ABSTRACT

This study examines the extent to which strategic focus (internal versus external) and the gender of small business owners are predictive of perceived organizational performance. Utilizing a sample of 237 small business owners in the southeastern region of the U.S., a factorial ANOVA was used to test hypotheses related to both constructs. Results indicate that a main effect exists for organizational strategic focus, but not for gender. While female business owners who utilize an internal strategy had the highest levels of perceived performance, the interaction effect was not statistically significant.

Keywords: strategic focus, gender, perceived performance

INTRODUCTION

Gender differences in the managerial practices of small business owners have been postulated as a major factor in the success or failure of these businesses. The findings have been mixed, and, therefore, there has been a push for new studies to investigate the relationship between gender and strategic choices, as well as human resource practices, and use of social capital and networks (Verheul, Risseeum & Bartelse, 2002; Ruynan, Huddleston & Swinney, 2006; Mazzarol, Reboud & Soutar, 2009). Previous research indicates that women business owners often report less start-up capital (Carter & Rosa, 1998, Boden & Nucci, 2000); have greater difficulty obtaining loans (Verheul & Thurik, 2001; Coleman, 2002); have less of a credit history (Shaw, Carter & Brierton, 2001); possess less managerial and technical expertise (Chaganti & Parasuraman, 1996; Jones & Tullous, 2002); and are more likely to enter business sectors that have higher failure rates (Cater,
Williams and Reynolds (1997; Brush & Chaganti, 1999; Perry, 2002). Robb (2002) and Marlow and Patton (2005) suggest that this industry segregation may result from the capital restraints faced by many women entrepreneurs. Sonfield et al. (2001) found that no gender differences existed in the types of strategies used by small business owners. Other studies (Sandberg, 2003; Boohene, Sheridan & Kotey, 2008; Knotts, Jones & Brown, 2008) have uncovered differences in choices of business strategies, indicating that the impact of gender on strategic choice remains an unresolved question.

Thompson (2004) points out that successful entrepreneurship requires a combination of temperament, talent and technique. The focus of this paper is to examine the perceived performance of organizations and whether or not differences exist based upon the strategic techniques used by small business owners, and whether or not there are gender differences associated with these strategic choices. A better understanding of the strategies and techniques of business owners can make an important contribution to the research body, as well as offer important practical implications for policy makers and service providers.

**LITERATURE REVIEW**

Past studies of entrepreneurship and small business management have included both environmental and internal characteristics. Previous areas of focus for entrepreneurial research have included geographical location, regional policies, access to resources and support programs, family history, educational levels, personality traits, personal experiences, strategic choices, human resource practices, ethnicity, and gender.

**Strategic Focus.** The strategic management literature presents various typologies to categorize the strategic choices that organizations may choose (Miles & Snow, 1978; Porter, 1980; Miller, 1981). When strategy type is examined within the context of the entrepreneurial firm and small business, it is important to examine the individual responsible for making these strategic choices, as these individuals direct the small business. As highlighted in several Global Entrepreneurship Monitor (GEM) reports, entrepreneurs throughout the world often pursue business ownership based either on opportunity recognition or necessity, due to the lack of viable economic alternatives. Research has indicated that women and minorities often seek out entrepreneurial opportunities as a way to overcome the frustration and discontent which result from the lack of advancement opportunities in large organizations (Weiler & Bernasek, 2001; Heilman & Chen, 2003). As a result of this discontent, the nature of the strategic decisions made when initiating their own business endeavors is likely impacted.

