The effect of industry life cycle stage on the strategy-making – firm performance relationship

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ABSTRACT
This paper argues that individual small firms just like large firms, place differing emphasis on strategy-making and may employ different approaches to strategy-making. This paper offers an explanation of the nature of these processes in small firms and hypothesizes how they relate to performance. It further examines how these relationships differ depending on the industry life cycle stage. It then describes the results of an empirical study of the strategy-making processes of small firms. Analysis of the data (n=320) identifies four such processes in small firms, indicating that the participative and adaptive approaches to strategy-making may have a significant effect on firm performance, but that the importance and impact of these relationships will change when accounting for the effects of industry life cycle stage.

Keywords: strategy-making process; firm performance; industry life cycle stage

BACKGROUND
In the early 1990s, Eisenhardt and Zbaracki (1992) were already forecasting significant changes in strategy-making process research from qualitative to quantitative approaches. These changes were realised with authors such as Hart (1991, 1992) and Dess, Lumpkin and Covin (1997) who researched this area in a quantitative manner where previously, most studies in this area had been in the form of case studies (Allison, 1971; Eisenhardt, 1989; Mintzberg, Raisinghani & Théorêt, 1976; Mintzberg & Waters, 1982; Nutt, 1984). This paper continues in that later tradition, extending the method of Dess et al. and Hart to small firms and exploring the applicability to smaller firms of models that were developed for large firms.

The concept of strategy-making process was first examined in the late 1960s and early 1970s by Henry Mintzberg (1973) who wrote the first significant article that uses the term ‘strategy-making’. Defined as ‘a process that involves the range of activities that firms engage in to formulate and enact their strategic mission and goals’ (Dess & Lumpkin, 2001, p. 4), Mintzberg introduced the idea of different approaches for a firm to make strategy. Instead of only the traditional rational approach, his article discussed the planned (similar to rational), adaptive and entrepreneurial modes. Extending the approach introduced by Mintzberg, other authors described additional approaches to strategy-making such as symbolic (Hart, 1991), simplistic (Lumpkin & Dess, 1995, forthcoming) and participative
Several authors have identified similar typologies of strategy-making processes (Ansoff, 1987; Dess, et al. 1997; Hart, 1992; Nutt, 1984). What most of these authors have in common is recognition of the rational mode as the predominant strategy-making process found in firms (Hart, 1991; Mintzberg, 1973; Robinson & Pearce, 1983). However, as argued by Verreynne (forthcoming), this notion of rationality in strategy-making is questionable in a small firm environment, especially within those firms with less than 100 employees. In this regard, processes which include stakeholders in the strategy-making process seem particularly suited to small firms. Furthermore, it can be argued that the nature of strategy-making processes may change, depending on the industry life cycle stage of a firm, with some processes more relevant to firms in young industries, and others to firms in mature industries. This paper therefore aims to confirm the existence of such processes in small firms, and to investigate their relationship with firm performance. It then compares the nature of these relationships during different stages of the industry life cycle. It does so by first providing a background to the notion of strategy-making and, in particular, a background to participative and adaptive strategy-making – that is the approaches which suggest stakeholder participation. Thereafter, this study is conducted in two phases. In the first phase the hypothesis that participative, adaptive and simplistic strategy-making are used by small firms is investigated. In the second phase, the key relationships between these processes, firm performance and industry life cycle are explored. Lastly, a discussion and conclusion are provided.

LITERATURE AND HYPOTHESES

Robinson and Pearce (1984: 128) call small firm strategy-making ‘woefully inadequate’ and 20 years of research have done little to change that assertion with the literature on strategy-making in small firms remaining sparse (e.g. Frese, van Gelderen & Ombach, 2000) and commonly exploratory (e.g. Gibson & Cassar, 2002). The words ‘strategy-making’ are seldom used in a small firm context; rather the term that seems to be prevalent is ‘planning’. Researchers who explore planning in small firms do
so in order to identify the presence or absence of formal processes (e.g. Robinson & Pearce, 1984), rather than to explore the nature of these processes, their relationship with firm performance and the contexts in which each process is more likely to enhance firm performance.

