 85% of those interviewed indicating that they used such professionals. A majority (77%) of respondents also reported using other business owners for advice. A high proportion also used friends (75%) and family (72%) for advice. Business associations such as the Chambers of Commerce were reported to have been used by 61% while only 39% reported using government advisory services. The most valued of these external advisors were the professional accountants, followed by other business owners. Of least value were government advisory services. Perhaps not surprisingly the size of the firm was found to influence the type of external advice sought. The owner-managers of micro-firms were more likely to use informal and socially proximate advisors such as family and friends, while those from small and medium sized firms were more likely to use business associations and the owners of medium sized firms more likely to turn to government agencies. Interpersonal interactions, especially in relation to the choice of advisors were also found.

Informal Interactions

Due to their small size most SMEs have organisational configurations that are defined by relatively informal and 'simple structures' (Mintzberg and Waters, 1982). Miller (1983) described such firms as characterised as having no 'technostructure' as might be associated with formal planning and control systems. With relatively few administrative staff, management and control is typically achieved by direct supervision. Operating within such firms is a 'leadership imperative' in

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which the owner-manager's personality, knowledge, power and experience are critical to success. Here the owner-manager serves as the 'brain' of the business, making most decisions and using their 'locus of control' to 'override structural and environmental obstacles to entrepreneurship', or 'resist entrepreneurial activity in the face of environmental incentives and structural pressures' (p. 773).

Hankinson et al. (1997) in their survey of 800 owner-managers and Hankinson's (2000) in-depth interviews with 90 SME owner-managers in the United Kingdom (UK) found two general models of organisational configuration. The first was 'structured and hierarchical' and the other 'flexible and informal'. They found 90 per cent of respondents had the 'flexible and informal' model characterised as a cluster of individual employees who worked around the owner-manager and a deputy manager whose skills were predominately technical in nature. This is what Deeks (1973) referred to as a 'monochromatic' structure in which the owner-manager holds overall control and ownership. Such firms lack formal management structures with specialists in areas like human resources (Wiesner, McDonald and Banaham, 2007). A similar pattern emerged from our own data. The smaller the firm was the more it reflected a 'flexible and informal' structure. The majority (89%) of the firms studied for this research project had less than 20 employees, with 29 per cent having fewer than 5 employees. This small physical size meant that structure was simple and flexible with only rudimentary human resource management systems. These findings are summarised in Table 5

Insert Table 5 about here

Emotional Intensity, Psychological Proximity and Ego Effect

The highly personalised nature of SME ownership and management results in the owner-manager being emotionally committed to their business in an emotional intensity that shapes both their motivation and overall identity. Most owner-managers we interviewed had a strong identity and passion for their business and felt that it was something they wanted to do. Many had held salaried jobs prior to starting up or buying their firm, and those previous occupations had offered them more security and higher incomes than what they were now doing. Yet they still were unwilling to give up their independence and sense of fulfilling their passion for a more secure job. This is illustrated by the following examples outlined in Table 6.

Insert Table 6 about here

This in turn engenders a focus on events, people and knowledge that they can relate to in terms of their cognition and psychology or overall "Gestalt" of comprehension that creates a psychological proximity. Motivation for being an owner-manager of a small business was also strong among the people we surveyed. As found by Hankinson et al. (1997) many did not make that much money despite their long hours, but they remained positive and passionate about their work. The allure of independence, doing what they felt was their main 'hobby' or passion and with the longer term prospect of perhaps making some money were key motivators. Our interviews found a mixture

of owner-managers who could be broadly categorised into those who were 'entrepreneurial' and aspired to growth, and those who were more focused on lifestyle. Table 7 outlines evidence of these 'psychological proximity' issues.

Insert Table 7 about here

This emotional intensity and psychological proximity also manifested in the "Ego Effect" as proposed by Mahé de Boislandelle (1996). As outlined in Table 8 the owner-managers' personal and professional background, plus their emotional and psychological commitment to the business shaped how they perceived themselves and this in-turn influenced how they ran their businesses. As outlined in Table 8 the owner-managers from the Bed & Breakfast (B&B) sector included those who wished to grow and improve their businesses, to those who simply wished to keep a large and now empty house full with people. The field notes describing owner-managers from the travel, real estate and building sectors also provide insights into how these individuals' personal attitudes shaped their management style and orientation towards growth or stasis.