Similar findings have shown gender differences in the strategic focus of small business owners (Sandberg, 2003; Boohene, Sheridan & Kotey, 2008; Knotts, Jones & Brown, 2008). Sandberg (2003) found that women business owners were more long-term in their strategic thinking, while men were more action oriented. Research by Verheul, Risseum and Bartelse (2002) suggests that men are more focused on opportunity recognition, while women are more necessity driven in their desires to start a new venture. As a result, men tend to focus more on external growth strategies and women are more likely to pursue a specialized strategy that focuses on customer service and other internal factors such as human relations, in order to
promote continuity, as opposed to expansion. In order to promote growth, men concentrate on controlling resources and production, while women place more importance on establishing both customer and employee loyalty. Edelman, Brush and Manolova (2005) propose that internal customer service strategies are more beneficial than innovation strategies in most non-high technology business ventures. Verheul, Risseeum and Bartelse (2002) also found that women are more likely to combine personal and business goals, and strive to have a more personalized network, whereas men often use their business networks to gain access to tangible resources. The findings from Boohene, Sheridan and Kotey (2008) and Knotts, Jones and Brown (2008) show that women generally have a stronger marketing focus, and men place greater emphasis on production and financial objectives. Overall, Boohene, Sheridan and Kotey (2008) suggest that men are more proactive business owners and more focused on achieving higher levels of financial performance. They, along with Marlow and Carter (2004), argue that these differences in strategic focus are not surprising, since men and women often have different values and motivations for starting a business.

Social Capital and Networks. As proposed by Runyan, Huddleston, and Swinney (2006), social capital and informal networks can serve as a competitive advantage, especially for women business owners. Similarly, Daniel (2004) found that women are more adept at nurturing relationships and often possess stronger people and networking skills than their male counterparts. These strategic alliances and effective networking skills can help to escalate the growth process in small firms (Mazzarol, Reboud & Soutar, 2009). Social capital is often developed through social relationships where greater levels of trust, dependency, and obligation are nurtured and shared by participating members. These relationships allow for the dissemination of information among involved parties, leading to a greater emphasis on reciprocity and commitment (Tsai & Ghoshal, 1998). Similarly, cohesive networks can be used by small business owners to gather important customer feedback and market knowledge (Runyan, Huddleston & Swinney, 2006). A key component of customer service is to develop strong working relationships with employees and to adopt strategic human resource practices (Mazzarol, Reboud & Soutar, 2009).

This is important since research shows that men generally have greater access to tangible resources like capital and equipment. Nonetheless, the exploitation of intangible resources like social networks may help to equalize the playing field for women business owners and help to offset resource constraints (Runyan, Huddleston & Swinney, 2006). Regardless, a key success factor for any small business owner is to effectively manage all available resources, which includes everything from information to individuals, and to choose the appropriate strategy that best leads to overall business success (Rogers, Miller & Judge, 1999). Some researchers (Krueger, Reilly & Carsrud, 2000; Poutziouris, 2003; Mazzarol, Reboud & Soutar, 2009) believe that strategic choices are linked with prior entrepreneurial behaviors and experiences, and these experiences, along with gender differences, can help to explain why men and women often use different approaches to strategic management. Specifically, Poutziouris (2003) claims that the strategic vision of each business owner is the direct result of blending one’s internal belief
system with the market forces dictated by the external environment.

**HYPOTHESIS**

The resource-based view suggests that differences in firm resources help to explain differences in business performance. A venture has a specific set of tangible, or intangible, resources to be used for developing a competitive advantage. Examples of resources include capital, equipment, proximity to customers, managerial skills, organizational process, or some form of specialized knowledge. Business owners use their unique resources, in conjunction with their internal capabilities, in a manner that creates a sustainable advantage, in order to develop and grow the venture. In the small business arena, the availability of resources is often directly linked to the talents and skills of the business owner (Runyan, Huddleston & Swinney, 2006). Based on the literature review above, the resources available to men and women may vary to the extent that each group tends to use different capabilities and strategies to achieve business success. It is our belief that women will rely more heavily on intangible resources and relational strategies, as well as an internal focus that emphasizes customer service and human resource management practices. Likewise, the strategic focus of men will be based more upon tangible resources that emphasize production and financial performance, an external focus. Therefore, we hypothesize that:

**H1:** Internally-focused strategies are more likely to result in perceptions of higher small business performance.

**H2:** Female small business owners are more likely than their male counterparts to develop internally-focused strategies.

