

AN EXPLORATION OF OWNER-MANAGER
PROBLEM SOLVING PRACTICES IN SMALL
FIRMS: THE CENTRAL VANCOUVER ISLAND
EXPERIENCE

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TABLE OF CONTENTS

Table of Contents.....	i
Abstract	iv
Acknowledgements.....	vi
CHAPTER 1 – INTRODUCTION	1
1.1 The Canadian Small Business Context	2
1.1.1 The Small Business Sector in British Columbia	4
1.1.2 The Vancouver Island Context.....	5
1.2 Key Terms Defined	6
1.3 Research Purpose and Questions	11
1.4 Contribution and Justification of the Study	12
1.5 Overview of the Thesis.....	14
CHAPTER 2 – SMALL FIRM MANAGEMENT PROCESSES	16
2.1 The Small Firm Management Process.....	17
2.2 Small Business Management Practices	23
2.3 Life-Cycle Stage and Management Skill Development	29
2.4 Summary.....	38
CHAPTER 3 – ORGANIZATIONAL PROBLEM SOLVING.....	40
3.1 Differentiating Key Constructs	40
3.2 The Concept of Organizational Problems	42
3.3 Theoretical Approaches to Problem Solving in Organizations	46
3.3.1 Process-Oriented Approaches	47
3.3.2 Problem-Oriented Approaches.....	50
3.3.3 Systems-Oriented Approaches	52
3.3.4 Individual/Personality-Oriented Approaches.....	59
3.4 Problem Perception: An Interpretive Approach	63
3.5 Learning As an Outcome of Problem Solving.....	65
3.6 Summary.....	70
CHAPTER 4 – RESEARCH DESIGN AND METHODS	73
4.1 Research Purpose and Questions	73
4.2 Positivist Research Approaches	74
4.3 An Interpretive Approach to Small Business Research	78
4.3.1 Grounded Theory.....	82
4.3.2 The Critical Incident Technique.....	85
4.4 Selection Criteria for Research Participants	87

4.5	Data Collection	89
4.5.1	Choice of Research Participants	90
4.5.2	Designing the Interview Schedule and Conducting Interviews	91
4.6	Organizing and Coding the Data to Generate Themes and Categories	95
4.6.1	Critical Incidents and Emerging Categories	96
4.7	Quality of Data	99
4.8	Scope and Limitations	101
4.9	Personal Reflection on Undertaking Fieldwork	103
CHAPTER 5 – RESULTS OF THE STUDY AND ANALYSIS OF EMERGING THEMES		106
5.1	Participants in the Study	106
5.2	Problems Encountered by Owner-Managers	110
5.2.1	Internal Problems	113
5.2.2	External Problems	120
5.3	Analysis of Emerging Themes	125
5.3.1	Problem Solving As an Intuitive Process	127
5.3.2	The Roles of Coincidence, Luck and Destiny	130
5.3.3	Self-efficacy and Determination	134
5.3.4	Reflection and Learning Through the Problem Solving Process	136
5.3.5	Problem Solving Capability and the Organizational Life-Cycle	143
5.3.6	The Emotionality of Problem Solving	152
5.4	Perceived Outcomes for the Firm	156
5.5	The “Secret of Success”	159
5.6	Summary	162
CHAPTER 6 – A HOLISTIC FRAMEWORK FOR PROBLEM SOLVING IN SMALL FIRMS		164
6.1	Problems Encountered in the Small Firm	164
6.2	Distinct Attributes of Problem Solving in Small Firms	165
6.3	Summary	169
CHAPTER 7 – IMPLICATIONS AND CONCLUSION		170
7.1	Implications for Research	170
7.2	Implications for Small Business Owner-Managers	171
7.3	Limitations of the Thesis	173
7.4	Suggestions for Future Research	174
7.5	Summary	176
REFERENCES		178

APPENDICES

Appendix 1 – Participant Consent Form	197
Appendix 2 – Interview Guide (First Interview)	198
Appendix 3 – Interview Guide (Second Interview)	199

TABLES

Table 2.1 Skills Associated with Successfully Managing a Small Business	24
Table 2.2 Stages of Small Business Growth and Associated Management Challenges	34
Table 2.3 Dimensions of Selected Life-Cycle Models	36
Table 5.1 Participant Profiles According to Selection Criteria	107
Table 5.2 Summary of Problems Identified as Critical Incidents	111
Table 5.3 Categorization of Internal Problems by Type	120
Table 5.4 Categorization of External Problems by Type	124
Table 5.5 Problems Experienced and Life-Cycle Stage	149

FIGURES

Figure 2.1 The Small Firm Management Process	22
Figure 2.2 Suggested Influence Diagram of Small Firm Performance	29
Figure 3.1 Strategic Problem Solving Model	48
Figure 3.2 Four Perspectives on Any Problem	54
Figure 3.3 NIMSAD Framework	56
Figure 4.1 Example of Index Cards for Each Critical Incident	97
Figure 5.1 Analysis of Problem Solving Practices and Outcomes According to the CIT Framework	126
Figure 6.1 A Holistic Framework for Problem Solving in Small Firms	168

ABSTRACT

A significant amount of research in the field of small business management has correlated small firm performance with the sophistication of overall management skills (see, for example, Gasse, 1997; Gadenne, 1998; Zinger, leBrasseur and Zannibi, 2001; Balderson, 2003) and more particularly problem solving skills. Yet, even though problem solving skills are at the core of the small business management process (Jennings and Beaver, 1997), there has been little research to date that has focused on understanding the actual approach small business owner-managers take to solve the problems they encounter as the present study has done, through the utilization of an interpretive research design applied to a sample of small firms.

The primary purpose of this exploratory study is to investigate the nature of problem solving practices adopted by 11 small business owner-managers on Central Vancouver Island, Canada, by identifying the types of problems encountered in the years following their establishment, the actions taken to solve these problems and the outcomes of these actions for the firm. It examines the characteristics of the problem solving approaches utilized by owner-managers as they encountered problems, and identifies how they perceived the impact of the approach taken on the continued survival of their firm.

The methodological approach taken in this study is positioned within an emergent body of research in the field of small business and entrepreneurship that applies an interpretive paradigm to uncover the complex facets of how individuals develop their capabilities and management practices (Chell and Allman, 2003) with a particular emphasis on the small business owner-manager. The interpretive assumptions

guiding the research process have allowed new understandings to emerge about problem solving in small firms within the wider context of managerial capability as a critical contributor to small business survival.

More specifically, the critical incident technique method (Flanagan, 1954; Chell, 1998), along with an approach to data analysis and coding that draws from grounded theory (Glaser, 1992; Glaser and Strauss, 1999; Strauss and Corbin, 1998), are combined and applied as a qualitative research strategy. This strategy has not previously been used in relation to the study of problem solving in small firms. This interpretive paradigm allows the exploration of *how* small business owner-managers attach meaning to their subjective experiences and the implications of these perceptions for the business outcomes of the firm, specifically as they relate to solving critical business problems. As a result, the interpretive methods applied in the course of this study make a novel contribution to the field, since they have yielded new interpretations on the nature of problem solving processes in the sample of small firms studied.

The findings presented here reveal the intuitive, improvised and non-linear nature of how problems are actually solved in these small firms, in contrast to a number of well-known theoretical research frameworks that propose well-defined and delineated steps in the problem solving process. The results of this study make a valuable contribution to building new theory in this area of inquiry by demonstrating how more dynamic processes occur in practice. An alternative way to conceptualize problem solving in small firms is presented in Chapter 6, *A Holistic Framework for Problem Solving in Small Firms*.

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CHAPTER 1

Introduction

“Are there really any problems in life?! I have no problems! (laughs)”

(Excerpt from an interview with Vanessa, a small business owner-manager)

Canada’s small business sector continues to make an important contribution to the strength of the country’s labour market and economy. The survival of small firms in this sector is critical to sustaining such a positive economic contribution; yet, when analyzing survival rates for small Canadian firms, research has shown that the number of businesses that exit the sector is consistently high as a result of internal management weakness (Industry Canada, 2003a). Managerial capability on the part of the small business owner-manager is reflected in their ability to overcome the problems associated with launching, operating and growing a small business as they arise. This ability represents a core management skill that enables them to effectively direct appropriate resources towards the accomplishment of organizational goals (Koontz Traverso, 2001; Hisrich, 2004; Cohen, 2006) and, consequently, is one of the main variables at the centre of this research.

This study presents an analysis of the problem solving practices of 11 small business owner-managers located on Central Vancouver Island in British Columbia, Canada, whose operations have been in existence for a minimum of five years. The research results demonstrate how participants applied various skills and abilities to resolve the organizational problems they encountered in the history of their operations, with a particular focus on how their perceptions of these problems impacted their approach to the problem solving process and the subsequent outcomes for their firm.

This thesis contributes to research in the field of small business management by advancing new interpretations of problem solving practices in small firms. These interpretations have emerged from the application of an interpretive research paradigm that combines grounded theory with critical incident technique methods. This novel methodological approach addresses the necessity of furthering the development of small business management theory through the study of owner-managers in their environment and responds to continued urgings from researchers in the field to experiment with interpretive paradigms (Grant and Perren, 2002) that go beyond the positivist approaches that still characterize much of the recently published literature.

This study draws on a wide range of literature on organizational problem solving to demonstrate how significantly owner-manager skills and abilities in addressing organizational problems contribute to firm performance. More particularly, its findings demonstrate the intuitive, improvised and non-linear nature of how problems are actually solved in small firms, in contrast to a number of well-known theoretical research frameworks on problem solving that propose rational, well-defined and delineated steps as the most effective approach to problem solving.

1.1 The Canadian Small Business Context

Owner-managers of small Canadian firms face major challenges as they manage their businesses in an increasingly complex and rapidly changing business environment. Despite these challenges, the small business sector continues to play a vital role in the Canadian economy as major job creators. This section presents a brief profile of

the small business sector in Canada, and more specifically in British Columbia, in order to clearly situate the study in the context of this sector's significant contribution to both the country's and the province's economies and labour markets.

Small businesses are important job creators in the Canadian economy. According to Industry Canada's report on key small business statistics, 48% of the total private labour force in Canada worked for small firms in 2006, which represents over 5 million people (Industry Canada, 2007:12). In addition, in 2006, small firms were also the leading contributors to job growth and were responsible for the creation of almost half of all new jobs in Canada (Industry Canada, 2007:15).

Nevertheless, the strength of the small business sector has created some unanticipated challenges. Since the early 1990s, the Canadian labour market has seen a steady decrease in unemployment rates as a result of Canada's strong economic performance, which has led to a consistent decrease in qualified labour (Dulipovici, 2003:2). As a result, Canadian businesses are currently facing one of the most severe skilled labour shortages in the industrial world, with two-thirds of employers expressing difficulty in filling vacant positions. The repercussions of this are four times as serious in small Canadian firms with less than five employees as compared to larger firms. In 2005, for example, 233,000 positions remained unfilled for at least four months in Canadian small and medium-sized enterprises (SMEs) due to a shortage of qualified candidates (Beauchesne, 2006:1). A survey by the Canadian Federation of Independent Business clearly indicates how this shortage represents a growing concern for one out of two SMEs, which can struggle for months without being able to fill vacant positions (Dulipovici, 2003:1). Such a labour shortage can

have a tremendously negative impact on small firms and is particularly severe in Western Canada, as demonstrated by the results of a CIBC World Markets survey of 1,400 small Canadian business owners. In British Columbia, 33% of small firms experienced labour shortages as compared to 27% for Canada (Tal, 2006:16).

1.1.1 The Small Business Sector in British Columbia

British Columbia accounts for 13% of Canada's overall population, making it the third largest province in Canada (BCMAE, 2006:12). British Columbia's small business sector continues to grow at unprecedented rates and has represented a driving force in the revitalization of the province's economy since 2001 (Thorpe, 2006). In 2005, small businesses accounted for 98% of all businesses in British Columbia, with the number of businesses in operation increasing for four consecutive years at a rate of 7.2%, which clearly exceeds the national growth rate of 0.2% (WEDC, 2006a:5). In 2006, British Columbia accounted for 44% of small businesses in Western Canada and 28% of all small businesses in Canada, with 347,500 establishments (Chambers and Church, 2006:10). Small business contribution to the province's Gross Domestic Product also ranked the highest in the country at approximately 26% (WEDC, 2006b:1).

A further indicator of the integral role played by small business in the provincial economy is the share of employment derived from this sector, which accounted for 48% of all jobs in the province in 2005, representing approximately 1,012,100 jobs (WEDC, 2006a:6). Despite a strong labour market, small business start-ups continued to increase in 2004, with British Columbia experiencing the largest proportion of start-up growth between 2002 and 2004. During a similar period, the

average employment in small firms was at 43.4% in the rest of Canada (Chambers and Shaw, 2004:6). Comparatively, employment in British Columbia's small business sector grew at a rate that is more than four times the national average (Thorpe, 2006:A17). In addition, 84% of small businesses in British Columbia are micro-businesses employing fewer than five employees (WEDC, 2006a:4). This is significantly higher than the Canadian average of 60% or the average of 43% in the United States (Fletcher, 2004:48). Though the small business sector has been a driving force in British Columbia's economic renewal, this province in particular has felt the negative impact of labour shortages experienced across Canada. More than 12 million job openings in the province are projected over the next decade, which will create a tremendous shortage of skilled labour (Thorpe, 2006:A17). These numbers clearly demonstrate the considerable extent to which the small business sector makes a contribution to British Columbia's economy.

1.1.2 The Vancouver Island Context

The businesses that took part in the study were located on Central Vancouver Island, which extends from Nanaimo on the South-East Coast, to Quadra Island on the North-East Coast, to Tofino and Ucluelet on the West Coast. Vancouver Island is the largest North American island in the Pacific Ocean and is located across from the mainland of British Columbia's West Coast. The Island in its entirety occupies a land area that is approximately the size of Holland and has a length of 450 kilometres and a width of 100 kilometres, with 3,400 kilometres of coastline (Tourism British Columbia, 2006). In British Columbia, 18% of small businesses are located in the Vancouver Island/Coast area, which is equal to its population and represents 18% of the overall provincial total (WEDCa, 2006:15). This represents 24,677 businesses,

with an average growth rate of 0.5% between 1999 and 2004 (Chambers and Church, 2006:26).

It is important to note that rural areas such as Central Vancouver Island have a higher dependence on small businesses than do urban areas in Western Canada and that when taking the number of businesses to population size into account, these rural regions have the highest concentration of small businesses (Chambers and Church, 2006:47). Small firms in rural island areas face greater challenges than their counterparts in urban areas because they are faced with a limited labour market, the insularity of island existence and an absence of economies of scale (Baldacchino, 1999; Baldacchino, 2002). Despite these challenges, research on the viability of small businesses in the small island context of Prince Edward Island (Canada's smallest province), for example, has demonstrated that some firms are able to address these challenges to become financially viable (Baldacchino, 2002). Baldacchino (2002) identifies the need for more research into other island realities in order to assess the generalizability of his research findings to islands elsewhere. New findings on the experiences of Central Vancouver Island firms developed in the context of this thesis provide useful insights for the development of support initiatives tailored to the needs of these businesses.

1.2 Key Terms Defined

Since there are varying approaches to the study of small firms (see, for example, Scase and Goffee, 1980; Curran and Storey; 1993; Bannock, 2005; Industry Canada, 2007; Johnson, 2007), each of which utilize distinctive definitions of concepts based on the emphasis of the research, a few key terms are defined in the context of this

particular study and are used throughout. Indeed, the most critical concern for any research on small businesses is to apply definitions that suit the particularities of the study.