Insert Table 8 about here

Frequency of Interactions and a Sense of Urgency

The task environment surrounding the owner-manager is comprised of a network of contacts with whom they frequently interact and these relationships are often focused on getting things done within a tight timeframe. This can include customers, suppliers, competitors, employees, financial institutions and government authorities (Jennings and Beaver, 1997). The perception of uncertainty within the task environment can also foster an enhanced level of internal networking by owner-managers as they seek to obtain more information from employees and their company systems to help them make better decisions, which appears to assist overall firm performance (Sawyerr, McGee and Peterson, 2003). Our own research highlighted the importance of networking as a mechanism to help SME owner-managers maintain their competitiveness, although this was not universal across all firms or industry sectors. Table 9 outlines some of the evidence for this from our study, including comments from owner-managers illustrating their need to maintain frequent communication with customers.

Insert Table 9 about here

Combined with this need to maintain a high level of networking and engagement with key stakeholders within and without the firm, owner-managers were also driven by a sense of urgency seeking to keep up with the daily pressure of maintaining the business. As outlined in Table 10 this was caused by the owner-manager lacking time to get everything done and finding that the work pressure only worsened when they attempted to grow their business. The cost of this was high in terms of personal time and also impacted on their stress levels.

Insert Table 10 about here

Small Number and Proportion Effects

A feature of how owner-managers engage with their task environment is the development of what Kitching and Blackburn (2003) refer to as 'high-trust' relationships. These typically occur with customers and suppliers. However, they may also occur with employees of a small firm. All of these relationships can be a potential source of ideas for new product development (Gibb and Scott, 1985; Choi and Shepherd, 2004). Closely related to formation of high-trust relationships is the owner-manager's ability to develop their social capital with outsiders. Social capital is a complex concept that has numerous definitions; however, it has been defined as the 'instantiated informal norm that promotes co-operation between two or more individuals' (Fukuyama, 2001). It is comprised of trust, reciprocity and networks; and has been identified as playing an important role in fostering entrepreneurship (De Carolis and Saparito, 2006), and helping bind and lubricate the network relationships that are crucial to entrepreneurial success (Anderson and Jack, 2002; Nahapiet and Ghoshal, 1998). As outlined in Table 11 the close relationships that emerged between the owner-managers and their employees required them to place a high degree of trust on their staff and to foster social capital building within their networks to help them deal with their task environment.

Insert Table 11 about here

The small size of these firms, particularly the micro-businesses, was found to place a significant burden on the owner-managers' in their decision making. For many the burden of not being able to delegate authority was a major problem and this impacted heavily on their personal life. Hankinson et al. (1997) found most owner-managers worked between 50 to 60 hours a week and spent most of their time within the business engaging with employees or dealing with customers and suppliers. These owner-managers also rarely took more than two weeks annual leave feeling that any longer would place their businesses at risk. This pattern was also found in our data with similarly long hours and only limited time for family and recreation. Table 12 outlines some of these findings.

Insert Table 12 about here

However, it should be noted that not all owner-managers were working excessively long hours or finding the burden of having to make all decisions a heavy weight to carry. Many were found to have learnt how to put in place systems that helped them to delegate to their employees and reduce the work load. These owner-managers generally worked fewer hours and had a better work-life balance.

CONCLUSIONS

This paper examines the strategy and planning behaviour of SME owner-managers using a conceptual framework adapted from psychology's Proxemics Theory known as *proximity effects*. It provides a new lens through which to understand the nature of decision making by SME owner-managers based on the greater attribution of importance when people are in close proximity in time and space. The

key proximity concepts are briefly introduced and then our detailed analysis illustrates a series of "magnification" effects and seven factors, which comprise the "microcosm" effect. The data for this analysis was collected from a qualitative case research project of 389 SME owner-managers across 30 industries.

Given the significance of SMEs as the dominant form of enterprise within most economies, it is important to develop theories and conceptual models that can be used to interpret and explain the behaviour of SME owner-managers. In the absence of SME-specific theories, policy makers apply theories developed within large firms and then wonder why these programs don't achieve the expected outcomes. Hence this type of analysis, which seeks to conceptualise and understand SME owner-manager behaviour, makes a valuable contribution to the field. There are a number of insights that arise from this study for research, policy and practice.

Organisation and management theory typically focuses on information flow and decision making processes within organisational structures, using functional capabilities, formalised planning and control systems. However, this study suggests that the decision making within SMEs is personalised to the individual owner-manager, their attributes and interpersonal relationships. Structure, systems and group processes are replaced within SMEs by informal and frequent interactions, spatial and psychological proximity. Close network relationships spanning within and beyond the business, but centred on the owner-manager (ego effect), and driven by his/her emotional intensity are also characteristics of the SME task environment. Analysis of proximity effects provides an alternative framework for understanding the performance of SMEs by focusing on the factors influencing the behaviour of their owner-managers.