Consistent with these two hypotheses, it is anticipated that the highest levels of performance will be realized by an interaction of gender and organizational strategic focus.

**H3:** Female small business owners who pursue internally-focused strategies are more likely to perceive higher performance than those who pursue externally-focused strategies.

**METHOD**

**Participants.** Small business owners identified by their membership with the North Carolina Small Business and Technology Development Center (SBTDC) were contacted via email and asked to complete an anonymous online survey regarding their small business and its developmental needs. Special effort was made to reach out to minority small business owners; these individuals received additional reminders to complete the survey. A total of 270 responses were received (18% response rate) of which approximately 237 were usable (others were incomplete). This sample was 55% male and 50% ethnic minority (non-Caucasian). The average age of respondents was 49 years and the average length of time that individuals had been in business was 10.7 years.

**Measures.** Achievement of performance outcomes may be impacted by several factors, including the characteristics of the business owner and the strategies that he/she pursues. The current paper examines the degree to which business owner gender,
and choice of an internal versus external strategy, impacts organizational performance.

As part of the survey, participants provided demographic information, including gender, age, and ethnicity. Participants also were asked to indicate to what degree each of several statements was consistent with the strategic emphasis for their businesses. These items were measured using a variation of Davis, Miles and McDowell’s (2008) questions on strategic focus. Their instrument was developed specifically for use in small businesses and is consistent with the diverse sample of firms utilized in the current study. Although previously validated by Davis et al., the items were subjected to exploratory factor analysis, in order to examine the veracity of a two-factor strategic scale. This thirteen-item, five-point Likert scale was found to assess two strategic tendencies – described as a focus on internal strategies (six items; \( \alpha = .882 \)) and a focus on external strategies (seven items, \( \alpha = .803 \)). The items, factor loadings, and associated descriptive statistics are shown in Table 1.

Table 1: Internal & External Strategic Emphasis Items

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loadings</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Internal Strategy</td>
<td>External Strategy</td>
<td>Mean</td>
<td>SD</td>
</tr>
<tr>
<td>Fostering employee participation and empowerment</td>
<td>.860</td>
<td>3.39</td>
<td>1.38</td>
<td></td>
</tr>
<tr>
<td>Monitoring and enhancing employee satisfaction and morale</td>
<td>.835</td>
<td>3.46</td>
<td>1.38</td>
<td></td>
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<tr>
<td>Incentive compensation based on team or facility performance</td>
<td>.775</td>
<td>2.96</td>
<td>1.40</td>
<td></td>
</tr>
<tr>
<td>Attracting and retaining high quality employees</td>
<td>.752</td>
<td>3.57</td>
<td>1.42</td>
<td></td>
</tr>
<tr>
<td>Training and continuing education of employees</td>
<td>.704</td>
<td>3.20</td>
<td>1.37</td>
<td></td>
</tr>
<tr>
<td>Employee profit sharing</td>
<td>.648</td>
<td>2.20</td>
<td>1.43</td>
<td></td>
</tr>
<tr>
<td>Increasing growth in revenue</td>
<td>.776</td>
<td>4.24</td>
<td>.96</td>
<td></td>
</tr>
<tr>
<td>Improving profit margin</td>
<td>.773</td>
<td>4.12</td>
<td>1.01</td>
<td></td>
</tr>
<tr>
<td>Continuous improvement of existing products or services</td>
<td>.735</td>
<td>4.00</td>
<td>.85</td>
<td></td>
</tr>
<tr>
<td>Realizing returns on new products or services</td>
<td>.717</td>
<td>3.86</td>
<td>1.09</td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>.692</td>
<td>4.68</td>
<td>.75</td>
<td></td>
</tr>
<tr>
<td>Advertising and promotions</td>
<td>.448</td>
<td>3.35</td>
<td>1.21</td>
<td></td>
</tr>
<tr>
<td>Offering lower priced products or services</td>
<td>.397</td>
<td>2.75</td>
<td>1.31</td>
<td></td>
</tr>
</tbody>
</table>