This research therefore draws from those processes identified by researchers in large firms, as briefly indicated in the introduction. It argues that the adaptive (Chen & Hambrick, 1995; Harris, Forbes & Fletcher, 2000; Keeley & Roure, 1990), participative (Bourgeois & Brodwin, 1984; Cutting & Kouzmin, 2000; Floyd & Wooldridge, 1992; Hillman & Hitt, 1999) and simplistic (Lumpkin & Dess, 1995; forthcoming; Miller, 1993) processes are important processes that small firms use. Adaptive strategy-making is viewed as an active engagement of external stakeholders in the direction of the firm which is often employed by small firms because of their dependence on these stakeholders, which typically include customers and suppliers. This engagement may be less formal than when a rational strategy-making process is followed, but may nevertheless exhibit elements of strategic thinking, as suggested by Quinn (1980). Participative approaches to strategy-making process can be undertaken by employees, managers, shareholders or corporate boards, or other stakeholders. This paper defines participative strategy-making as a mode of strategy-making in which strategies are the result of the inclusion of various internal stakeholder views (mostly employees) in the different stages of the strategy-making process. Miller (1993) defines ‘simplicity’ as a frame of mind or perspective in which highly successful firms become overconfident in pursuing a single strategic goal, something that may ultimately affect such a firm negatively. He suggests that firms that employ simplistic strategy-making focus on the factors that lead to success in the past and repeat these actions, developing an ‘overwhelming preoccupation with a single goal, strategic activity, department or worldview’ (Miller, 1993: 117). Therefore decisions, values and ultimately strategy-making are simplistic. According to Miller organisational values form the basis of this mode of strategy-making.

Several authors further comment on the nature of the strategy-making processes employed by small firms and thereby further strengthen the arguments espoused above. Beaver and Jennings (2000) and Cooper (1979) describe strategy-making processes in smaller firms as special and frequently unique.
Robinson and Pearce (1983, 1984) characterise strategic planning in small firms as informal, unstructured, irregular, incomprehensive, short term and reactive. Received wisdom leads to the belief that small firms, through their close physical proximity and small size lend themselves ideally to adaptation and participation, and that the limits of resources and experience leads to the use of simplistic processes. Therefore, although the notion of different approaches to strategy-making has not been studied in much depth in small firms, it can be hypothesised that:

H1 Participative, adaptive and simplistic strategy-making will be important modes of strategy-making that small firms exhibit

First the relationship between adaptive strategy-making and firm performance is investigated. Barney (1991) suggests that adaptive strategy-making is a rare and inimitable process that will lead to competitive advantage. This is supported by Hart (1991) who finds in a study of 916 firms of all sizes and from all industry sectors that the transactive mode of strategy-making is more highly associated with firm performance than the rational and generative (entrepreneurial) modes. This paper argues that firms that pay close attention to the needs of their customers, suppliers or other stakeholders, and are responsive to those needs, will have an advantage over competitors. Similarly Parnell and Crandall (2001) raise the possibility that participative decision-making techniques may improve decision quality and therefore organisational effectiveness. Frese et al. (2000) find that critical point strategy-making, a mode similar to participative strategy-making, is the most highly related to firm success. This supports the previously mentioned study by Wooldridge and Floyd (1990) who find that participation in strategy-making is associated with improved firm performance. This paper argues that firms that involve their employees in their strategy-making processes are likely to either have buy-in by employees into the process, or better information and decision-making, and therefore will improve performance. A similar relationship between simplistic strategy-making and firm performance is, however, not supported by the literature. Lumpkin and Dess (forthcoming) only find a moderating role for simplistic strategy-making on the cost-leadership – firm performance
relationship, while Miller (1993) hypothesises that it may even have a negative impact on firm performance. It can therefore be hypothesised that:

\[ H2 \quad \text{Participative or adaptive strategy-making will have a positive effect on small firm performance} \]