Our findings show that SME owner-managers (particularly those from micro-businesses), make decisions based on intuition and a small circle of trusted family, friends, other business owners and some professional advisors. This approach may help owner-managers to make faster decisions, and to tolerate a higher level of risk (as they do not perceive it as such), it can also result in errors or missed opportunities. These findings relating to proximity effects contribute to a better understanding of the problem of "strategic myopia" (Lorsch, 1986), where the owner-manager fails to consider the "bigger picture" surrounding their firm's task environment, and thereby fails to adopt a long-term strategic outlook when making decisions (Wang, Walker and Redmond, 2007). This is a concern as they tend to be more reactive and do not exploit their resources or innovations (author citation). They may also not see changes occurring in their industry (Detchenique and Joffre, 2012), and may lack the level of planning and formalisation of strategy needed to address environmental turbulence (author citation).

Future research should compare and contrast the impact of digital technologies and social media on the proximity effects for SME owner-managers. The adoption of information and communications technologies (ICT) provides business with greater geographic reach. However, the majority of SME owner-managers seem focused on local, geographically proximate markets. Further,

social media creates opportunities for larger and more geographically distant personal networks, and even the creation of new business models based on "sharing" or collaborative consumption (Botsman and Roo, 2011; Tapscott, 2009). Social media can potentially serve as a moderator or mediator for the SME owner-managers' proximity effect. The concept of "collaborative consumption" can take many forms but it would relate to having owner-managers sharing resources via online systems to help expand their access to resources. An example might be small firms' crowd sourcing funding, sharing work via online networking and perhaps even collaborative marketing via online and social media platforms. Further research could focus on these relationships.

Finally, this study provides insights for policy and practice. In terms of policy the study provides a potential explanation for the informality of planning and strategic decision making within SMEs. It also helps to explain the often incremental approach in SMEs towards innovation, preferences for financing and the modest growth paths taken by most firms. Government policies targeting economic growth, high-tech innovation or venture capital financing need to recognise that SME owner-manager preferences and behaviours may be at odds with these ambitions. Understanding these proximity effects on owner-managers also helps to assist shaping policy in relation to programs targeting advisory and support services to SMEs. Developing a "proxemics profile" of SME owner-managers would help improve the design and targeting of such programs.

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FIGURES AND TABLES
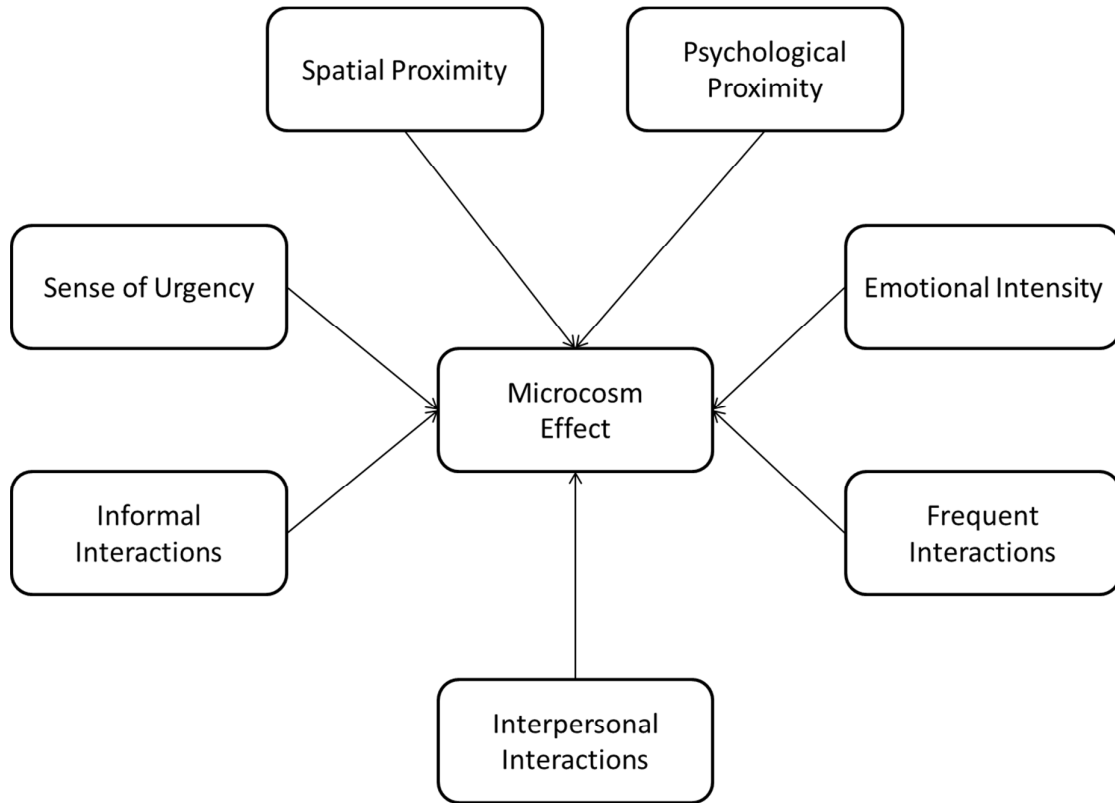
Adapted from Mahé de Boislandelle (1996); Torrès (2003)