The first key term is “*small business*”. As Curran and Blackburn (2001) affirm, there are inherent difficulties associated with applying a uniform definition of small business when considering the complex nature of small enterprises and the varying definitions that have been applied in past research. “It would be unrealistic to demand uniformity of approach to defining the small enterprise for research purposes” (Curran and Blackburn, 2001:21). This difficulty is reflected in the fact that despite the extensive amount of research on the small business sector, there is little agreement as to what is actually meant by the term “small”. Industry Canada applies a limited definition of small business that is based solely on the number of employees. Goods-producing firms with fewer than 100 employees and service-producing firms with less than 50 employees are defined as small (Industry Canada, 2007:3). Similarly, the government of British Columbia defines a small business as either one with fewer than 50 employees or a business operated by one person who is self-employed with no paid help (WEDC, 2006a).

The definition of small businesses as established by the Bolton Report (1971) has provided a classification underpinning a significant amount of research in this field in the UK. “Small firms” were defined by both quantitative and qualitative measures. The Report proposed that small firms were characterized by three fundamental qualities:

First, in economic terms, a small firm is one that has a relatively small share of its market. Secondly, an essential characteristic of a small firm is that it is managed by its owners or part owner in a personalised way, and not through the medium of a formalised management structure. Thirdly, it is also independent in the sense that it does not form part of a larger enterprise and that the owner-managers should be free from outside control in taking their principal decisions (Bolton 1971:1).

For the purpose of this study, small firm market share as specified by the first criterion in the Bolton Report has not been taken into consideration. As Curran and Blackburn point out, establishing market share is difficult because of the subjective nature of the term, resulting from varying definitions of “market” and “competition” in different environments. “A small garage in a small town or community with little public transport for instance, might have few competitors within easy distance” (Curran and Blackburn, 2000:13). The qualitative focus on independence and management by the owner contained in the second and third criteria is particularly relevant to this study, as it explores the problem solving practices of owner-managers and their impact on business outcomes. Finally, to reflect the fact that only 5% of business establishments in Canada have more than 50 employees (Industry Canada, 2003a), firms with 1 to 50 employees will be used as a quantitative measure defining the parameters of the term “small”.

For the purpose of this research then, a “small business” is defined as an independent business with at least 1 but fewer than 50 employees for which the owner-manager is responsible for management decisions relating to the firm’s operations.

“Owner-manager” is another important term appearing throughout the study. The use of the term “owner-manager” as opposed to “entrepreneur” is deliberate, for the reasons set out below. Researchers in the field of small business management have endeavoured to establish a clear distinction between the traits and behaviours that characterize entrepreneurs in contrast to those of small business owners and owner-managers (see, for example, Carland et al, 1984; Chell, Haworth and Brearley, 1991; Rae, 1999; Delmar, 2000; Sadler-Smith et al, 2003). These differences have been elaborated upon in order to support the underlying assumption that entrepreneurs and small business owners exhibit different behaviours in managing their businesses and that these differences are predictors of the ways these businesses are operated. A number of studies on entrepreneurs have focused on understanding their personality traits and identifying the style or type of entrepreneur (McClelland, 1965; Naffziger, Hornsby and Kuratko, 1994) in order to explain variations in small business performance. McClelland’s (1965) study of entrepreneurs emphasizes risk-taking propensity and the need for achievement as the primary characteristics of the entrepreneur. While the entrepreneur is predominantly characterized by entrepreneurial behaviour aimed at creating profit and growth through various strategic management practices, the small business owner-manager is primarily concerned with managing their business in order to achieve personal goals that often centre on survival and independence (d’Amboise and Muldowney, 1988; Storey, 1994) without necessarily having growth as a primary motivator.

Carland et al (1984) emphasize the importance of making a clear distinction between the concepts of “entrepreneur” and “small business owner” in order to fully understand the economic contribution of entrepreneurial ventures to the small

business sector and to underscore the complexity of entrepreneurial motivation. They propose that small business owners are individuals whose primary motivation for establishing a business is to meet their personal goals, which are not necessarily growth-related, while entrepreneurs are principally concerned with implementing strategic and innovative practices to ensure profitability and growth. This distinction works well within the Canadian business landscape, where the vast majority of individuals who found a business do not do so with growth as their primary motivation. Bringing in a steady income to ensure continued profitability, with the prospect of limited growth, more accurately represents their overall financial objective (Chambers and Shaw, 2004:13).

Other considerations, when taking into account the designation of “owner-manager”, are the limited profits and size of small firms, which mean that “non-owning managers” are relatively rare and the majority of small firms are owner-managed since owners do not usually have the resources to hire additional managers with functional expertise (Atkinson and Meager, 1993; O’Gorman, 2000). This is especially applicable to the size and type of firm that participated in this study, where owner-managers generally did not have the means to bring in external managers with a specific expertise and were therefore responsible for all aspects of business operations. The term “owner-manager” essentially describes the predominant role of the small business owner as a manager with a central influence on all aspects of strategic business operations that have a critical impact on the firm’s performance (Balderson, 2003; Woods and Joyce, 2003).

...the owner-manager is frequently a Jack-of-all-trades responsible for such diverse tasks as book-keeping, sales, customer liaison, finance, marketing and administration. This leads to a need for information about many different

management tasks, which must also have immediate practical utility (Schaper, à Campo and Imukuka, 2005:16).

The focus of this study is on the type of owner-manager captured by the above definition, since the examination of their management capability, specifically in relation to the actions they take to resolve critical business problems, is central to understanding problem solving in small firms. *“Owner-manager” is then defined for this study as an individual who independently owns their small business and is responsible for management decisions relating to the firm’s operations.*

1.3 Research Purpose and Questions

Despite its isolated location, a number of businesses continue to thrive in the rural area of Central Vancouver Island. The continued existence of these businesses raises some interesting questions about how the management practices employed by owner-managers are contributing to their survival, even when faced with the insularity and remoteness of island life. More specifically, how did the problem solving abilities of each of the 11 owner-managers interviewed for this study impact the outcomes for their firm?

The three main questions explored in this research are as follows:

1. What problems have owner-managers encountered that have had a critical impact on their businesses?
2. How did owner-managers address these problems as they were encountered?
3. What characterized their approaches to problem solving?

These questions aim to examine the central components of organizational problem solving as a critical part of the small firm managerial process. The first question is concerned with the identification of problems as recalled by owner-managers and seeks to discover the types of problems involved in the continued operations of small businesses in the sample studied. Were there any similarities or dissimilarities in the problems encountered? Were owner-managers able to identify the problems encountered? The second question explores the ways in which owner-managers solved each of the problems identified. The final question explores the characteristics of each individual's approach to problem solving. Were there specific attributes that explained *how* actions were taken to solve problems in these small firms? How did these approaches differ from the rational and systemic approaches proposed as best practice by the existing literature on the topic (see, for example, Ackoff, 1978; Mitroff, 1998; Rasiel and Friga, 2002; Ziegenfuss, 2002; Lowy and Hood, 2004)?

1.4 Contribution and Justification of the Study

If we consider the vital importance of the small business sector to Canada's economy, combined with the extremely high failure rate of these businesses, analyzing the problem solving practices of small business owner-managers on Central Vancouver Island provides insights into the management requirements for small business survival in Canada's marketplace. More specifically, this research makes a contribution in two areas. First, it provides new interpretations that are not contained in existing research on problem solving practices, by presenting an analysis of the particularities of these processes in the sample of small firms studied as discovered through the application of an interpretive research approach. Through the application of such an approach, "patterns should emerge enabling the small

business researcher to advance descriptions and theoretical propositions favouring successful management practices” (d’Amboise and Muldowney, 1988:237). One of the main contributions of this study is a holistic framework that proposes an alternative way to conceptualize problem solving in small firms. This framework brings together key themes that emerged from an analysis of participant interviews as compared to existing literature on organizational problem solving, and provides a new perspective on the topic. In this framework, a set of interrelated variables demonstrates the integral link that exists between the owner-manager’s perceptions of problems and the influence of intuition, the ability to learn, emotions and attributions of luck and destiny. These factors have a subsequent impact on *how* owner-managers act with regard to problems encountered and the resulting outcomes for their firm.

Second, the main purpose of this study was to further our understanding of how small business owners attach meaning to their experiences, more specifically as they relate to solving critical business problems and the implications of these perceptions for the business outcomes of the firm. To achieve this goal, the study applies an interpretative framework that relies on a combination of grounded theory and critical incident technique methods, which will be explained in detail in Chapter 4.

Interpretive approaches to research have been increasingly recognized as being important contributors to the production of new knowledge on a range of unexplored organizational and management issues (Sandberg, 2005). “It is the goal of all interpretive traditions to understand these processes of subjective reality construction in all walks of social life” (Prasad, 2005:14). As such, an important contribution made by this research lies in its overall methodological approach, which used an

interpretive research paradigm to achieve new understandings of problem solving in small firms within the wider context of managerial capability as a critical contributor to small business survival. The identification of problems as critical incidents represents a primary focus of this research and provides a more explanatory account of problem solving from the perspective of those involved in the process. The analysis of these highly subjective interpretations represents valuable research findings that provide a basis for the development of theory on problem solving in small firms.

1.5 Overview of the Thesis

The aim of this first chapter is to provide a context for the present research and to present the purpose and key research questions that will guide the study. Chapter 2 expands on the specific attributes of the management process in small firms and the skills required to effectively manage business operations. In Chapter 3, an analysis of the literature related to problem solving as a core management skill is presented. The fourth chapter presents the methods used to complete the research: these draw principally from the application of the critical incident technique (CIT) method (Flanagan, 1954; Chell, 1998) combined with an approach to data analysis and coding that draws from grounded theory (Glaser, 1992; Glaser and Strauss, 1999; Strauss and Corbin, 1998). The rationale for placing the study within an interpretive research paradigm is also presented in this chapter. Chapter 5 presents an analysis of research findings, which includes an interpretation of the problems encountered by owner-managers and the problem solving approaches used to address them, in addition to an analysis of the underlying characteristics of these approaches. Chapter 6 synthesizes the results of the study through the presentation of a holistic

framework for problem solving in small firms and summarizes the critical contribution made by this study by building on discovered themes in a preliminary presentation of research findings (Giroux, 2006). Chapter 7 includes key conclusions and identifies areas for future research that address the limitations of the study. The implications of the findings for owner-managers are presented, in addition to suggestions for more qualitative research into the development of management skills in small firms.

CHAPTER 2

Small Firm Management Processes

Conducting research on the unique aspects of management processes in small businesses is a complex endeavour resulting from the distinctive processes and organizational dynamics that are an integral part of the small enterprise. Research on the performance of small firms and their social and economic contribution has represented an important area of research in the past 20 years (see, for example, Birch, 1987; Storey et al, 1987; Goffee and Scase, 1995; Gibb, 2000; Balderson, 2003; Baldwin and Gellatly, 2003). Small business research represents a vast field of study that incorporates many disciplines from the social sciences in addition to business and thus adds to the complexity of undertaking research in this area. Curran and Blackburn (2001) provide a summary of how research on small businesses has spanned beyond the realm of business to include anthropological, psychological, sociological, geographical and historical approaches. These cross-disciplinary influences on small firm research have contributed to the fragmented nature of small business management theory (d'Amboise and Muldowney, 1988), which attempts to understand small business management processes.

This chapter presents an overview of relevant literature on the managerial process in small firms in order to analyze their unique attributes. More specifically, this chapter analyzes the distinctive management practices and skills that are integral to the small firm management process in order to situate problem solving as a core skill with a critical impact on the survival potential of small firms. This analysis sets the context for the overall emphasis of this thesis, which examines small business owner-

manager problem solving practices. The importance of ensuring the adequate development of managerial capability is also presented as a critical challenge to be addressed by small businesses as they evolve through different stages. To demonstrate this, core models of small business growth and the associated management challenges in each stage are synthesized to illustrate how owner-managers must deal with different types of problems in each stage of business, and how these problems call for a different type of solution to ensure continued survival.

2.1 The Small Firm Management Process

An erroneous assumption that is often made when studying the management process of small enterprises and that has received significant criticism is that the management principles that can be applied to large organizations can be applied in a scaled-down version to small organizations (Welsh and White, 1981; Curran and Blackburn, 2001). A significant amount of research in this area has clearly demonstrated how small businesses actually differ from larger organizations in their management style and processes (Delmar, 2000; Florén, 2006), their environmental context (Dean, Brown and Bamford, 1998) and their strategy-making processes (Birley and Norburn, 1986; O’Gorman, 2000). One of the main differences between large and small firms highlighted by Welsh and White (1981) focuses on the financial management of the small firm, where the stable financial models of cash flow management, break-even analysis and ROI ratios utilized in large firms do not necessarily apply because of the severe constraints on financial resources, referred to as “resource poverty”, that result from a number of factors. The most important factor is the volatile external environment in which small businesses operate, which necessitates a short-term view of management and limits the applicability of long-

range and “steady-state” financial management models generally applied to large firms (Welsh and White, 1981:12).

Birley and Norburn (1986) focus on the differences in strategy formulation processes between the small firm “owner” and the large firm “manager”. The underlying reason for these differences is the extent to which the owner of the small firm exercises control over operations and how this control is intrinsically linked to the owner’s motivations. This degree of control creates a requirement for different procedures than those applied in large firms to formulate strategy. The manager of the large firm is concerned with ensuring profitability and growth to meet various stakeholder needs, while the small business owner may not necessarily be concerned with growth or even profitability, depending on their personal motivations.

In formulating his [*sic*] strategy and running his [*sic*] business, the owner is operating from a totally different base from that of the manager. He [*sic*] has different goals, skills, and resources; works within a limited and relatively unknown (to him) [*sic*] environment; and creates structure as well as manages it (Birley and Norburn, 1986:85).

Beaver (2003:63) also emphasizes that the degree of ownership and control represents one of the fundamental differentiating characteristics between large and small firms. “The ownership of large organizations is usually distanced from its management and control, which are not evident in the majority of small organizations”. As a result, he affirms that the “informal, particularistic management style of the small firm” requires a different conceptualization of management requirements than the “more formal, bureaucratic administration” of numerous large businesses (Beaver, 2003:65).

O’Gorman, Bourke and Murray (2005), in their observational study of small growth-oriented businesses, attempt to establish the differences between owner-manager behaviour in small firms and manager behaviour in large firms by contrasting their results to existing research on managerial behaviour in large organizations. Their research asserts that owner-managers in small growth-oriented businesses are continually changing roles and functions on any given day and that there is more reliance on informal communication processes than in large organizations. They found that the main reason for this informality was the central role of the owner-manager and the overall absence of formal control systems in the small organizations studied, which enabled more flexibility in communicating across the organization.

Similarly, Metzler (2006) draws on more than three decades of experience with small certified public accounting (CPA) firms and emphasizes the benefits provided by the flexibility that is an integral part of a small firm’s functioning. This flexibility represents a critical contributor to its competitive advantage since it creates a “collegial atmosphere, opportunities to be hands-on and grassroots ingenuity that give a smaller practice an edge in facing management challenges” (Metzler, 2006:61). Among these management challenges is the need to recruit and retain skilled staff to provide personalized service to clients, which leads to the creation of competitive advantage. Indeed, when compared to some mature firms, small firms can potentially enjoy a strategic advantage due to the lack of fixed control mechanisms, which increases their flexibility and augments their ability to meet customer needs, since decision making power is usually held by the owner-manager who is able to respond quickly to changing competitive environments and customer demands (Hatch and Zweig, 2001).