Studies which focus specifically on the effect of industry life cycle on the relationship between strategy-making and firm performance could not be found. Research in closely related areas include Robinson and McDougall (2001) who find that industry life cycle partially moderates the relationship between entry barriers and firm performance. Anderson and Zeithaml (1984) suggest that firms in the early stages of the product life cycle, which is closely related to the industry life cycle, would be differentiators or innovators, whereas firms in the later stages would be more systematic and rational. These results are echoed by Miller and Friesen (1984) who study a sample of 161 periods of history from 36 firms to ascertain how decision-making, strategy and structure will change over the corporate life cycle of a firm. Their results indicate that firms in the introductory phase tend to be more pro-active, like to take risks and are innovative, in other words, are more likely to employ the entrepreneurial mode of strategy-making. Firms in the growth phase become more analytical, multiplex and are integrated, in other words more rational although aspects of participative strategy-making is also present. This continues through the maturity phase, although the rationality becomes more instinctive, which may be indicative of a simplistic mode of strategy-making. In the decline stage, strategy-making is more a reaction to the problems that the firm faces and therefore almost adaptive. This study clearly indicates that the corporate life cycle will influence the mode of strategy-making that a firm uses, but it is doubtful that this translates to industry life cycle and on its own, does not provide enough support to formulate propositions that indicate the specifics of the relationship between industry life
cycle and strategy-making. It can, however, be argued that during the early stages of a new industry’s existence, firms will have to act entrepreneurial to develop products or services which lead to the creation of the industry, thereby supporting the findings of Miller and Friesen (1984) for corporate life cycles. During the later stages, it is likely that firms will interact more with external stakeholders, using networks to ensure continued growth. These arguments suggest that firms using appropriate processes during each stage of the industry life cycle are more likely to improve performance, indicating a moderational effect. It is therefore proposed that:

\[ H3 \quad \text{The relative importance of participative and adaptive strategy-making in terms of performance differs according to the industry life cycle stage.} \]

**METHODS**

The measurement instrument used for this paper contained 45 firm behavioural items as well as questions regarding organisational characteristics. The measurement instrument was tested for reliability and validity and then mailed to 2,000 New Zealand small firms, chosen randomly from the Kompass database. The firms that were selected from the database excluded farming operations, foreign owned firms and firms with more than 100 employees (Massey, 2005). The questionnaire was mailed to the owner-manager of each small firm, and a reminder was mailed one month later. 504 questionnaires were returned of which 477 were deemed usable for a response rate of 23.85 per cent. The sizes of the firms in terms of full-time employee equivalents ranged from one to 99. In this paper only firms with at least ten full-time employees were considered because smaller firms are included to allow for all strategy-making modes to be present in the firms (e.g. a firm with only one staff member cannot use participative strategy-making) and because previous studies have shown that organisational processes do differ for very small firms (O’Regan & Ghobadian, 2004). Furthermore, this is more in line with accepted academic practices (e.g. Gray, 2004). This meant that only 320 of the useable questionnaires were considered in this study.
The dependent variable, firm performance, was measured by using the financial performance scale developed by Covin and Slevin (1989) and Gupta and Govindarajan (1984). Respondents had to indicate the ‘importance’ of ten financial measures to the firm on a five point Likert scale. Thereafter they were asked to indicate their satisfaction with the firm’s performance for the same ten performance measures. The ‘satisfaction’ scores were multiplied by the ‘importance’ scores and aggregated in order to compute a weighted average performance index for each firm. Weighing satisfaction with importance scores is the same method followed by Covin and Slevin (1989). The higher the aggregate score on this index, the better the perceived level of firm performance.