Figure 1: The Microcosm Effect

Table 1: Discussion protocol units of analysis for owner-manager level

Units of Analysis	Description
Behaviour and lifestyle	Hours worked per week, family and work-life balance, working patterns, hobbies and interests outside of business, membership of professional associations and other groups.
Skills and capabilities	Expertise in marketing, finance and accounting, technical operations, general management, leadership, languages. Formal qualifications.
Management methods	Ability to delegate, use of specialist managers in company, use of outside consultants, leadership and communications style.
Motivation	Satisfaction with business and sense of purpose, social status, personal and professional accomplishment.
Future perspectives	Future outlook for growth and development of the business.
Relationships with banks	Relationships with sources of finance, particularly the bank manager.
Identity	Sense of personal identity as a small business operator, satisfaction with their own professional life and future development through skills and education, plus enhanced profitability of the business.

Source: Hankinson et al. (1997); Hankinson (2000)

Table 2: Discussion protocol units of analysis for company level

Units of Analysis	Description
Marketing and sales	How well the owner-manager systematically generates new business and tracks existing sales.
Customer interface	How well the owner-manager monitors customer satisfaction and seeks to generate customer delight.
Financial management and performance	How well the owner-manager monitors their financial performance and seeks to gain control over the business.
Management intent	How well the owner-manager sets a future strategic direction for them and for their business.
Process capability	How well the owner-manager seeks to establish formal planning and control measures for processes within the business.
Internal integration	How well the owner-manager matches their planning and performance via KPI benchmarking data.
Products	How well the owner-manager monitors product performance and develops new products and services.
Quality	How well the owner-manager creates systematic quality assurance within their business.
Management information	How well the owner-manager obtains regular data on business trends and performance levels.
External integration	How well the owner-manager builds around them a strategic information and support network.
Operations	How well the owner-manager integrates marketing and sales with their operations management.
Strategy and innovation	How well the owner-manager builds a competitive advantage and seeks to add real value to their business.

Source: Authors (2014)

Table 3: Microcosm Effects – Spatial Proximity

Description	Examples of transcript
Events and people that are geographically near will be considered as more important than those who are remote.	Owner–managers from the case study stated that the most effective form of marketing was by word of mouth referral. Salons therefore, need to satisfy clients by exceeding their expectations. If salons can become aspirational destinations, then they will attract strong client bases that are not price sensitive. (Field note, Hairdressing sector) None of the interviewed owner-managers made any attempts to quantify their marketing spending, and there was little evidence of any brand building activities being undertaken. Marketing is also found to be under-utilized and commonly misunderstood; advertising is often confused with marketing and there is very little formal planning or review of expenditure in this area. Most owner-managers seem to be comfortable with offering the same services as other firms and relying on customer service, price and word of mouth to attract customers. (Field note, Bridal industry sector) "Word-of-mouth provides 90% of our business." (Owner-manager, Bed & Breakfast business) Based on our research, 90% of the interview candidates claimed that word of mouth referral provided them with most new business opportunities. (Field note, Independent Consulting sector) Marketing efforts relied mainly on word of mouth referrals from others students and the school's websites. (Field note, Language Education sector) The main source of clients for these case studies is referrals or word of mouth. It is evident that these owners see the importance of maintaining a strong relationship and winning satisfaction with their clients and thus ensuring referrals from them. Ensuring a quality product will also improve customer satisfaction which in return could generate referrals. (Field note, Independent Building sector) "Most of our customers are people who visit this area. We want to build better relationship with regular customers by creating better CRM." (Owner-manager, Independent Liquor store) "Would like the opportunity to extend the premises, and separate the Newsagency. A total segregation of the business. Extensions will dependent on the Landlord and the council." (Owner-manager, Newsagency) "There is not enough floor space, but I'm unwilling to leave our current location as we have built a very good reputation with our customers, and there not enough money to hire a marketing team." (Owner-manager, Independent Supermarket) Ross intends to grow his business by varying range of product and services. As well as making the buying experience as comfortable as possible. As 70% or more of their customers are from the surrounding areas such strategies will ensure repeat customers. (Field note, Newsagencies)