Despite the differences that have been established between large and small firm management processes, many well-known studies with an exclusive focus on the management process in large organizations have been extensively criticized for being applied without discernment to small firms (Goffee and Scase, 1995). The processes presented in these studies are embodied in classical approaches to defining the management process, which present what managers do in rational and predictable terms (Taylor, 1915; Fayol, 1918), without any acknowledgement of the differences inherent in managing a small business. Fayol (1918) classified managerial functions into the five main areas of planning, coordinating, organizing, commanding and controlling. Similarly, Taylor (1915), in his *Principles of Scientific Management*, was the first to systematically study the fit between job requirements, methods, tools and human skills and to introduce techniques for rationalizing work in order to make it as efficient as possible. Managerial functions were separated into the following areas: planning, organizing, controlling and leading. These classifications are still used to measure management effectiveness in both large and small firms, yet do not necessarily account for the unique context and circumstances in which small business managers function (O’Gorman, Bourke and Murray, 2005).

Another conceptualization of management processes that continues to have a significant impact in the field of management comes from Mintzberg’s (1973) observational study of managerial work in five large US companies. This study identifies the manager’s “job” in terms of ten roles categorized under three headings: Interpersonal (figurehead, leader, liaison); Informational (monitor, disseminator and spokesman); and Decisional (entrepreneur, disturbance handler and resource

allocator). Though the results of this study characterize managers' work as chaotic, unpredictable and generally unstructured, the results are still focused on the reality of managing in a large firm and may not necessarily represent the reality of small firm management processes.

Goffee and Scase (1995:xi), in their comparison of large and small firms, further elaborate on this central limitation of organizational research by demonstrating how traditional management thinking is based on overly rigid classifications of organizational structure that focus almost entirely on large organizations and that "fail because they underestimate if not entirely discount the people who inhabit and sustain them". This limitation is clearly identified in Johnson and Duberley's critique of the propensity for researchers to adopt a positivist approach to management research that does not capture the essence of how managers actually function in organizations:

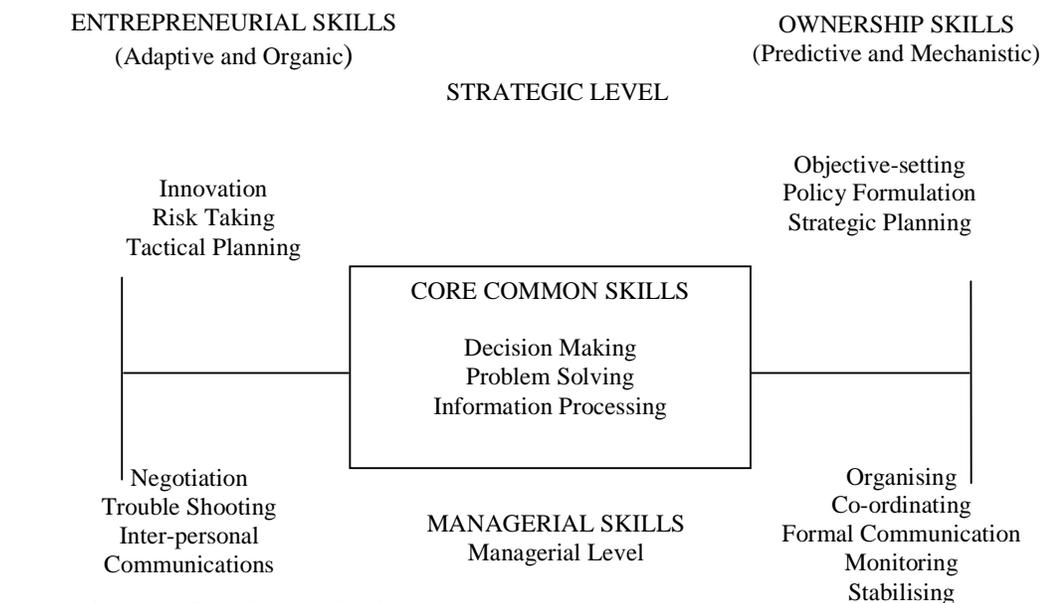
Managers are seen as rational technicians, dealing with technical issues which are resolvable through the application of superior knowledge. They are assumed to be neutral in their decisions which are aimed at achieving greater organizational effectiveness (Johnson and Duberley, 2000:56).

Managing is thus characterized as being a rational process where decisions are neutrally made and where other important contextual dimensions are not considered. In contrast, Jennings and Beaver (1995; 1997) categorize managerial activity in small firms as an "adaptive" process that has little similarity to the classical approaches that define what managers do in more conventional terms. The management functions and activities that must be fulfilled by owner-managers to ensure adequate small firm performance are identified in their framework *The Small Firm Management Process* (Jennings and Beaver, 1997:65), which differentiates between

core, managerial and strategic levels of management functions that are unique to each organization.

This framework, outlined in Figure 2.1, is particularly suited to furthering the understanding of small business management processes since it takes into consideration the complex and unpredictable nature of managing a small business. Indeed, Florén’s (2006:281) synthesis of observational studies describing the qualities of a small business manager’s work affirms that “the working day of a top manager in small firms is unplanned, informal, hectic and fragmented. To manage a small firm is to be part of a flow of ad hoc unpremeditated activities”. His attempt to synthesize existing research on the qualities of managerial work in small firms confirms a number of the differences that have been shown to exist between small and large firm management processes and makes an important contribution to furthering our understanding of the actual work of small firm managers.

Figure 2.1 *The Small Firm Management Process*



This framework clearly distinguishes between the different skills required and illustrates the level of complexity inherent in managing a small business. Given this complexity, further analysis of the management practices utilized by small business owner-managers to operate their business is required to gain a more complete understanding of the small firm management process.

2.2 Small Business Management Practices

The issue of what constitutes effective small business management practices and how they impact the performance and potential success of small firms is a significant one in the field of small business management research and has been the focus of a number of studies (see, for example, Shwenk and Shrader, 1993; Gadenne, 1998; Georgellis et al, 2000; Newton, 2001; Ibrahim and Soufani, 2002; Stokes and Blackburn, 2002; Sadler-Smith et al, 2003). These studies have a behavioural emphasis and have identified core skills and competencies that are essential to the effective management of a small business in order to ensure its survival, productivity, potential growth and overall economic contribution. According to Beaver and Jennings (1995:99), “one of the primary ingredients in small firm success must be the managerial competence of the owner-manager”. In order to build an understanding of the skills required to manage a small business, Table 2.1 summarizes the literature pertaining to the requirements of managing a small business, with an emphasis on Canadian contributions.

Table 2.1 *Skills Associated with Successfully Managing a Small Business*

Author/Year	Management Skills Required
Gasse, 1997	Vision: positioning/adapting, strategic planning/implementation People: leadership/involvement/communications, learning/training Operations: organizing, managing/decision making Resources: cognitive ability/information, financing capabilities Strategies: technical capabilities, entrepreneurship/innovativeness, shares of markets and export rates
Gadenne, 1998	(Service firms) Employee relations; Planning and control; Innovation and change; Value for money; Business growth; Financial leverage; Customer service; Competition and credit use; Inventory management; Cash and supplier sources; Credit policy (Manufacturing firms) Employee relations; Planning and control; Innovation and change; Forecasting; Working capital management; Marketing; Customer service; Credit use; Cash and supplier resources; Sales turnover; Competitor advantage; Professional advice and financial leverage
Newton, 2001	Flexibility; Opportunism; Innovation and ingenuity; Global view
Zinger, leBrasseur and Zannibi, 2001	Customer service; Business image; Pricing; Operations management (e.g., purchasing, inventory control); Ability to develop new products/services; Financial management (e.g., monitoring, receivables, developing financial projections); General management (e.g., monitoring business trends, delegating); Use of computer technology; Advertising and promotion
Ibrahim and Soufani, 2002	Strategy; Cash flow management; Financial planning; Marketing skills; Delegation skills; Networking
Walters, 2002	Visioning; Planning; Employee relationships; Customer Relationships; Financial skills; Time management; Communications
Balderson, 2003	Marketing management; Financial management; Operations management; Human resources management; Tax management
Industry Canada, 2003	Leadership, Championing Visioning Planning, Strategizing Softer skills and communication Entrepreneurial/Basic management skills Literacy/Numeracy/Computeracy

As demonstrated in Table 2.1, there is a tendency to categorize the management skills required to manage a small business into functional areas. Such a categorization is supported by the intrinsic belief that small businesses increase their chances of success when managers are competent in core functional areas such as strategic planning, marketing, finance, operations and human resource management (Balderson, 2003). Yet, because of their relatively small size and ownership structure, small firms have limited resources when compared to larger firms, which have more extensive management structures that enable a wide variety of individuals to fulfill specific functional roles. Indeed, as demonstrated in the previous analysis on the requirements of managing a small firm, owner-managers must have the ability to fulfill various functional roles in order to ensure the effective management of their business on any given day.

Gibb (2000) criticizes attempts at measuring small business managers' competencies on the basis that these categories are overly rigid and too often based on classifications that are relevant to the context of management skills required in large organizations. When taking into account the intrinsic dynamics of small businesses, such categorizations are criticized for being overly narrow. As Gibb (1996:314) affirms, "The holistic and process-oriented *task structure* of the small business means that the owner-manager – and his team – often cover the full range of management functions on a day-to-day basis in an integrative and overlapping fashion". Burgoyne (1993:6) also criticizes what he refers to as the "competence movement" as being overly simplistic, since it does not take into consideration the complexity of the organizational world in which managers operate.

Despite these criticisms of the approaches that attempt to define key small business management skills or competencies, the necessity of ensuring adequate managerial competency is clearly reflected in a number of studies that identify the relationship between the level of managerial competency of the owner-manager and the success or failure of their firm. Recent studies of survival rates for small Canadian firms (Baldwin et al, 2000; Industry Canada, 2003a) find that a lack of management skills is among the key factors contributing to failure, and that many small firms fail as a result of a deficiency in their internal functioning rather than as a result of externally generated circumstances.

Poor management skills are also identified in a CIBC World Markets Report (Tal, 2002:5) as one of four key weaknesses impacting the success of small businesses in Canada. According to O’Gorman (2000), it is the owner-manager’s lack of management skills that negatively impacts their ability to adequately address strategic small business problems in the areas of finance, marketing, human resource management and the implementation of formal control systems. Similarly, in the first comprehensive examination of the internal barriers to growth facing Canadian SMEs, weak management is identified as the main obstacle to building a successful business. Managers are urged to consider the strengths and weaknesses in their management style, particularly in the later growth stages of their firm, in order to address this critical issue (RBC Financial Group, CME and CFIB, 2003). In order to do so, small business managers are encouraged to set aside time every year for an annual review of their operations. This publication also recommends that they step away from their day-to-day operations to assess their effectiveness from a broader

perspective, in addition to setting aside resources to receive professional advice at critical stages in their development. This recommendation is congruent with the latest strategic plan published by Industry Canada's Small Business Policy Branch advising small business owners to identify gaps in their management skills and find apposite ways to fill these gaps in order to stay ahead of their competitors and to ensure their growth (Industry Canada, 2003c).

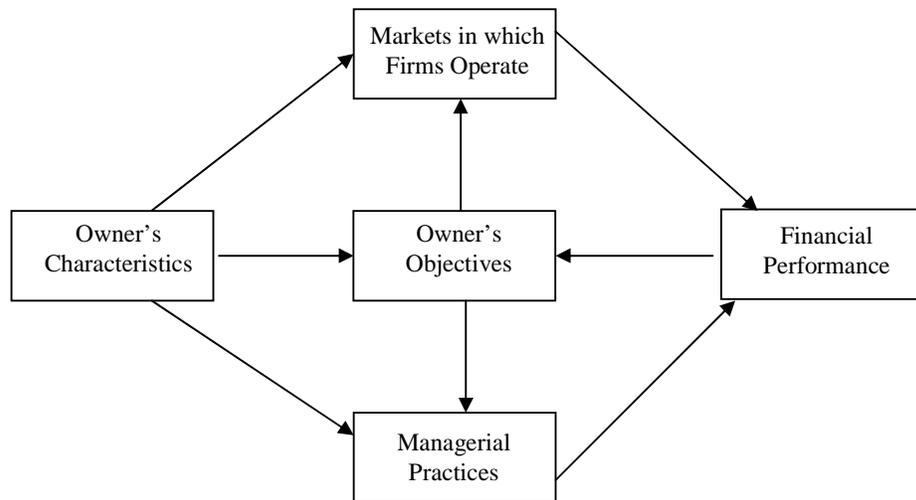
According to a recent CIBC survey (CIBC World Markets, 2004b:6), small business owners are keenly aware of the important role they play in the success of their firm. The survey examines what small business owners identify as the key "secrets to success": 91% of the 1,829 small business owners surveyed agreed with the statement, "The most important factor to the success of my business is me" (CIBC World Markets, 2004b:6). This statistic reflects a shared perception among the individuals surveyed that external influences such as competition and economic fluctuations, which can have a tremendous impact on their survival potential, are not the most important consideration when they identify the reasons for their success.

Even though external influences such as sudden economic downturns and increased competition have an impact on the failure of small firms in Canada, poor management skills and internal deficiencies founded in the lack of basic management competencies represent a fundamental cause of failure regardless of such external factors (Baldwin and Gellatly, 2003). Lack of management ability and experience remain key contributors to the failure of small Canadian firms according to a recent study of why more than half these firms exit the market within five years of start-up (Baldwin and Gellatly, 2003:165). Essentially, the management process in small

firms is highly dynamic and its effectiveness is fundamentally linked to the expertise and management competencies of the small business owner-manager. In their study of management skills in small and micro-enterprises in Canada, researchers from Industry Canada (2003a) provide additional support to this by demonstrating that one of the main reasons for small business exits and failures can be attributed to internal deficiencies in management skills, as opposed to external factors.

Another small firm management framework expands on how the managerial practices utilized by small business owners represent a critical influence on the performance of small firms. Cragg and King's (1988) conceptual framework, outlined in Figure 2.2, explores the causal relationship between small firm performance and other organizational factors. According to this model, the two factors directly impacting the financial performance of the firm are the markets in which the firm operates and managerial practices. These factors are in turn influenced by the owner's objectives and characteristics. This model was proposed as a more sophisticated representation of small firm performance for future research to build upon, with a specific focus on the impact of managerial practices over a longer period of time.

Figure 2.2 *Suggested Influence Diagram of Small Firm Performance*



Source: Cragg, P., & King, M. (1988:61)

In view of the framework outlined above, there is substantial value in studying the actions of small business owners and the management practices they adopt as they operate their business.

2.3 Life-Cycle Stage and Management Skill Development

Another important consideration when looking at management skill development in small firms is that the skills required may vary according to the stage of development of the firm as a result of the varied issues and problems encountered in each stage.

This section describes five core life-cycle frameworks, which are summarized in Table 2.2. Four have been developed with particular regard to small firms. The other, Greiner's (1972) pioneering work on the stages of organizational growth, was not

developed in the particular context of small firms, but is one of the most well-known organizational frameworks on growth and has been applied to both small and large organizations. Each of these frameworks are summarized and evaluated below to provide a context for the results of this study, which demonstrate that owner-managers' accumulated experiences as they move through different stages improve their ability to effectively deal with various problems.