Strategy-making mode was measured with the Hart (1991) scale as modified by Dess, et al. (1997), using 25 items scored on a five point Likert scale. Dess, et al. (1997) tested this scale in large firms and found that four strategy-making modes resulted from their factor analysis. Exploratory factor analysis was also used in the current study in order to define the strategy-making modes commonly used in small firms and to test the first hypothesis. Kaiser’s (1959) rule and Cattell’s (1966) rule were used to determine the optimum number of factors. Principal axis factoring was used to extract factors, with the application of a promax rotation to allow for correlations between the factors. As suggested by Hair, Anderson, Tatham and Black (1998), correlations of above 0.3 were considered to be strong. Items that did not load strongly on any factor were removed as were items loading strongly on more than one factor. In addition when only two items loaded strongly on a factor these items were removed on the grounds that the factor was not reliably measured. The final factor pattern then showed simple structure allowing the factors to be named according to the strategy making modes suggested by their loadings. The internal validity of this model for the strategy-making process was tested using a confirmatory factor analysis for each of the factors. In particular, the RMSEA statistics (at most 0.06), the GFI statistics (more than 0.90) and the CMIN/DF statistics (between one and three) suggested adequacy according to Byrne (2001). The discriminant validity of the measurement model was then tested using modification indices, the results confirming that each item was loading strongly on only one factor after one additional item was removed.
A model relating the strategy-making process to performance was developed allowing for mediation effects. The internal validity of this model was tested using structural equation modelling and the relative importance of the strategy-making modes in terms of performance was assessed. This model was then fitted separately for firms in the introductory/growth phase and firms in the mature/decline phase to determine whether strategy-making changes as a firm matures. SPSS version 13 and AMOS version 5 were the packages employed in the analysis.

FINDINGS

The 320 small firms included in this study represented the manufacturing industry best (44 per cent) with lower representation for services (25 per cent), retail/wholesale (16 per cent) and construction (15 per cent). The majority of the firms were private companies (71 per cent). However, 12 per cent were owner operated, eight per cent were run as partnerships and seven per cent were public companies. The majority of firms (54 per cent) regarded their industry to be in the mature stage of its life cycle. However, the percentage of firms who thought their industry was in the growth phase was also high (40 per cent). Most firms had an aggressive approach with 66 per cent claiming “We actively seek to increase our current market share” with only 22 per cent of firms saying “We minimize risk while maximizing the opportunity for profit”.

The initial factor analysis suggested six factors according to Kaiser’s criterion and four factors according to Cattel’s scree plot. After a promax rotation of the four factor solution it was found that one of the factors had strong loadings for only two items, ‘dynamic’ and ‘risk taking’, two items which are commonly referred to as entrepreneurial strategy making (Dess, Lumpkin & Covin, 1997). This meant that there was insufficient information to reliably measure the level of entrepreneurial strategy-making. These two items were therefore removed and the factor analysis was rerun allowing for only three factors. The resulting factor pattern showed low loadings for the items ‘avoid failure’ and ‘role definition’ on all factors. In addition, loadings of nearly 0.50 occurred for ‘set practices’ on
two of the three factors. These three items were therefore removed and the factor analysis was rerun producing the simple structure shown in Table 1.