Table 4: Microcosm Effects – Interpersonal Interactions

Description	Examples of transcript
Relationships of the owner-manager are mostly interpersonal in nature.	Harry and Kaye both identified family as the group of most value. Kaye said her brother was a tax auditor so she asked him for business advice often, while Harry said he frequently discussed business with his co-owner who is his brother in-law, while also seeking advice from other family members as well. (Field note, Florist industry sector)
	Shane also has a close relationship with a number of external parties including his accountant, his cousin and two business mentors that include the previous owner of this business and a previous director of this business. (Field note, Independent consulting sector)
	Greg has joined Rotary, which has given him a chance to talk with other business owners. He also bounces ideas of friends who are small business owners. Several of their repeat customers are retired newsagent owners who will are always willing to talk about their own experiences and often offer advice whether it is wanted or not. (Field note, Newsagency sector)
	Sue spends a lot of time speaking to the owners of the local butcher who has run their business for three generations. Talks a lot about customers and compares stories and philosophies on customer relations. (Field note, Newsagency sector)
	"…Client relationships are very important. There is continual and constant monitoring and feedback to make sure client happy…" (Owner-manager, Graphic Design industry)
	Relationship with customers was expressed as great importance. Majority of business comes from repeat customers. This idea is constant with the business concept that 80% of business come from 20% of customers. Anita and Thomas have an understanding of who their customers are and why they purchase from them. Relationship with suppliers is more transaction than relational. Building a good relationship with suppliers could prove to be beneficial. (Field note, Hairdressing industry)
	In every case, the owner-managers were still very involved with client relationship management, even if sales personnel were also available. This appears to take up a very large part of the core activities because most of these owner-managers feel that this is an important part of business development by building and maintaining long-term client relationships. (Field note, IT firms)

Table 5: Microcosm Effects – Informal Interactions

Description	Examples of transcript
Relationships of the owner-manager are mostly informal in nature.	The firms had little formal strategy in place stating that market conditions fluctuated too much for formal plans to be of any use. A number of businesses had informal plans for short term planning. One business regularly met with key staff on a weekly basis, usually at the end of the week to discuss the issues that had arisen and to discuss plans for the weeks ahead and, occasionally more long range plans would be made. (Field note, General Aviation sector)
	Hayden describes his company structure as flexible and informal, but has a hierarchy in the property management department and is keen to extend it to the whole business. "I'm trying to structure the organisation more and more because I have 18 staff and want to move myself out of the role of being the only 'go to' person". However, Hayden found the sales team were resistant to intermediate managers, saying "There was a lot of pushback which risked the fundamental stability of the workforce and the business". As with Henry, Hayden values loyalty in an employee, but also emphasised that loyalty must be mutual. He said, "... I'm willing to forgo business opportunities if necessary to back my staff" and attributed the low staff turnover to mutual loyalty. Hayden has realised that having a long standing stable workforce has its downside. He said, "I have complacency and apathy amongst my sales team in particular" and went on to say "To get them to be innovative and change their ways is really difficult." (Field note, Real Estate industry)
	The florist can be best described as flexible and informal organisation the owner-manager works full time and there is also one other staff who works there on a full time basis. So the owner-manager in this case will always be at the florist shop from opening to closing. (Field note, Florists sector)
	Most companies were structured with single owner-operators at the head, a small number of administrative and core account managers, and a larger number of flexible, part time field representatives. The management structures are generally flat, with 3 layers being the norm. (Field note, Independent Food Brokers sector)
	Only one respondent indicated that they wished to maintain a totally businesslike relationship with their employees. Two of the respondents indicated that they have developed a fully open relationship with their employees. This allows effective interaction between the employees and the owner-manager, but can leave the employer open to criticism, or the miasma of too many contrary views. (Field note, IT firms sector)
	Most of the firms surveyed were very small and owners dedicated little attention to HR issues. However several fairly simple KPIs could be established to direct owners' attention to HR issues and help them develop strategies for improving HR activities. These include staff turnover, performance management issues, sick leave taken, customer satisfaction measures and number of staff recommendations to business practices. (Field note, Light Aviation sector)
	We approached many of these firms, admittedly with some trepidation, for interviews. A quick glance at them revealed the owner-managers are unclear on the importance of specialisation and quality. Dark, unsafe workplaces, idle labourers, and unattractive workmanship are evidence that the low-end firms are making a half-hearted effort to survive. Several of these owner-managers also exhibited poor English or communication skills, suggesting they are in a weak position to market themselves effectively. (Field note, Furniture manufacturing sector)