Greiner (1972) identifies five developmental stages of organizational growth. Each stage is characterized by a period of evolution, followed by periods of growth and then stability, and finally by a crisis that must be resolved by management if the organization is to move on to the next phase of growth. The first stage – “creativity” – is particularly relevant to small firms. This stage sees the start-up of the organization and is characterized by the creative initiative required to make and sell a new product. Once the company is up and running, its first crisis revolves around the need for additional leadership to stabilize the organization as it continues to grow by implementing more formal reporting and control systems. The second phase of growth is referred to as “direction” and is characterized by the successful implementation of additional direction and control through the introduction of a functional organizational structure. The crisis in this stage then becomes one relating to the need for autonomy on the part of lower-level employees who want more responsibility when faced with too many management controls. The next three phases of Greiner's (1972) classic model apply in the context of large organizations and as such are not presented in detail. An interesting aspect of this model is that the solution to a critical problem in one phase becomes the major problem in the next phase, as the old solution is no longer useful to the growth stage of the organization.

This progression has implications in terms of potential learning, as managers are continually required to find new solutions to problems as they experience different stages of growth.

Churchill and Lewis (1983), in their influential framework, identify five stages of small business growth, each characterized by different issues that need to be addressed to ensure the firm's survival and development. Each stage identifies variations among the following five managerial factors according to the stage of development and the problems to be addressed in each stage: managerial style, organizational structure, formality of system, organizational objectives and level of involvement of the owner. According to this model, the role of the owner evolves from the "existence" stage, where the owner is involved in *every* aspect of running the business in order to successfully initiate its operations, to the "resource maturity" stage, where there is much more management emphasis on planning and developing strategies to extend the lifespan of the business.

Dodge and Robbins (1992) identify four stages of growth and the problems that characterize each stage of the small business life-cycle. Much like the previous models, this framework identifies a shift in managerial emphasis according to each stage. In the first stage of "formation", the small business owner is concerned with "turning a new venture or idea into a new business entity" (Dodge and Robbins, 1992:28). This stage essentially consists of getting the new product or service idea into the market by obtaining adequate financial resources and creating customer interest. The owner is concerned with every aspect of day-to-day operations in this stage. In the second stage of "early growth", the business has demonstrated the

feasibility of its product or service offering and the owner-manager's focus shifts to ensuring the stability of these offerings and to putting adequate mechanisms in place to cope with an increased demand from customers. The third stage of "later growth" sees a slow-down in growth. In this stage, the owner-manager is faced with the decision to either put in place control mechanisms to achieve continued growth, or to keep the status quo and focus on maintaining the firm's current stability. In the final stage of "stability", operations become stable and more bureaucratic since formal planning and control systems have been firmly put into place. The major challenge to be faced by the owner-manager is the need to bring about changes in the firm's market position and product or service offerings to maintain continued profitability.

Gasse (1997), a prominent Canadian researcher in the field of small business and entrepreneurship, identified four stages of development for the small firm that are also characterized by the development of unique competencies resulting from the establishment of different priorities according to each stage. Most firms with single products or services and a limited local market are in the "start-up/survival" stage. Long-term planning is limited in this stage and the focus is on managing day-to-day operations across the firm. In the "first stage of growth" stage, management becomes more centralized as the small business owner becomes concerned with generating increased profits and controlling operations to broaden the products and services offered by the firm. The "expansion/transition" stage then shifts to a decentralization of management authority as the need for delegation increases and the main preoccupations become maintaining control and motivating employees to ensure commitment. In the final stage of "maturity/rational administration", more management time is spent on strategic planning than on day-to-day operations, with

the goal of improving productivity through process improvements and the formalization of procedures.

Finally, a recent joint study by the Royal Bank of Canada Financial Group, the Canadian Manufacturers and Exporters Association, and the Canadian Federation of Independent Business (RBC Financial Group, CME and CFIB, 2003) proposed another framework explaining four stages of SME growth and the challenges to be addressed in each stage. In the “start-up” stage, the main challenge is to establish the financial viability of the business with the primary concern of surviving. The initial vulnerability of the business in this stage is overcome in the next stage of “fast-growth”. The challenges here are to develop a strategy to ensure continued growth for survival and financial expansion, as well as to formalize operations such as accounting systems, human resources practices and inventory procedures. Owners must transition from an entrepreneurial mindset to one that places more emphasis on formal planning. The “sustainability” stage is characterized by an emphasis on growth for profitability as opposed to survival, and the creation of alliances and networks with suppliers, financiers, external advisors and even competitors to maintain this growth. Organizations at this stage often become larger than those that fall under the SME definition. Finally, in the “global enterprise” stage, management is concerned with operations on a global scale, with the complexity of networks this entails.

Table 2.2 *Stages of Small Business Growth and Associated Management Challenges*

Author/Year	Stage of Growth and Key Management Challenges
Greiner, 1972	<p>Phase 1: Creativity</p> <ul style="list-style-type: none"> • Crisis of leadership <p>Phase 2: Direction</p> <ul style="list-style-type: none"> • Crisis of autonomy <p>Phase 3: Delegation</p> <ul style="list-style-type: none"> • Crisis of control <p>Phase 4: Coordination</p> <ul style="list-style-type: none"> • Crisis of red tape <p>Phase 5: Collaboration</p> <ul style="list-style-type: none"> • Crisis of “?”
Churchill and Lewis, 1983	<p>Stage 1: Existence</p> <ul style="list-style-type: none"> • Obtaining customers • Delivering products and services <p>Stage 2: Survival</p> <ul style="list-style-type: none"> • Generating enough revenue to survive • Generating enough revenue to finance growth <p>Stage 3: Success</p> <ul style="list-style-type: none"> • Deciding to expand or stay the same <p>Stage 4: Take-off</p> <ul style="list-style-type: none"> • Financing growth • Delegating responsibility to manage growth <p>Stage 5: Resource Maturity</p> <ul style="list-style-type: none"> • Consolidating and controlling financial gains • Increasing return on investment by eliminating inefficiencies
Dodge and Robbins, 1992	<p>Formation</p> <ul style="list-style-type: none"> • Start-up planning • Financial and business planning • Focus on day-to-day operations <p>Early Growth</p> <ul style="list-style-type: none"> • Matching supply with demand • Reacting to market demands • Introducing financial planning mechanisms <p>Later Growth</p> <ul style="list-style-type: none"> • Promoting continued growth or maintaining status quo • Developing inventory/cost controls <p>Stability</p> <ul style="list-style-type: none"> • Addressing inefficiencies through formal planning systems • Maintaining customer base • Facing potential decline in sales
Gasse, 1997	<p>Start-up/Survival</p> <ul style="list-style-type: none"> • Informal management and planning <p>First Stage of Growth</p> <ul style="list-style-type: none"> • Centralized management with emphasis on financial planning • Broadening products and services offered • Maintaining control of expansion • Generating profit <p>Expansion/Transition</p> <ul style="list-style-type: none"> • Growth in profits • Focus on marketing and R&D • Maintaining control and employee motivation

	Maturity/Rational Administration <ul style="list-style-type: none"> • Formalization of procedures • Product/service differentiation • Strategic focus • Maintaining and defending market positions
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RBC Financial Group, CME and CFIB, 2003	Start-up Stage <ul style="list-style-type: none"> • Validation • Seed funding • Sales Fast-growth Stage <ul style="list-style-type: none"> • Growth for survival • Financial growth • Connections Sustainability Stage <ul style="list-style-type: none"> • Growth for profitability • Retained earnings and/or exits • Alliances and awareness Global Enterprise <ul style="list-style-type: none"> • Sustainable growth • Financing evolution and change • Mergers and alliances
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These frameworks have been criticized for their assumption that small firms will logically progress through a series of distinctive stages while, in reality, they may not progress through each stage. They may instead move back and then forwards again through different stages. Also, the boundaries between stages are often blurred and not as clearly delineated as implied by each framework (Smallbone and Wyer, 2000). Hanks et al (1993), in their review of ten organizational life-cycle models, emphasize the fact that while different life-cycle models have unique contextual and structural dimensions in each stage, the evolution of the organization through different stages is generally consistent. They developed a configuration that, while taking into account their variances, combines the stages of growth described in each of these ten models to create five categories: 1) Start-up, 2) Expansion, 3) Maturity, 4) Diversification and 5) Decline.

A synthesis of the five life-cycle models presented in this study is presented in Table 2.3, in order to compare and contrast the contextual and organizational dimensions of each model and to identify underlying similarities and differences.

Table 2.3 *Dimensions of Selected Life-Cycle Models*

Model and Development Stage/Phase	Key Characteristics of the Model	Organizational Emphasis
Greiner, 1972: Phase 1: Creativity Phase 2: Direction Phase 3: Delegation Phase 4: Coordination Phase 5: Collaboration	Age Size Growth phase Management focus	Organizational structure Formalization Top management style Control systems Emphasis of management rewards
Churchill and Lewis, 1983: Stage 1: Existence Stage 2: Survival Stage 3: Success Stage 4: Take-off Stage 5: Resource Maturity	Age Size Growth stage Major strategies	Management style Organizational structure Formality of systems Strategic objectives Owner involvement
Dodge and Robbins, 1992: Formation Early Growth Later Growth Stability	Age Size Problem type (internal or external) Frequency of problems Problem solutions	Owner-manager operational capability Owner-manager managerial emphasis Formalization of systems
Gasse, 1997: Start-up/Survival First Stage of Growth Expansion/Transition Maturity/Rational Administration	Age Size Growth intentions	Management competency Centralization of management authority Formalization of procedures
RBC Financial Group, CME and CFIB, 2003: Start-up Stage Fast-growth Stage Sustainability Stage Global Enterprise	Age Size Specific business challenges Strategic emphasis	Business development (strategy) Management development (leadership) Organizational development (infrastructure) Influencing factors (context)

Though slightly different in their formulations of the different stages of small business growth, each of these frameworks demonstrates how different skills are required in different stages, which is of particular importance to this study.

Managerial requirements change as the firm grows, and owner-managers must learn

to delegate responsibility and to give up some of the personal control they exert in the early start-up stage, where they are inevitably involved in every type of start-up activity to secure a customer base. Labour requirements also change as the firm grows, and owners are faced with the challenges of maintaining employee motivation and ensuring the current profitability and future growth of the firm. Internal organizational changes must also be made to adapt to changing external requirements such as increased customer demand and competition. The owner's ability to deal with the unique challenges in each stage of growth, with regard to the financial, human resources, marketing, planning and overall management needs of the firm, determines the firm's ability to survive and progress to the subsequent stages of development. Despite criticisms of the methodological limitations of organizational life-cycle models such as those presented in Table 2.3 (see, for example, Gibb and Davies, 1990; Hanks et al, 1994), an understanding of the varied requirements in different stages of their firms' evolution can undoubtedly help owner-managers understand the different problems that impede survival and potential growth in each phase and the management skills required to address these.

When looking at the small firm management process and the range of management skills discussed in this chapter, an underlying consideration is the fact that owner-managers must constantly deal with and solve problems related to every aspect of their business operations. With more specific regard to the different stages of evolution of their firm, they must deal with different types of problems in each functional area as the firm evolves from start-up to stability, and potentially declines if these problems are not adequately dealt with. This consideration is supported by Kroeger's (1974) work, which asserts that the small firm management process is

defined by a manager's ability to solve problems in three areas. The first area involves "physical problems", and is affected by the extent to which the manager has "functional skills" in the areas of technology, marketing, finance and engineering, among others. The other two involve "conceptual and people problems" and the skills required to overcome these are referred to as "managerial capability". These skills must be acquired and developed to ensure the small firm's survival.

In terms of the internal operating context of the small firm, it was suggested that the small business can be viewed as a 'potential unique problem-type' facing problems and barriers to growth which are owner-manager- or size-related – thus distinguishing it from the large firm (Smallbone and Wyer, 2000:23).

Problem solving skills have been identified as being at the core of the small business management process (Jennings and Beaver, 1997) and represent a central area requiring further exploration. The approaches adopted by owner-managers to solve problems encountered in their small businesses have a significant impact on the continued survival of their companies, regardless of the specific demands of the business environment in which they operate. Consequently, the aim of this study is to provide a new understanding of the problem solving processes found in the sample of small firms studied, through the application of an interpretive research paradigm that provides a comprehensive analysis of the distinct attributes of these processes.

2.4 Summary

This chapter has highlighted the unique aspects of the small firm management process in order to demonstrate the importance of managerial skills in general and the problem solving skills of the small business owner-manager in particular as critical components in preventing small business failure (Newton, 1995). In addition, the chapter distinguished between the management requirements of small firms as

compared to large firms in order to underscore the implications of these differences when considering the role of the owner-manager in managing firm operations. The importance of the varied management skills and emphases required in each stage of the organizational life-cycle was also presented in order to place the importance of organizational problem solving in each stage within the wider context of the small firm management process and its unique attributes.

The next chapter elaborates on the specific characteristics of problem solving processes in small firms in order to further explore their importance within the broader range of managerial skills presented in the current chapter. An analysis of relevant literature on organizational problem solving appears in order to identify the specific contribution made by this study within the existing body of research on this topic.

CHAPTER 3

Organizational Problem Solving

This chapter builds on the previous chapter by elaborating on problem solving as a critical management skill that is central to the small firm management process. A review of relevant literature on organizational problem solving, which analyzes critical attempts to define the concept of “organizational problems”, in addition to an analysis of relevant theoretical approaches to organizational problem solving is presented. The contributions and limitations of these conceptualizations with regard to their application to small firms are then identified, particularly as they relate to the main focus of this study – the characteristics of problem solving in small firms. The gap between existing research on problem solving, which tends to compartmentalize various aspects of problem solving into distinct themes, many of which are only relevant to larger firms, and the results of this study is also explored. This analysis sets the context for understanding the contribution made by this study, which conceptualizes problem solving as a holistic process that includes the problem solver, their perceptions of the internal and external context in which they are solving problems, and the varied outcomes for their firm.

3.1 Differentiating Key Constructs

Small business owner-managers occupy a fundamentally important role in making various decisions related to the ongoing management of their firm (Matlay, 2000). The literature on managerial decision making processes is complex and abundant (Daft, 2007) and, though it is not central to this study, its importance should be

addressed in order to make a clear distinction between decision making and problem solving processes.

Sniderman et al (2007:242) define decision making as “a conscious process of making choices among one or more alternatives and developing commitment to a course of action”. These “choices” may not necessarily be related to actual problems experienced in the organization. They may centre on various decisions that need to be made but that aren’t necessarily problematic. Another well-known model characterizes decision making as an iterative sequence of steps, interrupted by specific events that influence the outcomes of the process. The authors propose the following definitions for core elements of the process:

This paper defines a *decision* as a specific commitment to action (usually a commitment of resources) and a *decision process* as a set of actions and dynamic factors that begins with the identification of a stimulus for action and ends with the specific commitment to action (Mintzberg, Raisinghani and Théorêt, 1976:246).

Again, these “actions” are not necessarily instigated in relation to specific problems, but rather can be motivated by a number of other factors – for example, the decisions to develop a new product, to implement a new organizational policy or to purchase new equipment.

Braverman (1980:19) makes an explicit distinction between organizational decision making and problem solving processes by stating:

Problem solving and decision making are not synonymous. However, decision making involves problem solving and, at least in business, problem solving always leads to a decision. The process of selecting a particular course of action from a set of alternatives is itself a problem, and many times a difficult one. But more than this, decisions are the end result of a problem solving process.

According to this interpretation, problems occur when the attainment of organizational goals is impeded. Decisions must be made to address these problems and to implement solutions that will enable the achievement of various goals.