Perceived performance was also measured by a series of ten Likert-type questions that were combined to yield a single scale score for performance. While financial performance data is commonly used to measure performance, in this sample, which examines many types of organizations, a subjective performance evaluation was appropriate. It utilizes the approach of Kumar, Subramanian, and Strandholm.
Journal of Small Business Strategy  Volume 21, Number 2

(2001), which tested the degree of satisfaction related to a variety of organizational performance items, which can be found in Table 2. Previous empirical evaluations have found these subjective measures to be highly correlated with objective measures (Dess & Robinson, 1984; Vernkatraman & Ramanujam, 1986). Justification of their usefulness can be seen in the business literature (Covin, Prescott and Slevin, 1990; Greenley, 1995; Slater and Narver, 1995; Subramanian, Kumar, and Strandholm, 2009). In order to confirm the appropriateness of this method, the factor analysis of the scale items was assessed. The factor structure coefficients were sufficient, ranging from .519 to .781, with a scale reliability of $\alpha = .851$, thus ensuring a good fit to the data. Table 2 shows the descriptive statistics for the performance items.

Table 2: Organizational Performance Items

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loadings</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collecting accounts receivables</td>
<td>.520</td>
<td>4.00</td>
<td>1.079</td>
</tr>
<tr>
<td>Paying debts or liabilities</td>
<td>.579</td>
<td>4.14</td>
<td>.977</td>
</tr>
<tr>
<td>Managing expenses</td>
<td>.600</td>
<td>4.01</td>
<td>.935</td>
</tr>
<tr>
<td>Finding new customers</td>
<td>.519</td>
<td>3.68</td>
<td>1.078</td>
</tr>
<tr>
<td>Retaining customers</td>
<td>.696</td>
<td>4.07</td>
<td>.930</td>
</tr>
<tr>
<td>Pricing products/services</td>
<td>.753</td>
<td>3.93</td>
<td>.791</td>
</tr>
<tr>
<td>Developing new products or services to meet customer needs</td>
<td>.595</td>
<td>3.82</td>
<td>.981</td>
</tr>
<tr>
<td>Maintaining employee morale</td>
<td>.781</td>
<td>3.60</td>
<td>1.107</td>
</tr>
<tr>
<td>Communicating with employees</td>
<td>.731</td>
<td>3.80</td>
<td>1.141</td>
</tr>
<tr>
<td>Managing staffing needs</td>
<td>.747</td>
<td>3.63</td>
<td>1.128</td>
</tr>
</tbody>
</table>

RESULTS

This analysis was designed to assess the effects of both strategic focus and gender on perceived organizational performance. Organizational performance scores were subjected to a two-way analysis of variance having two levels of strategy (internal, external) and two levels of gender (male, female). The ANOVA supported the main effect for strategy type, yielding an $F$ ratio of $F(1, 175) = 7.580$, $p < .01$. This indicates that the perceived performance was significantly higher in the organizations that pursued an internal strategy ($M = 4.11$, $SD = .659$) than it was in those which pursued an external strategic focus ($M = 3.81$, $SD = .635$). Analyses did not support
hypothesis two; no significant main effect for gender was found ($F(1, 175) = 1.424, p > .05$). The interaction effect was non-significant, $F(1, 175) = 2.132, p > .05$; however, as can be seen in Figure 1, female business owners utilizing an internal strategic focus had the highest levels of perceived performance (albeit not significantly higher than their male peers), which is consistent with hypothesis 3. Table 3 provides the descriptive statistics for performance perceptions, both strategic focus and gender.