<table>
<thead>
<tr>
<th>Item</th>
<th>Participative SM</th>
<th>Adaptive SM</th>
<th>Simplistic SM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teamwork</td>
<td>.866</td>
<td>-.141</td>
<td>-.061</td>
</tr>
<tr>
<td>Equality</td>
<td>.776</td>
<td>-.080</td>
<td>-.070</td>
</tr>
<tr>
<td>Cooperation</td>
<td>.734</td>
<td>.000</td>
<td>-.061</td>
</tr>
<tr>
<td>Allviews</td>
<td>.667</td>
<td>.067</td>
<td>-.193</td>
</tr>
<tr>
<td>Inputdecision</td>
<td>.667</td>
<td>.099</td>
<td>-.238</td>
</tr>
<tr>
<td>Suitebusiness</td>
<td>.640</td>
<td>-.057</td>
<td>.311</td>
</tr>
<tr>
<td>Longterm</td>
<td>.599</td>
<td>-.107</td>
<td>.202</td>
</tr>
<tr>
<td>Values</td>
<td>.551</td>
<td>.085</td>
<td>.197</td>
</tr>
<tr>
<td>Consensus</td>
<td>.519</td>
<td>.160</td>
<td>-.092</td>
</tr>
<tr>
<td>Conflictsurpress</td>
<td>.453</td>
<td>.014</td>
<td>.010</td>
</tr>
<tr>
<td>Experiment</td>
<td>.439</td>
<td>.119</td>
<td>.035</td>
</tr>
<tr>
<td>Anylevel</td>
<td>.382</td>
<td>.219</td>
<td>-.003</td>
</tr>
<tr>
<td>Ongoing</td>
<td>.049</td>
<td>.693</td>
<td>-.087</td>
</tr>
<tr>
<td>Stakelisten</td>
<td>.023</td>
<td>.688</td>
<td>.010</td>
</tr>
<tr>
<td>Stakeminvolve</td>
<td>-.098</td>
<td>.633</td>
<td>-.002</td>
</tr>
<tr>
<td>Adapt</td>
<td>.133</td>
<td>.416</td>
<td>.252</td>
</tr>
<tr>
<td>Topdown</td>
<td>.056</td>
<td>.023</td>
<td>.502</td>
</tr>
<tr>
<td>Internalprocess</td>
<td>-.032</td>
<td>-.067</td>
<td>.426</td>
</tr>
<tr>
<td>CEOdecide</td>
<td>-.259</td>
<td>-.016</td>
<td>.420</td>
</tr>
<tr>
<td>Blueprint</td>
<td>.117</td>
<td>.134</td>
<td>.389</td>
</tr>
</tbody>
</table>

Careful consideration of the resulting three factors revealed that these factors describe similar constructs to three of the factors defined by Dess et al. (1997), namely participative, adaptive and simplistic strategy-making (SM). The first factor, ‘participative SM’ includes aspects such as teamwork, equality, co-operation, a fair hearing for all, input from employees in decisions, and a long-term pragmatic business approach. The second factor, ‘adaptive SM’, includes aspects such as adaptation, ongoing planning and listening to and involving stakeholders. Adaptive SM in this context was therefore externally directed participation and adaptation. The third factor was termed ‘simplistic SM’ (compare Lumpkin & Dess, 1995; forthcoming). This factor includes aspects such as top down behavior, an internal process and the fact that the CEO takes decisions with a blueprint of strategies.

At this point it can be concluded that the small firm data on strategy making is factorable and that participative, adaptive and simplistic strategy-making is used by small firms, supporting Hypothesis 1.

In order to further test the validity of the hypothesised small firm strategy-making model, confirmatory factor analysis was performed for each of the scales and the full measurement model was tested for discriminant validity. All three scales were validated in the confirmatory factor analysis with
values of CMIN/DF less than 3, GFI and CFI indices greater than 0.90 and RMSEA less than 0.06. However, when the full measurement model was tested it was found that one of the items from the simplistic SM, CEO decision, had a strong negative loading on participative SM. This item had to be removed in order to preserve the simple structure of the factor solution.

The relationship between these three factors and the performance measure was then explored, producing the model shown in Figure 1. This model shows significant direct links between adaptive SM and firm performance and between participative SM and firm performance, supporting the second hypothesis. Interestingly adaptive SM supports participative SM in that adaptive SM feeds into participative SM, with participative SM partially mediating the relationship between adaptive SM and firm performance. When a two-way relationship was tested it was found that the link from participative SM to adaptive SM was insignificant confirming the direction of the link shown in Figure 1.