Decision making in its broader context, then, in both large and small organizations, refers to decisions that relate to various day-to-day situations, which can be critical or not, and which can influence various outcomes. Within the specific context of small firms, the impact of decision making processes on organizational outcomes such as strategic orientation (Becherer, Finch and Helms, 2005/2006), internationalization (Hutchison and Quinn, 2006) and marketing decisions (Jocumsen, 2004) have been researched. For the purpose of this study, “problems” as a central component of the problem solving process are more specifically interpreted as “organizational emergencies” consisting of “disrupted standard procedures, blocked goals, and emotional stress” with a number of dimensions that require interpretation (Kieseler and Sproull, 1982:562). For this reason, in order to provide a more distinctive interpretation of problem solving in the particular context of the small firm, the deliberate focus in this study relates specifically to the analysis of how problems are identified as being critical to the survival of the firm and the characteristics of the problem solving processes applied. These findings are then interpreted within the more complex concept of decision making when applicable.

3.2 The Concept of Organizational Problems

Small business owner-managers must deal with problems on a continuing basis as a critical part of their daily operations (see, for example, Koontz Traverso, 2001; Hisrich, 2004; Cohen, 2006). Conceptually, organizational problems have been

defined in varying ways and these definitions have been central to the literature in business and management studies (Landry, 1995). In an attempt to reduce the ambiguities associated with defining the concept, four interrelated landmarks (LMs) are proposed by Landry (1995:315) as conditions for the presence of an organizational problem.

LM 1, a past, present or future occurrence, within an organizational context, which is judged as negative by an individual or group;

LM 2, a preliminary judgement on the intervention capability;

LM 3, an expression of *prima facie* interest in doing something and committing resources;

LM 4, uncertainty as to the appropriate action and how to implement it (Landry, 1995:316).

Once these conditions are present, a process is triggered that moves the individual or group from inquiry, to commitment, to action. “Thus, problems as sketched here, can be said to emanate from managers’ activities, to generate inquiry, and to carry along commitment to action in a more or less precise direction” (Landry, 1995:316).

In his review of the literature on conceptualizations of problems in business and management research, Landry (1995:320) proposes a characterization of problems according to three epistemological traditions: the objectivist view, the subjectivist view and the constructivist view.

According to the objectivist view, problems are interpreted as external manifestations that are not dependent on the subject’s knowledge but rather are merely observable through fact-based observations of unsatisfactory or irregular elements in reality when compared to the desired reality. “Thus, in this tradition, it is quite reasonable to talk about ‘right’ problems since problems are independent of the actors, and

objective means exist to distinguish between ‘right’ and ‘wrong’ problems” (Landry, 1995:321). The objectivist tradition suggests the interpretation of problems as unsatisfactory external realities that can be objectively solved by the implementation of appropriate solutions.

The subjectivist view of problems is dependent on the subject, who interprets the problems as they occur and attempts to understand them through a reflective process that is dependent on individual perceptions grounded in personal values.

Since it is the subject’s mind that structures, categorizes, or organizes incoming perceptions, he or she is the one that will be the ultimate judge of these frontiers and will be able to distinguish between the ‘right’ and ‘wrong’ problem (Landry, 1995:325).

As a result, to fully understand the way in which problems are identified and solved, the focus in this view should be on the subject’s perception as opposed to on the problem itself as an external reality. “Thus, there is no such thing as *the* problem, or even *the real* problem, only differences in perception by individuals and groups” (Pidd and Woolley, 1980:53). The focus is then on understanding what is happening in the observer’s mind as they perceive a problem, as opposed to focusing on an external representation as is the case with the objectivist tradition.

Finally, the constructivist view depends on both the subject and the object. “Problem formulation implies the construction by the subject of a representation of a concrete object which is at the origin of the adaptation search” (Landry, 1995:329). Landry (1995:328) cites Piaget’s constructivist view as it relates to the conceptualization of problems and the continual interplay between the subject and object (in this case, the problem) that results in a representation of the object that impacts the course of

action to plan an intervention. A constructivist framework was applied, for example, to investigate and subsequently reveal the impact of individual and organizational factors on senior marketing and technical managers' perceptions of problems in 100 medium- and large-sized British firms (Berthon, Pitt, Morris, 1998). The conceptual framework at the centre of this study emphasizes the importance of interrelated contextual factors such as individual personality, the environment in which decisions were made and informational requirements in assessing problem perception, as well as subsequent actions and performance outcomes for the organization. This research lends support to criticisms of the objectivist assumption that there is "one' right view of a problem" (Berthon, Pitt, Morris, 1998:35) in favour of the argument that various individual and organizational factors must be considered when attempting to understand problem perception in different types of organizations. The methodology utilized in the present study is presented in detail in Chapter 4, but it should be noted that this study also acknowledges the limitations of objectivist assumptions about problems since it considers a number of interconnected factors when analyzing the various influences on owner-managers' perceptions of critical problems and how they take actions to resolve them.

Ackoff (1978:19) adds another dimension to the definition of problems by distinguishing between negatively oriented problems that involve "the destruction, removal, or something that is not desired" and positively oriented problems that involve "the acquisition or attainment of something that is absent but desired". The first type of problem is centred on getting rid of a source of dissatisfaction, while the second type of problem is focused on achieving satisfaction.

According to Landry (1995), a final dimension that should be considered when analyzing different conceptualizations of “problems” is whether or not the problem is “structured” or “unstructured” – a distinction that results in programmed or unprogrammed responses. A problem is structured when solutions to the problem are known to the subject. It is unstructured when the problem is ambiguous in nature, which in turn impacts the way in which solutions are identified. “Simply, a problem perceived as structured will trigger a relatively automatic, programmed decision process, while one perceived as unstructured will trigger an unprogrammed, highly customized decision process” (Berthon, Pitt and Morris, 1998:28). These diverse responses according to the type of problem have implications for how the process of solving problems occurs in organizations. The differences reflected in these basic views of problems provide a starting point for exploring the equally varying approaches to problem solving processes in organizations, as proposed in the existing literature on the subject.

3.3 Theoretical Approaches to Problem Solving in Organizations

Four relatively distinct approaches to conceptualizing and understanding organizational problem solving processes and practices emerged from a review of the literature on the topic and are particularly relevant to the overall objective of this study. This section presents an analysis of the contributions and limitations of each of the following approaches:

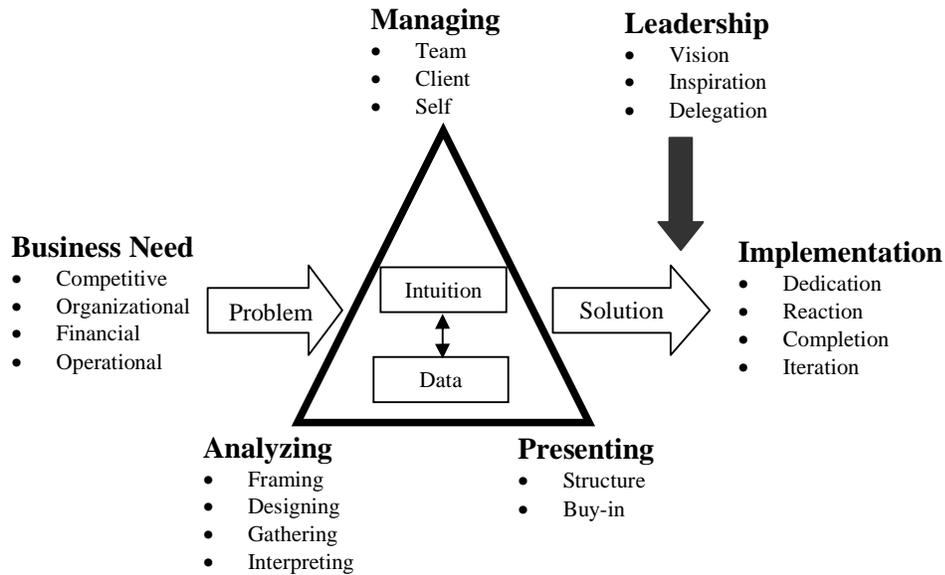
- Process-oriented approaches
- Problem-oriented approaches
- Systems-oriented approaches
- Individual/personality-oriented approaches

3.3.1 Process-Oriented Approaches

The literature on problem solving abounds with process-oriented approaches to solving organizational problems, many of which apply specifically to large corporations (see, for example, Mitroff, 1998; Rasiel and Friga, 2002; Palady and Olyai, 2002; Lowy and Hood, 2004). These descriptive frameworks for problem solving break down the process in terms of key steps that are characterized by an objectivist view that identifies problems using a logical, fact-based approach as the first step in the process.

By expanding on the problem solving techniques as practiced at McKinsey & Co., one of the world's leading management consulting firms, Rasiel and Friga (2002:xv) propose a methodology for solving problems that is based on fact-based analysis and a hypothesis-driven process designed to create solutions. The McKinsey model for problem solving is broken down into six steps, as illustrated in Figure 3.1. These steps comprise the following: 1) identifying the business need that represents the main problem for which a solution will be sought; 2) analyzing the problem; 3) presenting the solution and generating buy-in; 4) managing individual, team and client expectations; 5) implementing the solution; and finally, 6) providing leadership to support the implementation.

Figure 3.1 *Strategic Problem Solving Model*



Source: Rasiel, E., & Friga, P. (2002:xv)

The use of a rational, fact-based problem solving process grounded in the use of relevant data to achieve logical solutions to problems is explicitly advocated as best practice in this framework. This approach reflects the positivist assumption of objective rationality with regard to problem solving processes in organizations. It should be noted, though, that the authors do emphasize the importance of “intuition” and “gut instinct” in the problem solving process, in addition to the essential role played by the application of sound data to create effective business solutions (Rasiel and Friga, 2002:xvii). Nonetheless, this approach is firmly situated within a positivist perspective that attempts to identify problems according to one right, external, objective view based on real and observable facts that exist independently from any other subjective factors. As such, this approach is limited in its applicability to small firms when viewed from a more interpretive perspective, as presented in the next chapter.

In a similar model, Vandenbosch (2003) develops a structured process for managers and consultants that is broken down into three phases. The first phase of the process consists of understanding the problem situation through detailed analysis of the environment, the social system and the power and political dynamics impacting the problem. From this analysis, a resulting objective is formulated to address the issue. Once the objective has been formulated, the second phase begins with the planning of the project's scope, the construction of a hypothesis that defines the essence of the problem and subsequent planning of the effort based on the hypothesis statement. The final phase of the problem solving process consists of analyzing the validity of the proposed hypothesis to then adapt it and design the final solution based on this "fact-based analysis" (Vandenbosch, 2003:105).

Ackoff (1978:29) focuses on applying a clear set of principles that remove the limitations that restrict an individual's ability to creatively solve problems. "An individual's concept of what is feasible is one of the principal self-imposed constraints on problem solving and planning". These principles can guide managers through the problem solving process from the initial identification of the problem through the development of an appropriate "concept" (Ackoff, 1978:13) that enables the problem solver to identify the best solution to achieve desired outcomes. This logical approach to problem solving does not adequately consider the problem solver's subjective interpretation with regard to identifying problems and their solutions, which can impact their ability to implement appropriate actions to solve such problems.

Though Eppler (2004:26) criticizes problem solving approaches that are too reliant on overly rigid set of principles, he also advocates the use of model-based logical thinking in the process:

Most of the problems managers and leaders face today are less definitive. They are more heuristic in nature, requiring something more than just following predetermined steps. These are the problems where no set procedure exists. These are the problems resolved by thinking power and creative ability of their attackers. The ability to resolve them is enhanced by the ability to combine natural skills with solid principles to formulate a problem solving model.

Ackoff (1978:201) also acknowledges that no process or model is complete by stating that “most managers have come to realize that most models do not cover the problem situation to which they apply”. As discussed in the analysis of results for the present study, these process-oriented approaches to problem solving, which tend to be rather prescriptive in nature and rely on inflexible methods, may not in fact be suited to the flexible management processes inherent to the small firm.

3.3.2 Problem-Oriented Approaches

Grouping the obstacles faced by small businesses into categories of most commonly faced problems is another approach that characterizes much of the literature aimed at providing small business owners with guidance on resolving organizational problems. This tendency to categorize problems into functional areas is supported by the intrinsic belief that small businesses succeed when managers are competent in the functional areas of strategic planning, marketing, finance, operations and human resource management (Balderson, 2003).

Koontz Traverso (2001) recommends a comprehensive self-audit of 13 problem areas as a way of planning for and controlling potential and existing problems.

Problems are grouped into the key functional areas of finance, marketing, supplier relationships and personnel management. Hisrich (2004) proposes a similar approach by focusing on 13 common small business problems grouped into the main categories of management, marketing and finance. In an empirical study calculating the frequency of problems occurring in 973 small firms over a 28-month period, Huang and Brown (1999) concluded that the most predominant problem areas were in marketing, human resource management and general management issues such as planning, lack of business experience and managing growth. This is consistent with Harris and Gibson's (2006) study of small rural businesses that demonstrated that regardless of industry, administrative and strategic problems were most common. Dodge, Fullerton and Robbins (1994), in their study of how the stage of organizational life-cycle impacts small business management perceptions of problems, identify the key problem areas as customer contact, market knowledge, marketing planning, location and adequacy of capital. When presenting their rationale for studying problems in small firms they state, "small business firms are decidedly less complex than their larger counterparts" (1994:122). This assumption does not adequately take into consideration the complex and unpredictable nature of managing a small business and the problems that surface with regard to the day-to-day activities involved in managing these businesses.

These varying categorizations of problems make a clear distinction between operational problems, which are concerned with the efficiency of business operations, and strategic problems, which are concerned with effectively running the business as it goes through different stages of evolution. Yet, if we consider the diversity of small business sectors, the influence of various owner-manager

characteristics such as gender (Lee and Denslow, 2005) and the impact of the growth stage of the business (Harris and Gibson, 2006), as analyzed in the previous chapter, it is difficult to arrive at consistent categorizations: the problems encountered will vary greatly as a result of these different factors. Grouping problems into categories is useful for understanding the most problematic areas small businesses will *potentially* face. However, more research into the *actual* problems faced by owner-managers as they perceive them is required to provide new insights into the challenges faced by individuals running these businesses. By capturing owner-managers' interpretations of the problems they faced, using an interpretive research approach, this study will address that gap.

3.3.3 Systems-Oriented Approaches

Another approach to problem solving has suggested more systemic frameworks for the resolution of organizational problems (Mitroff and Kilmann, 1975; Ackoff, 1978; Ziegenfuss, 2002; Mitroff, 1998). As Ackoff (1978:190) asserts,

Problem solving requires a *system*, because the three primary functions – solving problems, controlling solutions, and identifying and anticipating problems –together with the supporting information function, are very interdependent.

His proposed approach to solving problems focuses on the ability of the problem solver to understand the relationships among their desired outcomes or objectives as they decide how to address the problem, the variables they can control such as the course of action, and the uncontrolled variables in their environment (Ackoff, 1978:17).