DISCUSSION AND PRACTICAL IMPLICATIONS

Past research on strategic gender differences in the small business context has been mixed, and our results add additional support to the findings of Sonfield et al. (2001) from almost a decade ago. Based on
a national sample, they found no gender differences in strategic choices and preferences for risk and innovation among small business owners. As they suggested, more research is needed to better understand the strategic behavior of men and women business owners, and our study offers additional support that some of the perceived gender differences in business practices have dissipated. However, one area in which our findings differed from Sonfield et al. (2001) is that, while they found men were more satisfied with business performance, we found that women business owners using internal strategies had a slightly higher perception of their own business’ performance. This seems to provide more evidence that women business owners are closing any real or perceived gender gap, with regard to business practices and performance.

Another critical contribution to both the literature and the small business owner is to highlight the use of internal strategies for business success. Given the constraints of the current economic environment, it may be highly impractical, or even untenable, to focus one’s limited resources on increased advertising, profit margins, revenue growth, or other traditional external strategic initiatives. However, by maximizing one’s human resources through careful selection; by fostering empowerment and participation; by utilization of incentive programs, and other internally focused strategic actions, the small business owner may be able to achieve very satisfactory levels of performance. Another implication from our findings is that, despite any resource differences or start-up advantages, men and women small business owners use similar strategies. Those more focused on internal factors, such as employee relations and employee satisfaction, were more successful. As suggested by Moreno and Casillas (2008), business strategy is tied directly to the availability of resources. While our study did not focus on access to resources, the similarity in strategic choices may indicate that men and women are making business decisions based upon access to comparable resources. Mazzarol, Reboud and Soutar (2009) argue that small business growth is directly related to the blending of an owner’s strategic planning skills and resource availability. Edelman, Brush and Manolova (2005) offer similar recommendations. They found that internal customer service strategies are often more effective than innovative practices for businesses not focused upon high-tech products and services. An internal focus also includes a focus on effective human resource management practices and the use of social capital to make critical business connections, which may lead to accessing new resources (Mazzarol, Reboud & Soutar, 2009). While some have argued that an internal strategy does not promote as much growth through new opportunities (Verheul, Risseeum & Bartelse, 2002), it can also be said that an internal focus can help a business owner better prepare for incremental growth. As suggested by Sandberg (2003), women business owners are often more long-term in their strategic thinking, so perhaps our findings indicate that business owners, regardless of gender, are adopting a more gradual strategic approach to business expansion. This type of strategic approach can help business owners to be better prepared for changes in customer demands, as opposed to offering knee-jerk reactions that hamper future growth.

It may be of interest that the small business owners were surveyed during a challenging economic period. Perhaps it can be argued that business owners are more concerned with continuity than growth in the current
marketplace. Future research could examine the extent to which economic conditions act as a moderating variable related to perceived organizational performance. According to Verheul, Risseeum & Bartelse, (2002), women business owners are generally more focused on continuity, while men often strive for growth and expansion. The economic crisis experienced from 2008 - 2011 may dictate that all business owners adopt a more conservative approach to strategic planning -- one that focuses on investments in customer service and internal networks to maintain current market share. Research has shown that intangible resources can be used to offset financial constraints, and that women are just as successful as men in using these types of resources to enhance business performance (Runyan, Huddleston & Swinney, 2006).

FUTURE RESEARCH

Within the realm of organizational performance, there exist myriad attributes that have the potential to impact the success of a small businesses. Factors associated with the owner and his/her approach to strategic focus are certainly among them. The current paper examined only two such factors – the gender of the owner and the strategic focus (either internal or external) that the owner predominantly pursued. While no significant interaction for these two variables was found, future research should continue to examine factors associated with the owner; management strategies pursued by the owner; contextual factors such as industry type and organizational size or longevity; as well as the potential interaction of these attributes. In addition, the current study is cross-sectional in nature. As such, our findings may not be representative of longitudinal trends and our conclusions should be interpreted in this light. Future research that extends our knowledge of perceptions of performance, over time, and in different economic circumstances, has the potential to add to our overall knowledge base.

Any knowledge gained through this study may be used to develop better small business owner training opportunities, and, in general, may be beneficial as we continue to nourish the small business atmosphere during challenging economic times.

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