Table 6: Microcosm Effects – Emotional Intensity

Description	Examples of transcript
The owner-manager is highly emotionally committed in his or her firm.	Half of the owner-managers always wanted to own a coffee shop and were passionate about their enterprise. The remaining four had some interest in starting their own business. Passion in these cases was not a significantly motivating influence. Financial independence proved to be one of the most considerable reasons motivating people into the small business sector. It was common amongst the owner-managers that had at one stage been employed by a company, to find that they thought they couldn't achieve personal goals and financial independence working for someone else. (Field note, Cafe restaurant sector) Lyn quiet clearly wanted to be a small business owner in the travel industry as she has a great passion for travel, and she was drawn to the concept of 'being your own boss' as she describes herself as a 'control freak, and always wanted to be in control of her own destiny', which she believes is something that is much easier to achieve working for herself rather than working for an employer. (Field note, Travel Agencies sector) Allen's character is determined by his compassion and willingness to sacrifice time, a man of unusual foresight and drive to succeed. Despite this, he still places a high priority for his family. The way he manages his business is strongly influence by his values and beliefs. He constantly stresses the importance of keeping good employees (mainly teachers). He elaborated with such words of wisdom "good members of staff are like pearls, hard to find and harder to keep". However he still faces problem in which will be discussed later on in regards to staffing. (Field note, Small Language Training Colleges) Sandy does consider himself passionate about small business, as he is focused on aiming for purchasing a larger agency. His desire is to free up his time. Sandy agreed that he has a fantastic customer base and is pleased with his choice of agency. (Field note, Newsagencies sector)

Table 7: Microcosm Effects – Psychological Proximity

Description	Examples of transcript
Events, people or knowledge which are near in terms of cognition and psychology.	The majority of beauty therapy owner-managers do make a large income, but they are passionate about their work. When asked if they would work for a large organization for the same remuneration even if the responsibilities and pressure could be less demanding, 100% of respondents said they would not. (Field note, Beauty Therapy sector)
	Larry mentioned during the interview that when he was very successful in a big company, as the marketing manager, he got a very serious problem in the family. He spent many years to balance the business and family. One of the reasons that he migrated to Australia with family and set up his own business was to find the new point of balance between the personal success and the harmonious family. (Field note, Independent Consultants sector)
	Half of the owner-managers always wanted to own a coffee shop and were passionate about their enterprise. The remaining four had some interest in starting their own business. Passion in these cases was not a significantly motivating influence. Financial independence proved to be one of the most considerable reasons motivating people into the small business sector. It was common amongst the owner-managers that had at one stage been employed by a company, to find that they thought they couldn't achieve personal goals and financial independence working for someone else. (Field note, Cafe restaurant sector)
	Five of the eight we interviewed had shown a genuine interest in growing. These five respondents desired some form of growth. We also had noticed a strong desire among these owners in achieving these growth objectives. Some talked about achieving certain KPI's in 18 months' time (or a time period) and then expanding the business, while others mentioned selling the café business and getting involved in yet another endeavour. (Field note, Cafe restaurant sector)
	As of future ambitions of the business the owner-managers have no plan to expand the business in opening up a new florist. The plan is to grow the florist business. Although the owner- managers have future plan to try and venture into a printing business with her sister-in-law if they do find a suitable opportunity to take over a small printing business for weddings cards and the like. (Field note, Florist sector)

Table 8: Magnification Effects – Ego Effect

Description	Examples of transcript
Every decision and phenomenon is centred on the owner manager, his or her ego could hinder the capacity to step back and consider the whole picture.	All owners considered themselves to be friendly; people orientated and have chosen a business that suited their personalities. Other personality attributes that were common included self-motivated, ambitious, innovative, creative and dedicated. A comment made by one of the owners identified 3 types of B&B owners: 'well there are the Entrepreneurs who are interested in growing and improving their business; then there are the Retired couples wanting to use part of a large property and, then there are the Owners where the B&B is not the prime source of income (typically women)'. (Field note, Hosted Accommodation sector)
	My first impressions of Jessica are that she is clearly a young entrepreneur on her first business venture. On the day of interview, she was both excited and somewhat flustered for welcoming me to their office. I arrived and she was still in the brink of completing a meeting with a supplier. She went as far as apologizing for her being quite scattered at the moment because she was doing so many things at the same time, and in fact was training an intern right after the interview. (Field note, Travel industry)
	The current Executive Director is Marlene an accomplished and experienced entrepreneur in her own right. She has had over twenty years' experience in the hospitality industry before this business. She is no stranger to travel and tourism as she had dealt with travel and tourism providers during her days as hotel management. She and her son had taken the business from a loss to a successful family business. Marlene can be described as being extremely confident and headstrong with regards to her business. Upon arriving, I was seated at a large board room and she walked with such confidence to her chair. (Field note, Travel industry)
	Hayden is a married man of approximately fifty years of age. Like Henry, Hayden has been in the real estate business for many years and previously worked as a real estate salesman. Hayden works a "manageable" 40 hours a week, significantly fewer than Henry. He believes having his own business has impacted positively on his family life, by providing the financial resources to enable them to lead a full life. Like Henry, Hayden avoids taking more than two weeks holiday at a time. In contrast to Henry's situation, Hayden does very little selling, preferring to leave this to his sales team. Clearly, Hayden still feels that the business cannot function for long without him. (Field note, Real Estate sector)
	Generally both John and Gary described the main challenges that they were facing at the moment were growth in the business and anticipating and coping with a potential downturn in the economy. John indicated that he is happy with the performance of the business and does not anticipate any future growth but focusing on consolidating his building and scaffolding business and developing an exit strategy of progressively transferring the business to his son upon retirement. On the other hand, Gary indicated he is actively re-investing the profits back into the business and have plans to create a sustainable business that is independent to macro environment fluctuations. Both respondents believed in developing the branding of the business to increase the goodwill value of the company if they were to decide to sell the business when they retire. (Field note, Independent Builders sector)