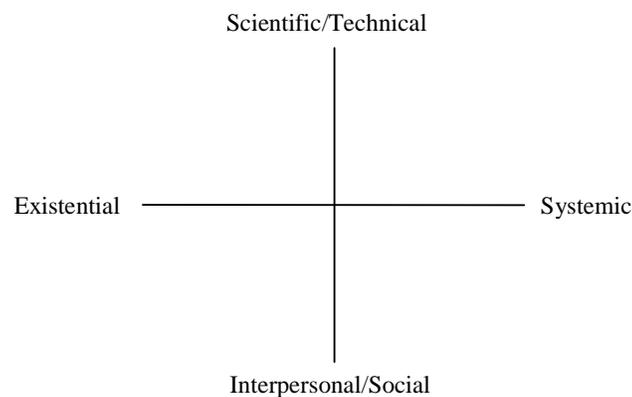
Mitroff (1998:10) integrates 30 years of research and consultation in the field of management problem solving and emphasizes the necessity of addressing the “right” problems through a four-step problem solving process comprising the following:

- 1) Acknowledging or recognizing the existence of a problem.
- 2) Formulating the problem.
- 3) Deriving the solution to the problem.
- 4) Implementing the solution.

This approach to solving problems is proposed as a means to avoid prescriptive approaches, such as those discussed in previous sections that push managers to focus on “solving the wrong problem precisely” by putting undue emphasis on the solution stage while the real problem to be solved may have been incorrectly identified in the formulation stage (Mitroff, 1998:20). For example, the wrong stakeholders might be involved in formulating the problem, leading to the identification of limited solutions since the individuals impacted by the problem are not involved in the formulation stage. For another example, the problem solver often focuses on the wrong part of the problem when they do not see the problem as part of a whole system. Though Mitroff’s (1998) framework does identify a series of steps in the problem solving process, it adds another important dimension by demonstrating how there are four important contextual perspectives to consider when formulating any problem. The importance of each dimension will differ according to the type of problem encountered. It is up to the individual formulating the problem to identify which perspective has the most importance. Figure 3.2 identifies these four perspectives. The scientific/technical perspective is concerned with the scientific/technical causes of the problem, that is, the measurable and quantitative aspects that can explain the

problem and lead to quantifiable solutions. The interpersonal/social dimension refers to the psychological and social dynamics involved in the problem and the impact on problem formulation. The existential perspective focuses on taken-for-granted assumptions about human existence such as how people derive meaning and purpose from different events. The last dimension is the systemic perspective, which is concerned with the fact that whenever a problem occurs, it will have an impact that goes beyond the organization's boundaries.

Figure 3.2 *Four Perspectives on Any Problem*



Source: Mitroff, I. (1998:132)

According to Mitroff's (1998:56) conceptualization, an organization must take all of these perspectives into consideration to avoid the error of "ill-structured problems". For example, a more technical formulation of a problem might be appropriate in one situation, whereas a psychological formulation might be appropriate for a similar problem in a different situation. This conceptualization of problems as "ill-structured" if not formulated appropriately reflects the underlying positivist belief that an understanding of organizational dynamics can be gained through valid and

objective measures of behaviour. Such perspectives have been criticized by qualitative researchers who have identified the need for new and emergent research paradigms that address the issues created by positivist approaches espousing the existence of one single “truth” (Guba and Lincoln, 2005:212).

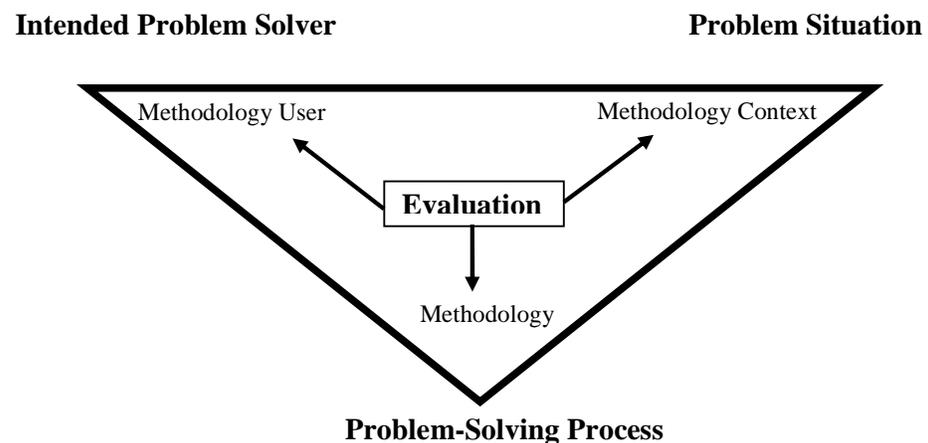
Ziegenfuss (2002:21) also puts forward an approach to problem solving that involves the application of a systems approach to four key parts of the problem solving process: diagnosis, planning, action and evaluation. His model is based on the application of socio-technical systems theory (Trist et al, 1963), which suggests that organizations are open systems that are in constant interaction with the external environment, to which they must adapt their internal systems in order to survive. Socio-technical systems theory proposes that an organization’s internal work systems must be designed to satisfy both the technical and socio-psychological demands of its employees while ensuring a fit with the larger external environment. Subsequently, Ziegenfuss (2002) develops a categorization of key problem areas in five “organizational systems”: product and technical, structural, psychosocial, managerial and cultural.

While these systematic approaches to problem solving in organizations provide a more complex view of the problem solving process than those presented in previous sections, the impact of the problem solver in the process still needs to be examined to provide a more comprehensive overview of the factors impacting problem solving. The Normative Information Model-bases Systems Analysis and Design (NIMSAD) framework was initially applied to develop an understanding of the methodologies used by academics and consultants particularly with regard to problem solving in

information systems (Jayaratna, 1994). The NIMSAD framework is composed of four interrelated elements and draws upon systems theory to look at the problem solving process, the stakeholders involved and the organizational context in which problems exist. The four elements, as illustrated in Figure 3.3, include the following:

- 1) The problem situation
- 2) The problem solver
- 3) The problem solving process
- 4) Evaluation

Figure 3.3 *NIMSAD Framework*



Source: Jayaratna, N. (1994:53)

The problem situation represents the particular context of the problem and is impacted by a number of factors that can affect the perception of the situation and lead to different interpretations. According to this framework, the factors that impact these perceptions are people, processes, information, technology, material flows and structures.

The problem solving process refers to how the problem will be resolved through the application of specific methods or approaches by the problem solver. These methods relate to three general phases of problem solving:

- 1) Problem formulation
- 2) Solution design
- 3) Design implementation

These phases are intended to lead to the identification of proper solutions based on a highly structured and systemic analysis of the problem situation.

The third element of the framework refers to the problem solver and highlights the critical role played by the individual or group solving the problem. The personal characteristics of the problem solver(s), such as their values, motives, experiences, skills and abilities, will have an impact on their perceptions of the problem and the “mental contracts” they apply to interpret each problem situation (Jayaratna, 1994:53). This element of the NIMSAD framework provides a particularly relevant distinction since it takes into consideration the subjective nature of the problem solving process that results from the varied attributes of the individuals involved.

The final element of the NIMSAD framework concerns evaluating the results of the previous three elements before, during and after problem resolution in order to assess effectiveness at different points in the process. This process of critical self-reflection by the problem solver in each phase represents a critical part of the learning process (Argyris and Schön, 1996) and an essential component of this framework. Although this framework proposes a systemic approach that highlights the importance of the

individual(s) solving the problem and their subjective influence on the process, its usefulness in practice may be difficult to assess since the demands of managing a small firm may deter from its intended application. In fact, a review of Jayaratna's (1994) book publication clearly acknowledges the theoretical value of the NIMSAD framework to academics in the field of operational research, yet criticizes the author for failing to provide adequate "real life" examples of NIMSAD's potential applications for practitioners (Simister, 1995:594).

Ralph Stacey's publications on the emergence of strategy and planning in organizations (see for example, Stacey, 1992; 1993; 2001) repeatedly criticize attempts by managers to implement systems-oriented and predictive processes that endeavour to ensure the stability and predictability of their firms. He draws on metaphors from the chaotic and unpredictable processes in the natural world to demonstrate that long-term strategic planning is not possible in organizational settings because the future is essentially unknowable.

Today's dominant mindset leads managers to think they must find the right kind of map before they launch their businesses upon the perilous journey into the future. After all, the "common sense" belief is that you need to know where you are going and have some notion of how to get there before you set off on a journey. Unfortunately, common sense often turns out to be a poor guide to successful action: the whole idea that a map can be drawn in advance of an innovative journey through turbulent times is a fantasy (Stacey, 1992:1).

If we apply Stacey's conceptualization to the systemic approaches to problem solving presented in this section, a criticism must be made of the limited positivist assumptions of rationality and predictability upon which they stand.

3.3.4 Individual/Personality-Oriented Approaches

A final perspective on the problem solving process is grounded in the importance of individual personality and the underlying cognitive differences that impact problem formulation, interpretation and the subsequent behaviours adopted by individuals to solve problems. Buttner and Gryskiewicz (1993) applied Kirton's (1976; 1989) Adaptation-Innovation Theory to examine the ways in which entrepreneurs' problem solving styles differed from those adopted by managers in large organizations. Kirton's Adaption-Innovation Theory proposes that individuals have a preferred mode of dealing with problems and that preference influences each step of the problem solving process from problem identification to implementation of the appropriate solution. Individuals, he suggests, prefer either "Adaptation" or "Innovation". The "adaptor style" (Kirton, 1989:6) is characterized by a dependence on known and agreed upon paradigms to develop solutions. The implementation of changes tends to focus on the improvement of current organizational practices. The individual characterized by the "innovator style" (Kirton, 1989:6) tends to seek solutions to problems that go beyond accepted ways of doing and thinking. Based on Kirton's framework, Buttner and Gryskiewicz (1993) find that entrepreneurs have a more innovative problem solving style than managers in larger organizations. They also establish that preferred style impacts how entrepreneurs allocate their time in running their business. In their study, entrepreneurs that are highly innovative tend to start more ventures, while those that are more adaptive tend to operate one business over a longer period of time. Overall, the application of Kirton's Adaptation-Innovation Inventory was found to be a reliable and valid tool to establish how preferred problem solving styles impact the ways managers perceive and solve problems. This finding has a subsequent influence on business operations. The

research focuses on entrepreneurial activity specifically, yet an application of Kirton's Adaption-Innovation Inventory could prove useful in establishing how problem solving styles differ among small business owner-managers and the impact this has on the survival and potential growth of their firms.

Carl Jung's (1923) personality styles have also been used as a framework in a number of studies in the field of organizational problem solving (see, for example, Mitroff and Kilmann, 1975; Herden and Lyles, 1981; Cowan, 1991) because of their particular relevance to the study of managerial styles and their impact on organizations. Jung's typology differentiates individuals according to four functions. The first two functions relate to how individuals acquire and make sense of information and data from the outside world. "Sensing" types tend to take in information through their senses and to rely on the details and specifics of a situation. They seek concrete data and will break down a situation into concrete parts in order to understand it. On the other hand, "intuitive" types rely on their intuition and the interpretation of different situations according to a more holistic view that focuses on the whole as opposed to individual details. The situation is perceived through the unconscious, not through the senses. The other two functions relate to how individuals acquire information in order to make decisions. "Thinking" types rely on logical, rational modes of reasoning to arrive at their decisions. Conversely, "feeling" types rely on their personal views of the situation, which are influenced by their values, to interpret a situation through a more subjective focus. Combining these four preferences results in four general Jungian personality types:

- Sensing-thinking types (STs)
- Sensing-feeling types (SFs)
- Intuition-thinking types (NTs)
- Intuition-feeling types (NFs)

Mitroff and Kilmann (1975) captured the stories of managers regarding their interpretation of what the “ideal organization” consists of and found that their personality types when classified according to Jung’s typology had a significant influence on these perceptions.

Managers of the same personality type tend to tell the same kind of story, that is, they have the same concept of an ideal organization. Managers of opposing personalities have drastically opposing concepts of an ideal organization. The ideal organization of one type is literally the living hell of an opposing type (Mitroff and Kilmann, 1975:20).

According to Jung’s framework, one personality type is not better than another, it is merely different. From an organizational standpoint, Mitroff and Kilmann (1975) affirm the need to take the different perspectives resulting from different personality types into consideration when researching how problems are perceived, analyzed and subsequently solved in organizations.

Each of the four approaches to conceptualizing problem solving in organizations presented in section 3.3 emphasize different dimensions and thus each make a different contribution to our understanding of the topic. Even so, they each have their limitations, since they are all in some way or other too rigidly focused on limited aspects of problem solving.

Process-oriented approaches emphasize a series of rational steps to arrive at an accurate formulation of problems that will lead to a correctly structured solution. The frameworks presented in the section on process-oriented approaches are appealing because of their straightforward simplicity and apparent ease of use for managers, yet they do not reflect the complexity of problem solving processes in organizations

where, in practice, there might not necessarily be one clear-cut solution to one problem.

Problem-oriented approaches categorize key problem areas in which owner-managers should develop competencies in order to successfully operate their businesses. These categorizations can help managers understand and plan for potential problems. However, trying to put problems into clear-cut categories may also limit an individual's ability to see beyond these to identify other problems that may occur as a result of their unique individual and organizational circumstances.

Systems-oriented approaches build on the previous two approaches by proposing that the problem solving process can only be understood by looking at the interaction of complex and interrelated organizational and environmental influences. Most of these frameworks, however, do not adequately consider the subjective influence of the problem solver in the problem solving process. In addition, the conceptualization of the problem solving process within a rational organizational system has inherent limitations: as Stacey (1993) affirms, when refuting the existence of an identifiable link between the actions taken in an organization and any intended outcomes that rational approaches to planning lay claim to, a new frame of reference is required to understand organizations as chaotic, self-organizing systems.

Individual/personality-oriented approaches address a key limitation of many of the systems-oriented approaches by emphasizing the impact of an individual's personality and how it creates a subjective influence on their perception of the problem. The focus here is on the individual attributes of the people involved in the

problem, as opposed to on identifying concrete elements that can explain the problem and lead to solutions. While these studies have mainly focused on identifying the impact of personality types on problem solving styles, mostly through the application of empirically based methods, there have been limited attempts to use a more interpretive methodological technique to investigate what (if anything) characterizes the approach taken by small business owner-managers to interpret and solve problems that arise during the evolution of their businesses. This is an important consideration in the context of the present study, since it applies an interpretive approach and examines problem solving processes from a holistic perspective by examining a range of factors impacting the process.

3.4 Problem Perception: An Interpretive Approach

Understanding the importance of an individual's perception when dealing with problems as they occur is central to the application of a more interpretative approach to problem solving. Ackoff (1978:13) demonstrates the potential impact of the problem solver's point of view when attempting to address a problem: "He [*sic*] attempts to solve the problem *as he* [*sic*] *conceives it*. Thus if the conception is wrong, the solution to the problem as conceived may not solve the problem as it exists". Berthon, Pitt and Morris (1998) assess the relative impact of individual and organizational factors on management perceptions of their role in the decision making context in which they operate. Their research utilizes an empirically based approach and finds that individual factors such as personality, job and management level have a greater impact on how problems are viewed and acted upon than organizational factors, thus influencing the outcomes and subsequent performance of the organization. "The realist assumption of 'one' right view of a problem is

supplemented by an appreciation of the fact that problems are mental constructions and as such are influenced by a range of individual and collective factors” (Berthon, Pitt and Morris, 1998:35).

Mitroff and Kilman (1976:26) advocate the use of approaches other than quantitative, empirically based questionnaires to capture and analyze the perceptions of problem solvers. Their research centres on capturing stories of how managers perceived their “ideal organization” in order to evaluate how they perceived and analyzed organizational problems in these ideal settings, and classifies their styles according to the four Jungian personality types (sensing-thinking, ST; sensing-feeling, SF; intuition-thinking, NT; or intuition-feeling, NF). When presenting their results, the authors conclude:

Almost by definition, *real* problems do not fit neatly into one and only one slice of psychological space. Rather, real problems, as opposed to idealized problems, change drastically in character – they look vastly different – as we view them from different perspectives.