Figure 1: A SEM model of strategy-making and performance in a small firm with β coefficients
The total (direct + indirect) standardised effect on firm performance is 0.38 for adaptive SM as opposed to 0.18 for participative SM, suggesting that adaptive SM is more important than participative SM in regard to firm performance in small firms. There is no direct link between simplistic SM and firm performance, only an indirect link with mediation by adaptive SM. This suggests that adaptive SM is nurtured by good internal systems with direction from the top and a clear, tested blueprint for strategy. Although simplistic strategy-making does not have a direct impact on firm performance the size of its indirect standardised effect is significant at 0.15, almost as large as the direct effect of participative SM on firm performance. This model describes the data well (CMIN/DF = 2.14, GFI = 0.890, CFI = 0.902, RMSEA = 0.060) with 15.7 per cent of the variation in performance explained.

When this model was fitted separately for firms in the introductory/growth phase and then for firms in the mature/decline phase of the industry life cycle, it was found that the coefficients of the model changed significantly (Chi-Square = 48.02, DF = 20, p = 0.0004). As shown in Table 1 and Figure 2, in the case of firms in the introductory or growth phase participative SM is most important in terms of firm performance, mediating the relationship between adaptive SM and firm performance. There is no direct link between adaptive SM and firm performance, only an indirect link via participative SM. However, in the case of firms in mature or declining industries adaptive SM is most important in terms of firm performance, mediating the relationship between participative SM and firm performance. There is no direct link between participative SM and firm performance, only an indirect link via adaptive SM. In addition the link between adaptive SM and simplistic SM disappeared, suggesting that simplistic SM does not improve performance in mature small firms. In conjunction with this change it was found that the direction of the link between participative and adaptive SM changed, with a link from participative SM to adaptive SM in the case of mature firms as opposed to a link from adaptive SM to participative SM in the case of growth firms. However, contrary to what was found for mature or declining firms, simplistic strategy-making is important for growth firms in that it supports adaptive strategy-making.
As Figure 2 illustrates, adaptive SM is more important than participative SM in the case of mature/decline firms while participative SM is more important than adaptive SM in the case of introductory/growth firms. While simplistic SM is important for growth firms in that it supports adaptive SM, it does not seem to improve performance significantly in the case of mature or declining small firms. However, the model for growth firms explains only 7.8 per cent of the variation in performance while the model for mature firms explains 23.6 per cent of the variation in performance.

<table>
<thead>
<tr>
<th>Link</th>
<th>Introduction/Growth Phase</th>
<th>Mature/Decline Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>From</td>
<td>To</td>
<td>β</td>
</tr>
<tr>
<td>Simple SM</td>
<td>Adaptive SM</td>
<td>0.500</td>
</tr>
<tr>
<td>Adaptive/Participative SM</td>
<td>Participative/Adaptive SM</td>
<td>0.756</td>
</tr>
<tr>
<td>Adaptive SM</td>
<td>Performance</td>
<td>0.068</td>
</tr>
<tr>
<td>Participative SM</td>
<td>Performance</td>
<td>0.226</td>
</tr>
</tbody>
</table>

**DISCUSSION AND CONCLUSIONS**

This paper sets out to establish if small firms use participative, adaptive and simplistic strategy-making processes, but more important it investigates the effect of stakeholder involvement in strategy-making on perceived small firm performance. It also seeks to explain how these relationships change for firms in different stages of industry maturity. Four major findings emerge from the literature survey and subsequent empirical study.
First, the causal model (Figure 1) shows that adaptive strategy-making and participative strategy-making contribute directly to firm performance, with adaptive strategy-making also contributing indirectly through its effect on participative strategy-making. Although simplistic strategy-making does not contribute directly to performance it contributes indirectly through its effect on adaptive strategy-making. The total variation in firm performance that is explained by these three modes of strategy-making is 15.7 per cent. This finding indicates that, as suggested by Barney (1991) and Hart (1991) for large firms, small firms which actively engage their stakeholders during the strategy-making process and which seek feedback on various aspects of the firm from their market will find that these actions have a positive impact on their firm performance. As suggested by Parnell and Crandall (2001), Frese et al. (2000) and Wooldridge and Floyd (1990) for large firms, the same is true, although to a lesser extent, of small firms that involve their employees in the strategy-making process, devolve decision-making to the most suitable level and ensure input into decisions from the most appropriate levels or departments in the firm. This result suggests that strategy-making in successful firms is the result of small firms exploring their environment and engaging internal and external stakeholders to ensure complete information about not only opportunities and threats, but also the strengths and weaknesses. In these small firms strategies result from ideas gathered from stakeholders and decisions made by people with the appropriate level of information to make these decisions.