Table 9: Microcosm Effects – Frequent Interactions

Description	Examples of transcript
Owner-manager interacts frequently with employees and people within his or her network.	"A lot of our work is brought in through strategic alliances with consultants. Networking in this way is very important as it ensures a steady flow of work through marketing consultants who need our expertise…" (Owner-manager, Graphic Design business)
	Informal networking was indicated by eight of ten respondents with many also engaging with suppliers in matters of competitiveness or product enhancement. This data greatly emphasises the importance of maintaining strong relationships with clients and for the developing of referral bases and centres of influence. (Field note, Real Estate sector)
	"As the business has grown of the years it has become very large and busy, The business was built and still remains the result of many hard years of building customer loyalty and relationships on an individual basis. Maintaining these relationships when a business reaches a mini department store status is a challenge. The long term retention of staff and relationships they build with customers is paramount and never losing the local pharmacy feel is a must. Setting up a business for efficiency and speed of service and not treating customers like numbers is a fine balancing act that has to be done right." (Owner-manager, Retail Pharmacy)
	Both Lillian and James had strong ties with external groups, who they used for guidance and also used to discuss strategies for the business moving forward. (Field note, Independent Liquor Store sector)
	Industry networks were paid lip service; however none of those interviewed felt that they gained much from participating in these forums. They felt that the participants were there to listen rather than to talk, and as a result the useful content of the meetings was very low. None of the interviewees used any networks outside of their customer and retail networks. (Field note, Independent Food Brokers sector)
	"Although with a relatively small customer base it is possible to ensure frequent communication and open discussion about levels of customer satisfaction, this information is not documented or analysed to track trends. We do not have a formal means of recording this information and do not regularly survey customers for feedback. I am not entirely certain that such a formal database would be of value. Possibly the biggest customer interface problem is in striving to delight the customer. We believe that exceptionally high standards are set within the company; however, there is plenty of scope to improve both attitudes and operations to do the little extra things that will delight the customer." (Owner-manager, Independent Consultancy)
	"As I am a small business, with no designated sales staff, most customer interaction is done by myself. By speaking to customers on a daily basis I have a good feel for my customer requirements." (Owner-manager, Small Bars sector)

Table 10: Microcosm Effects – Sense of Urgency

Description	Examples of transcript
Owner-manager and employees lack time and perceive urgency in most actions.	"A major issue for me is the length of time we have with the customer. Not enough time available. Not financially viable to spend a lot of time." (Owner-manager, Pharmacy) Nikki is open for business six days a week and she is at the salon all of these days she told me that her time is split up into about 45 hours on the floor of the salon working with her customers with another 20 to 25 hours spent doing paper work, however it is her parent that look after the financial side of thing and Nikki is left to the operations side of the business. When asked about how much time that she takes off each year Nikki replied that she only take two weeks a year at Christmas to go on holiday the rest is spent at work or working. (Field note, Hairdressing industry) "Think carefully about the amount of personal time the business will take. Be committed to give 110% and be aware that you will lose much of your personal time." (Owner-manager, Hosted Accommodation sector) Linda works from her home office where she has a dedicated room; she also has an external office where she performs work for largest client. Linda confirmed that she spends most her time on the phone and in meetings but makes a conscious effort to reflect and strategize each day. In May Linda secured a large contract which increased her workload from ~45 hours a week to " 6-7 days a week and 12+ hours a day." This rapid increase in workload has resulted in early signs of "teetering on the edge of burn out" and she is trying to find more of a balance and time to spend exercising and pursuing her hobby of horseracing. As such Linda is examining the viability of her subcontracting model and is considering employing an FTE to increase her service offering and secure larger contracts. (Field note, Independent Consultants sector) High levels of stress experienced by all, particularly now Natalie is not working. Sue and Katsu are similar natured, both like to control. Both go around undoing what each other does. This does create a lot of tension. In listening to Sue, is was quite obvious that the change in her lifestyle has resulted in a lot of stress with trying to manage the home, keep on top of the book work plus work about 42 hours in the business. Sue indicated that she is experiencing a lot of tiredness in both her and Greg who is causes a lot of tension. (Field note, Newsagency sector) The two pharmacists work very different hours each week which can mainly be attributed to the different lifestyle and other commitments that each of them has. The owner-manager at Pharmacy B works an average of 40 hours each week with 50% of those spent working as a pharmacist in the store and 50% at home or for the business side of the store. The owner-manager of Pharmacy A works a total of 20 hours in the store and conducts about 5 hours of work each fortnight at home. Although initially this does not appear to be much this is purely the time that he spends working for the pharmacy. More recently he has expanded the business and opened a chocolate shop next door and so is also involved in running that as well. Both of the owners gave themselves a stress level of 8 on a scale of 0- 10 with zero being relaxed and 10 being very stressed. (Field note, Pharmacies)