Based on their personality types, managers saw problems from one of two broad perspectives, which were either predominantly emotional or predominantly rational. These findings, published three decades ago, are consistent with an emerging body of research that has gained increasing recognition in recent years and that is characterized by an interpretive approach to furthering our understanding of small business management processes. Entrepreneurial narratives (Rae, 1999; Rae, 2004; Pitt, 1998), for example, have been captured through in-depth interviews with small business owners and used to interpret entrepreneurial learning and development and to develop “practical theories” that further our understanding of management practices in these organizations:

It is proposed that the “practical theories” of entrepreneurship are constantly reconstructed in the accounts of entrepreneurs who are making sense and creating meaning within their social context, and that this knowledge can be used to develop an understanding of entrepreneurial practice (Rae, 2004:196).

More recently, a phenomenological approach to small business research positioned within a broader interpretive perspective (Burrell and Morgan, 1979) was proposed as an apt methodological choice to capture the lived experience of learning as perceived by each individual business owner (Cope, 2005). Conversely, current studies on entrepreneurial research (Mitchell et al, 2002:96) articulate the need for a focus on “entrepreneurial cognition”, an approach that focuses on understanding the reasons entrepreneurs act as they do through the application of a “theoretically rigorous and testable argument for such distinctiveness”. Such an approach, based on a hypothesis-driven analysis of the relationship among variables to explain entrepreneurial phenomena, does not adequately capture the behavioural context that influences the ways in which small business owners address problems as they arise. Nor does it adequately capture the increased recognition, now reflected in a number of management studies, that the subjective nature of organizational processes is a critical consideration in problem solving, and cannot be captured through logical methods. As such, research methodologies should be adopted to reflect a more interpretive paradigm (Prasad and Prasad, 2002).

3.5 Learning As an Outcome of Problem Solving

Finally, when looking at problem solving at individual and organizational levels, the potential for learning as an outcome of problem solving represents an important consideration. The concept of learning processes in organizations is at the centre of a vast field of study (Goldsmith, Morgan and Ogg, 2004); however, most of the

research into organizational learning centres on large organizations (Anderson and Boocock, 2004; Kelliher and Henderson, 2006). The ability of owner-managers to learn from their mistakes as they resolve problems in the different stages of evolution of their firm is an important consideration that requires further exploration and that can provide a new understanding of the outcomes of problem solving processes in small firms when analyzed in the unique context of this study. A number of authors have proposed well-known frameworks that are central to the field of organizational learning and innovation (see, for example, Senge, 1990; Nonaka and Takeuchi, 1995; Argyris and Schön, 1996). Senge (1990) distinguishes traditional organizations from “learning” organizations, where a systemic view of learning that incorporates five disciplines – systems thinking, personal mastery, mental models, building shared vision and team learning – can be mastered to create an organization that continuously innovates and learns. Nonaka and Takeuchi (1995) explore the creation and dissemination of knowledge in Japanese organizations by mapping and capturing a company’s tacit and implicit knowledge assets in order to create value for the firm. This value is created through each individual’s increased capability to apply tacit and implicit knowledge to deal with organizational problems or issues encountered in their work environment. Finally, Argyris and Schön’s work (1978; 1996) focuses on how organizations can increase their capacity for double-loop learning in order to improve their ability to make sound decisions when faced with increasingly complex and uncertain organizational environments. Single-loop learning occurs when:

members of the organization respond to changes in the internal and external environment of the organization by detecting errors which they then correct so as to maintain the central features of theory-in-use (Argyris and Schön, 1978:18).

Double-loop learning then refers to:

... those sorts of organizational inquiry which resolve incompatible organizational norms by setting new priorities and weightings of norms, or by restructuring the norms themselves together with associated strategies and assumptions (Argyris and Schön 1978:18).

The focus of their research is on individual and group interactions that create learning, in contrast to the systemic view of organizational learning processes proposed by Senge (1990). Though extremely influential in subsequent research on organizational learning, these writings once again apply within the context of larger corporations and are indicative of the lack of research specifically addressing learning in small firms (Kelliher and Henderson, 2006). The small business context, where one person, usually the owner-manager, is often responsible for addressing organizational problems in all aspects of the firm's functioning, presents different characteristics than those used to develop the previous frameworks that are based on a functional model of larger organizations.

Chaston et al (2001) have published one of the few studies to focus on organizational learning and its link to the development of internal capabilities in small UK manufacturing firms. The study finds that learning systems in these small firms evolve from lower-level learning, based on the use of existing knowledge where almost no learning occurs, to higher-level learning, where firms apply new knowledge to increase their adaptability and flexibility. As organizations move from lower to higher levels of learning, organizational competency in areas that are principally related to the internal functioning of the firm – such as new product development, human resource management, and quality and information management – is further developed and contributes to the overall performance of the organization. The authors of the study readily acknowledge the limitations of a research methodology that relies on the use of postal surveys to generate statistical

generalizations. They identify the need for qualitative approaches to uncover the “richness of information” (Chaston et al, 2001:1,430) required to gain a deeper understanding of how organizational learning can have a positive impact on the performance of small firms. The present study addresses this gap.

Another study in the Netherlands explores how the development of entrepreneurial skills and personal competence occurs through learning opportunities such as overcoming obstacles and dealing with transitions, and identified this learning as a core outcome for the small business starter (van Gelderen, van der Sluis and Jansen, 2005). Learning behaviours corresponded to the approach to learning taken by small business starters as they were faced with varied learning opportunities. Learning as a result of these behaviours was measured by analyzing the impact of their actions on outcomes for the firm, the impact in terms of performance (goal achievement), personal growth (skill development) and affective evaluation (satisfaction). The type of learning behaviours exhibited with regard to learning opportunities had a significant impact on business outcomes, particularly with regard to experiential learning where skills were learned by doing the task. This study (van Gelderen, van der Sluis and Jansen, 2005) makes a contribution by analyzing the link between learning opportunities and competency development in the start-up stage of the small firm. Additional insights can be gained by studying this topic beyond the first two years of start-up to identify the extent to which owner-managers have the ability to apply past learning to the more effective resolution of future problems.

The impact of the owner-manager’s attitude towards solving problems and the consequent impact on their ability to learn from these experiences has also been

highlighted as an important consideration. “If small business owner-managers get into difficulties, they need to learn from their mistakes and make sure that the same problem does not occur again” (Fuller-Love, 2006:184). If an individual does not have a mindset that is conducive to learning when dealing with organizational problems because they do not see them as learning opportunities, their ability to develop the necessary skills to effectively deal with these problems will be limited and will impact the potential survival and growth of their firm. This consideration becomes even more important when taking into account the central influence of the owner-manager on all aspects of business operations. The tacit and specialized knowledge applied by these key decision-makers has a vital impact on the quality of learning processes in small organizations. These learning processes tend to be informal and based on accumulated experience that is then applied to achieve organizational goals (Anderson and Boocook, 2002). Learning through experience is reflected in Kolb’s (1984) experiential model, where the individual goes through a learning cycle of concrete experience, observation and reflection; the formation of abstract concepts; and finally, active experimentation in new situations based on new learning or knowledge. This well-known andragogical approach places an emphasis on the learner as a central element in the learning process.

From a managerial perspective organisational learning may be seen as the development or acquisition of new knowledge or skills in response to internal or external stimuli that leads to a more or less permanent change in collective behaviour, enhancing organisational effectiveness (Sadler-Smith, Spicer and Chaston, 2001:140).

Through the production and application of new knowledge and skills, organizational problems can be solved. The importance of learning as an outcome of problem solving activities and its link to the tendencies of owner-managers to view or not

view problems as learning opportunities will be explicitly addressed as a critical finding in this thesis.

It is the question of *how* and *if* owner-managers actually learn as a result of solving problems throughout the evolution of their business that requires further exploration. To what extent does the owner-manager's learning impact their ability to resolve problems encountered in their firm? This study addresses the need highlighted by Chaston et al (2001) to expand research on learning in small firms by using alternatives to the highly structured, positivist approaches, such as grounded theory and in-depth case studies, in order to uncover actual owner-manager experiences of learning. Qualitative approaches to researching how owner-manager learning actually takes place have been suggested in order to take into consideration the fact that learning is context-specific and dependent on each individual's perception of various events and the meanings they attribute to these (Down, 1999). The ability to learn is critical to the survival and potential growth of small firms as owner-managers improve their ability to solve organizational problems through learning.

3.6 Summary

The purpose of this chapter was to review the literature on problem solving that is most relevant to the central objective of this thesis: to explore the unique characteristics of problem solving practices in small firms. Four approaches to conceptualizing problem solving were analyzed and their limitations were also presented. The first area emphasized highly structured process-oriented frameworks that are based on the application of specific principles or methods to solve problems as they arise. The second approach proposed a categorization of the actual problems

encountered in small businesses as the starting point for understanding organizational problem solving and the key areas that should be focused on to ensure small business survival and success. The third approach conceptualized problem solving from a systems perspective, where identifying the type of problem, applying a clearly defined process and taking the external environment in which the firm operates into consideration create the context managers should consider to effectively respond to organizational problems. The final approach examined the impact of individual factors, particularly the problem solving styles of managers, on how problems are perceived and consequently resolved in organizations. This chapter also explored the unique characteristics of learning processes in small firms and the notion of learning as an important outcome of problem solving, in order to support the findings presented in the results section of this thesis where owner-manager accounts demonstrate that learning does occur as an outcome of problem solving through the history of their firm.

This chapter demonstrated that even though problem solving capability is critical to the effective management of small firms, relatively little research has focused on understanding the actual approaches small business owner-managers take to solve the problems they encounter. Nor has there been sufficient exploration of how the problem solving approaches employed by small business owner-managers from start-up through the different phases of development of their company contribute to the continued survival of their firm. There is, especially, a lack of investigation into how problem solving models relate to small businesses, where the relatively small size of the firm combined with the unpredictable nature of managing a small business increases the relative importance of the individual owner-manager's adequate

responding to internal and external problems as they arise. This thesis further explores problem solving processes in 11 small firms located on Central Vancouver Island and analyzes the characteristics of these processes to demonstrate the extent to which they differ from the formal and structured approaches recommended as best practice in much of the existing management literature on the topic. The next chapter outlines the research design and methods used to achieve the aims of the study.

CHAPTER 4

Research Design and Methods

This chapter outlines the research design and methods used in the context of this study to examine the problem solving approaches adopted by 11 small business owner-managers on Central Vancouver Island. The limitations of positivist approaches to management research are presented in order to provide a justification for the utilization of an interpretive approach and to support its relevance in achieving the purpose of this study. The chapter also presents the unique contribution made by the use of an interpretive research paradigm and discusses its position within an emergent mode of inquiry, which provides an alternative to the dominant positivist approaches within the field of small business management. More specifically, it explains how the critical incident technique (Flanagan, 1954; Chell, 1998), combined with an approach to data analysis and coding that draws from grounded theory (Glaser, 1992; Glaser and Strauss, 1999; Strauss and Corbin, 1998), has been applied as a qualitative research strategy positioned within the interpretive research tradition to analyze problem solving practices among the selected sample of small business owner-managers.

4.1 Research Purpose and Questions

The purpose of this study is to investigate the problem solving approaches adopted by 11 small business owner-managers on Central Vancouver Island. It identifies the types of problems encountered in the years following their establishment, the actions taken to solve these problems and the outcomes of these actions for the firm. It

investigates how problems were actually solved as they were encountered by small business owner-managers, and how owner-managers perceived the impact of the approach taken on the continued survival of their firm. The study also analyzes the variables characterizing problem solving processes in the sample of firms studied from a holistic perspective: it considers the interrelationship among the themes that emerged to generate new interpretations of owner-managers' approaches to problem solving. Three main questions guided the research:

- 1) What problems have owner-managers encountered that have had a critical impact on their business?
- 2) How did owner-managers address these problems as they were encountered?
- 3) What characterized their approaches to problem solving?

4.2 Positivist Research Approaches

In order to justify the research approach taken to achieve the purpose of this study, it is necessary to explain why a positivist mode of inquiry was not chosen despite the fact that this approach is still dominant in management research (Johnson et al, 2006) and in small business and entrepreneurial research (Grant and Perren, 2002).

Researchers utilizing a positivist approach make a number of philosophical assumptions that are central to this mode of inquiry. One assumption is that quantitative, scientifically based methods can be applied to uncover rational, theoretical explanations of social phenomena, and that these can be used to explain, predict and control individual behaviour in organizations (Johnson et al, 2006; Prasad and Prasad, 2002). The underlying supposition is that these theories can be generalized to explain and predict human behaviour across different organizations through the application of an approach grounded in the testing and validation of

hypotheses similar to that used in the natural and physical sciences. Positivists maintain that the application of empirical methods to the study of organizations can produce rational and theoretically driven knowledge that explains how organizational performance is impacted by various factors (Donaldson, 2005). The positivist methods adopted in management research emphasize the collection and analysis of numerical data through statistical methods that test various hypotheses to produce or validate knowledge (Gill and Johnson, 1997).

This scientific method of inquiry also makes an underlying assumption that the researcher is a detached observer of the phenomenon being researched, with the ability to make objective and measurable observations. “Therefore it is possible to separate the knower (subject) from the known (object), through the deployment of a theory neutral observational language” (Symon and Cassell, 1998:2). This notion implies that the researcher has the ability to detach themselves from the phenomena being researched in order to observe, analyze and explain it in objective terms. This assumption has been criticized for failing to take into consideration the dynamic nature of the organizational environment, where “unobservable realities” such as beliefs and values cannot be rationally explained in a cause and effect manner by a detached observer (Perry and Rao, 2007:129).

Positivist approaches are not only quantitative but can also be qualitative in nature.

Such an approach is referred to as “qualitative positivism”:

Qualitative positivism uses nonquantitative methods within traditional positivistic assumptions about the nature of social or organizational reality and the production of knowledge... Reality is assumed to be concrete,

separate from the researcher, and cognizable through the use of so-called objective methods of data collection (Prasad and Prasad, 2002:6).

The methods used in qualitative positivist approaches emphasize traditional criteria such as internal and external validity to allow for the generalization of findings, and rely on qualitative methods that allow for a structured and statistical analysis of findings (Denzin and Lincoln, 2003). An approach such as this, even though it may have a qualitative emphasis, is limited by the same assumptions that inform the quantitative positivist approach.

The positivist approach has been criticized on a number of levels for its fundamental limitations with regard to management research. Gill and Johnson (1997:7) state that, “what may be an appropriate method in the natural and physical world may be inappropriate in the social world given the inherent meaningfulness of management action and its contextual nature”. As a result, positivism has been criticized for failing to take into consideration the complex human and social dynamics that are part of the organizational context in which management research takes place, which is not necessarily conducive to the application of principles more suited to the natural sciences (Prasad and Prasad, 2002).