Second, the positive indirect effect of simplistic strategy-making on firm performance is noteworthy. Lumpkin and Dess (1995) found that simplistic strategy-making moderates the relationship between cost-leadership and performance in large firms while Miller (1993) suggested a negative impact on performance. It can be argued that in the case of small firms, the so-called ‘blueprint’ for strategy-making that is found in the simplistic mode of strategy-making facilitates the use of adaptive and participative strategy-making practices. The lack of a direct link between simplistic strategic-making and performance supports the arguments from authors such as Hannon and Atherton (1996) who suggest that more formal strategy-making processes are not employed by small firms because of their lack of resources to support such processes.
Third, participative strategy-making partially mediates the relationship between adaptive strategy-making and firm performance, suggesting that information about the market and external stakeholders are gathered by employees/managers at different levels of the firm, and then contributed to the strategy-making process in a participative manner. However, even though the effect of adaptive strategy-making is partially mediated by participative strategy-making, its contribution to firm performance is twice as important as participative strategy-making, indicating that external stakeholders play a more important role than internal stakeholders in the strategic direction of the firm. Furthermore, the mediating role of adaptive strategy-making on the simplistic strategy-making – firm performance relationship indicates that this whole strategy-making process and the resulting choices are guided by blueprints of past decisions and strategies.

Fourth, when mature and growth firms are separated a very different picture emerges. It seems that in mature firms adaptive strategy-making is more important than participative strategy-making, with the reverse true in the case of firms in a growth phase. Interestingly simplistic strategy-making is only important for firms in the growth phase, however, strategy-making is a better predictor of performance in the case of mature firms (R-Square = 23.6 per cent) than in the case of growth firms (R-Square = 7.8 per cent). This suggests that the strategy-making process has greater importance for firms in more mature industries than for firms in growth industries, most likely because competition intensifies at this stage, leading to a more systematic approach as suggested by Anderson and Zeithaml (1984).

It is important to note a number of limitations against which the results of this study should be interpreted. These include the use of single respondents and firms from one country, namely New Zealand. However, it can be argued that in small firms, the owner/manager of the firm should have sufficient knowledge about organisational processes to complete such a questionnaire. The use of New Zealand as a context is also a reasonable decision, seeing that this country adopts strong free market principles and a stable democracy.
Several implications for research and practice result from this study. Most importantly, this study shows clearly that the approach to strategy-making that a small firm adopts can have a significant effect on the performance of that firm, and that owner/managers of small firms should therefore pay careful consideration to this issue. It further indicates that processes that include internal, but especially external stakeholders, have a more profound effect on firm performance, and that small firms should seek the input from stakeholders such as customers and suppliers when they make strategy. It also supports the assertion that strategy-making processes are likely to differ depending on the context in which they take place. This study suggests that the maturity of the industry in which a firm competes, will change the nature of the optimum strategy-making process, with the strategy-making process being less important in new industries but more important in mature industries, where a greater number of firms are jockeying for position. Further, the study suggests that mature firms will not benefit by allowing a simplistic approach to invade their strategy-making. However, in the case of younger firms, blueprints and a top-down contained strategic management style may actually promote the development of ongoing adaptive stakeholder-centered strategy-making. Finally it appears that the involvement of internal and external stakeholders in strategy-making will improve the performance of small firms. However, in the case of growing firms it is the internal stakeholders who are more important, while for more mature firms it is the external stakeholders who are crucial.
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