Table 11: Magnification Effects – Small Number Effect

Description	Examples of transcript
The fewer employees in a firm, the more important each of them are perceived to be.	As for employee retention, communication and management, we found that most of the respondents are trustworthy of their employees. Hence, an empowering attitude is taken in comparison to a more dictatorial one. Five respondents applied the former method of dealing with the employees and only three had stated that they have to be dictatorial (one of the owner's stated that communicating and motivating the staff becomes a major challenge). In order to increase employee morale and motivation, one of the owners, nominates a staff member of the month, a staff tasting night when the menu is changed. (Field note, Cafe restaurants sector) One of the challenges of human resources in GA firms is the turnover of pilots. Many pilots worked in GA in order to obtain sufficient experience to enter the airlines and fly jets. For small businesses this meant a steady drain on resources having to repeatedly train and teach pilots in the businesses practices and culture. (Field note, General Aviation sector) This leads to another problem that Nikki has encountered since opening her business, Staff she has found it very hard to get good quality staff that can be left alone in the salon without Nikki having to be there. She is actually currently looking for a full time head stylist to take some of the pressures of the daily running of the hair dressers. Perhaps this is where Nikki needs to delegate to her staff and give them responsibility she did come across as she felt that the business would fail without her being there to keep an eye on things. (Field note, Hairdressing industry) "…After trial and error, we have found that the optimal number of staff is nine. Therefore our fixed costs, which are predominantly staff, remain predictable. We bring in freelancers, consultants and copywriters when needed depending on the nature of the project." (Owner-manager, Graphic Design sector)

Table 12: Magnification Effects – Proportion Effect

Description	Examples of transcript
The small size amplifies the weight and consequences of decisions and situations.	"I need to find perhaps another employee & also learn what I can and can't delegate. I am trying to put in place structures that will allow me to be absent from the business for more than a few days at a time. Mainly I need to improve management structures." (Owner-manager, retailing industry) A majority of owners spent long hours working in the business. Many felt that they had neglected other areas of their life as a result. Most worked 7 days a week and found it difficult to be away from their businesses for longer than a week. Many of their initial expectations of profit and lifestyle had not been met, with four of the ten owners planning to exit the industry. (Field note, General Aviation sector) "My biggest problem? Me not having enough time to go and talk to them, I'm too busy at the coalface." (Owner-manager, Independent Liquor store) Because of the amount of time required to operate a small business, the owners were asked if they have enough time to spend with their family and enough personal time to do what they want. Five out of the eight owners stated that they do not have enough time to spend with their family but three also stated that they are able to do some of the bookwork at home. One of the owners also stated that the spouse and children come in periodically and assist with the business. This allows for them to spend family time together. On the other hand, only three of the eight owners stated that they have enough time for personal activities. One of the owners stated that they are working for the future. One stated that their goal is to get time to take on other projects and one stated, "Business dominates your life". (Field note, Cafe restaurant sector) "A major problem for me is the time it takes to return all the calls and taken to reschedule activities because of time blow outs. The client does not always understand the timing issues associated with the activities we are doing on their behalf." (Owner-manager, Property services sector) The owner-managers spend about 48–52 hours a week managing the business or spend time related to managing the business. The owner-managers claim that they will try to take a holiday or break for holidays. However due to timing of her husband's business they have not been able to take a holiday for the past 2 years, however later this year they intend to take a holiday. (Field note, Florist industry sector)