Though positivist approaches with a heavy focus on quantitative measurement are still predominant in the field of small business research, there is an increasing recognition of the limitations of such approaches in providing new interpretations of owner-manager motivation and actions as they operate their businesses. Curran and Blackburn (2001:44) articulate one of the fundamental limitations by stating that,

“the weak predictive power of positivist analyses of the small business is that they largely fail to give due weight to the key person in the enterprise: the owner-manager”. The quantitative focus of a number of well-known studies on small firm processes (see, for example, Birch, 1979; Storey et al, 1987; Storey, 1994) that are based on the use of surveys and questionnaires does not provide us with additional insights into how owner-managers give meaning to and make sense of the world in which they function. Indeed, in his criticism of much of the SME research informing government policy in the UK, Gibb (2000:31) demonstrates the limitations of methodological choices by academics in the field. “The hitherto dominant notion, common to one school of ‘careful’ SME research, has been that of ‘objectively’ extracting information in a somewhat reductionist manner from subjects.” Such a positivist approach to understanding small business does not adequately capture the level of “lived reality” (Curran and Blackburn, 2001:121) that characterizes the lives of small business owner-managers on any given day. Grant and Perren (2002) also criticize the continued predominance of functionalist approaches to small business and entrepreneurial research, and justify the need for experimentation with other research paradigms, such as the interpretive approach, to broaden existing perspectives in this field. Indeed, the importance of interpretive approaches to management and organizational studies has increased in recent years as there is growing recognition that such an approach addresses many of the limitations of positivist research (Prasad and Prasad, 2002). The following section supports the suitability of applying an interpretive mode of inquiry to gain a better understanding of the problem solving approaches in a sample of small firms.

4.3 An Interpretive Approach to Small Business Research

As increasing attention is drawn to the limitations of positivist approaches in terms of studying social phenomena that are essentially subjective in nature (Sandberg, 2005), the potential contribution of interpretive research has gained importance in a number of organizational research fields such as information systems (Walsham, 2006), organizational work and psychology (Symon and Cassell, 2006) and organizational learning (Kim, 2003). The fundamental differences between the interpretive and the positivist paradigms involve opposing philosophical assumptions about critical aspects of the research process. These include divergent beliefs about the nature of reality, the overall purpose of research, the most effective methods that should be applied to gather and interpret data in order to understand this reality, and finally, the relationship between the researcher and the research subject (Willis, 2007). These themes will be elaborated upon in the following section to clarify the underlying philosophical assumptions upon which this study is founded.

To begin with, the interpretive paradigm is guided by ontological assumptions about the nature of reality that contrast with those espoused by the positivist tradition, and these assumptions influence how the research process is undertaken. “Interpretive practice engages both the *hows* and the *whats* of social reality; it is centered both on how people methodically construct their experiences and their worlds and in the configurations of meaning and institutional life that inform and shape their reality-constituting activity” (Gubrium and Holstein, 2003:214). Methodological choices that are influenced by a more subjective perspective such as this one are concerned “with an understanding of the way in which the individual creates, modifies and interprets the world” (Burrell and Morgan, 1979:3). Since these interpretations of the

world vary according to each individual and the different perspectives that result from the context and environment in which the research is occurring, the assumption that is made within the interpretive approach is that there exist multiple subjective realities to be discovered through a variety of qualitative methods. Indeed, “the purpose of interpretivist research is not the discovery of universal laws but rather the understanding of a particular situation. Even this goal is subjective. Interpretivists eschew the idea that objective research on human behaviour is possible” (Willis, 2007:111). The interpretive researcher is thus motivated by the need to discover these subjective perceptions of reality in varied organizational settings.

A further characteristic distinguishing an interpretive research paradigm from a positivist research paradigm centres on the relationship between the researcher and the research subject. Interpretive research is founded on assumptions contrary to those espoused by the positivist approach when it comes to the role of the researcher and the participant in the research process. Prasad (2005:292) criticizes the positivist tendency to perceive the researcher as an objective observer who attempts to develop rational explanations of social phenomena, and expands on the factors shaping the way in which the interpretive research process is conducted. He affirms that, “many qualitative traditions are actually absorbed by the irrationality, complexity, and paradoxicality of organizational worlds, without seeking to exclude much of it as ‘noise’ or to reduce it to sterile and formulaic representations of the social world”. Unlike positivists who claim that quantifiable knowledge can be objectively captured by a researcher independent of their research topic through the application of rigorous, scientifically based procedures, the interpretive researcher’s role is to interact with research subjects to uncover different subjective viewpoints as each

individual interprets their reality through varied perspectives (Denzin and Lincoln, 2005). The nature of interpretive inquiry is such that this interactive relationship between researcher and respondent is central to the research process and represents a distinctive characteristic of this highly contextual and subjective approach. “Only through this interaction can deeper meaning be uncovered. The researcher and her or his participants jointly create (co-construct) findings from their interactive dialogue and interaction” (Ponterotto, 2005:129). This paradigm is concerned with uncovering the experience of individuals from their particular subjective reality and assumes an interpretive epistemology where it is necessary for the researcher to actively engage in the organizational or management issue under study in order to elicit these perspectives (Locke, 2001). Such an approach provides a valuable perspective from which to view organizations in order to uncover new understandings of the complex dynamics that exist within them at every level.

When considering the assumptions guiding an interpretive approach to research, the most effective methods to gather and interpret data also differ from those espoused in the positivist paradigm. Denzin and Lincoln (2005:4), in their influential work on qualitative methods, refute the suggestion that objective reality can be captured and instead advocate the use of various methodological practices on the part of the interpretive researcher:

The qualitative researcher using the varied methodological tools that are contained in the interpretive perspective has been referred to as a “bricoleur”, that is, someone who assembles narratives, images, stories and other varied representations of reality that provide new knowledge in relation to a specific focus of inquiry. The interpretive *bricoleur* produces a bricolage – that is, a pieced-together set of representations that is fitted to the specifics of a complex situation.

The techniques that can be applied in qualitative research positioned within an interpretive paradigm are numerous (Willis, 2007). Among these techniques, grounded theory has become well established and respected as an interpretive method for achieving new understanding of organizational phenomena since it acknowledges the existence of multiple interpretations of reality and emphasizes the need to discover new interpretations of these realities through the application of specific principles (Ponterotto, 2005). The present study draws on key principles of grounded theory that will be elaborated upon in sections 4.3.1 and 4.6.

In more general terms, the important implications of using interpretive approaches to research lie in their essential contribution to creating different types of knowledge and are aptly summarized by Willis (2007) as follows:

- A shift to an interpretive framework would encourage more work in the authentic environment of humans;
- The search for universal truths ends, and efforts to find local truth and understanding accelerate;
- Expands “sources of truth” well beyond traditional positivist research studies.

When considering the focus of this study, an interpretive approach can facilitate the *interpretation* of how small business owners attach meaning to their experiences and how this informs the choices they make as problems arise in the day-to-day functioning of their businesses. Since small business owners’ actions are based on their own distinctive understanding of the world they live in, inquiring into the problem solving approaches adopted by each individual can provide new insights into how their capacity to solve problems impacts the survival potential of small businesses. These personal accounts of “what works” for each participant can also

lead to the development of “practical theories” (Rae, 2004:196) derived from each individual’s experience, which can further our understanding of specific issues like problem solving in small firms. Subsequently, these varied accounts can be interpreted in order to develop “practice-based theories” that have potential value for research in the fields of small business and entrepreneurship and also for practitioners (Rae, 2004:200).

The interpretive methods applied in this study propose an alternative to positivist methods, with their inherent limitations. The following section expands on the methods utilized within an interpretive research paradigm to explore the research questions at the centre of this study.

4.3.1 Grounded Theory

With the publication of *The Discovery of Grounded Theory*, Glaser and Strauss (1967) challenged the predominant positivist assumptions that qualitative research could not generate valid theories because of its unsystematic and unreliable approach. Since then, grounded theory has gained legitimacy as a valuable methodological approach and has provided a credible alternative to positivist quantitative research methods (Charmaz, 2006). Grounded theory provides a general framework that guides the research process and allows for the development of theory through an iterative and inductive process of collecting and analyzing qualitative data. The term “grounded theory” was defined by Glaser (1992:16) as, “a general methodology of analysis linked with data collection that uses a systematically applied set of methods to generate an inductive theory about a substantive area”. The methodological emphasis of grounded theory is congruent with interpretive

assumptions regarding the need to capture the interpretations and perceptions of the subjects being studied. Consequently, the grounded theory process emphasizes the central tenet of emergence. The systematic analysis of data to code rich descriptions through the use of the constant comparative method allows for the emergence of new theory on the area being studied. With the constant comparative method, the researcher is required to compare the contents of each interview with another in order to identify underlying themes that are then designated into categories that explain the phenomena being researched (Glaser and Strauss, 1962; Glaser, 1992). This inductive theory generation process allows for themes to emerge from the data rather than for data to be collected and analyzed through the application of an existing theoretical framework.

The flexibility inherent in the grounded theory approach also allows it to be combined with other quantitative approaches such as the critical incident technique (CIT), as is the case in this particular study. The application of various interpretive methods such as grounded theory and the CIT is supported by the defining characteristics of qualitative research:

Qualitative research involves the studied use of a collection of a variety of empirical materials – case study; personal experience; introspection; life story; interview; artefacts; cultural texts and productions; observational, historical, interactional, and visual texts – that describe routine and problematic moments and meanings in individuals' lives. Accordingly, qualitative researchers deploy a wide range of interconnected interpretive practices hoping always to get a better understanding of the subject matter at hand. It is understood, however, that each practice makes the world visible in a different way. Hence there is frequently a commitment to using more than one interpretive practice in any study (Denzin and Lincoln, 2005:4).

Indeed, when considering the importance of the context in which small business owner-managers operate, the qualitative, inductive approach that is the foundation of

grounded theory provides the flexibility required to enable the in-depth exploration of problem solving approaches in small firms. “When the main emphasis is on verifying theory, there is no provision for discovering novelty, and potentially illuminating perspectives, that do emerge and might change theory, actually are suppressed” (Glaser and Strauss, 1999:40). The goal of this study is not to verify existing frameworks on approaches to problem solving, as presented in Chapter 3, but to allow new meanings to emerge that relate to the unique context of the sample of 11 small businesses studied. “Also underlying this approach to qualitative research is the assumption that all concepts pertaining to a given phenomenon have not yet been identified, at least not in this population or place” (Strauss and Corbin, 1998:40). Indeed, this was the case, and the results of this study bring forth new conceptualizations of problem solving in the sample of small firms studied.

The utilization of a grounded theory approach to small business and entrepreneurship research has also recently been proposed as a particularly relevant way for researchers to increase the intersection between existing theory and the actual reality of small business practice by developing theories that are grounded in the real lived experiences of the small business owner as opposed to the application of existing theories (often developed in large organizations) that often do not adequately reflect these experiences (Nkongolo-Bakenda, d’Amboise and Anderson, 2005). Grounded theory is well suited to researching the complex aspects of small business management processes and enables the examination of new interpretations as they emerge from the data. Therefore, an analysis of the sample of small businesses studied in the rural, island environment of Central Vancouver Island using this approach provides new insights into both this particular population and the

phenomenon of problem solving in small firms in general. The resulting outcomes allow for the development of new theory and also have implications for small business research and practices.

4.3.2 The Critical Incident Technique

When considering the purpose and research questions guiding this study, an interpretive approach based on the application of the critical incident technique (Flanagan, 1954; Chell, 1999) that also draws on the core principles of grounded theory (Glaser and Strauss, 1967; Strauss and Corbin, 1998) was chosen as the most appropriate method. The CIT is a qualitative method that relies on an approach to data collection through interviews and can be effectively utilized as part of an interpretive research methodology (Chell, 1999). This method is particularly well suited to answering the research questions at the centre of this study since it permits an examination of events from the owner-manager's perspective. The CIT was developed by Flanagan (1954) to collect behavioural data on observable human activity through the identification of critical incidents that are systematically analyzed to identify precise relationship(s) among variables. Through the application of this approach, respondents are able to convey their own unique interpretations of the events under study.

The CIT has been used in a number of entrepreneurial and business studies and has gained acceptance as a qualitative method in the field of small business research (Perren and Ram, 2004). For example, this approach has been used to further our understanding of critical incidents as they relate to the motivations of technology-

oriented entrepreneurs (Chell and Allman, 2003), to explain customer turnover in the service industry (Richman, 1996) and to determine the competencies required of effective organization development practitioners (Eubanks, Marshall, O'Driscoll, 1990).

For this study, the CIT is defined as follows:

... a qualitative interview procedure which facilitates the investigation of significant occurrences (events, incidents, processes or issues) identified by the respondent, the way they are managed, and the outcomes in terms of perceived effects. The objective is to gain an understanding of the incident from the perspective of the individual, taking into account the cognitive, affect and behavioural elements (Chell, 1998:56).

The identification of critical incidents is based on observable human activity that is complete enough in itself to permit inferences about the person acting in response to a specified situation. As Flanagan (1954:357) affirms, "the critical incident technique, rather than collecting opinions, hunches, and estimates, obtains a record of specific behaviors from those in the best position to make the necessary observations and evaluation". This interpretive approach to the analysis of management behaviour is particularly relevant to the present study of small business owner-managers and their approaches to problem solving. Jennings and Beaver (1997:73) also emphasize the suitability of using this type of qualitative approach to further our understanding of small business management processes:

In contrast to the generally accepted, formally stated, rational performance criteria normally associated with the analysis of business success and failure, the highly personalized management process of the smaller enterprise means that qualitative criteria are equally appropriate.

The CIT method assumes an interpretive approach (Chell, 1999) that explores owner-manager *perceptions* of their unique reality and how they attribute meaning to the world in which they function.

In addition to the CIT, an inductive approach that draws from the analytic process contained in grounded theory has been used to code and analyze data obtained during the interviews. This allowed for the emergence of patterns and unique characteristics of the problem solving process as data collected from interviews was analyzed and categorized according to the principles of grounded theory. These principles will be presented in a later section.

4.4 Selection Criteria for Research Participants

Over two-thirds of Canadian micro-businesses (with 1 to 4 employees) and almost half of small firms (with 5 to 50 employees) exit the market within the first five years of start-up (Industry Canada, 2003a). In British Columbia specifically, 23% of small businesses fail after their first year of operation, and after six years more than two-thirds of new entrants are no longer in operation (Chambers and Shaw, 2004:7).

In order to take the extremely high failure rate of small businesses in their first five years of existence into consideration, only businesses that had been in existence for a minimum of five years were chosen to participate in the present study.

By interviewing owner-managers whose businesses had survived past this first crucial five-year period, the study attempted to identify ways in which owner-managers solved the problems they considered to be most critical and what, if anything, characterized the approach to problem solving that enabled them to survive

beyond the first five years of operation. The research sample of small businesses was located on Central Vancouver Island and, as established in Chapter 1, were defined as *independent businesses with at least 1 but fewer than 50 employees for which the owner-manager is responsible for management decisions relating to the firm's operations*. To summarize, each of the firms in the study met the following criteria:

- 1) 1 to 50 employees
- 2) Independently owned and managed by the individual
- 3) In operation for a minimum of five years

A deliberate decision was also made to exclude the use of traditional criteria such as growth or profitability as indicators of success or failure, although they have been at the centre of previous research (see, for example, Gadenne, 1998; Stewart, 2002; Stokes and Blackburn, 2002), since they are beyond the scope of this study. The reason for excluding such criteria is reflected in Holliday's (1995) well-known ethnographic study of production processes in small firms, which points out the inherent difficulty associated with using "growth", "success" and "failure" as measurements of small business performance. These concepts are extremely complex and subjective in nature when used in relation to the study of small businesses. The decision to exclude the use of financial data as an "objective" measure of performance in this study was made on the assumptions that there would be a significant variance in financial data due to the range of sizes and the nature of each business, and that obtaining this data was not adequately related to achieving the stated research aims. As a result, participants in the study were not asked to provide data on their financial performance.

The selection of firms for this research was largely access-driven and did not attempt to meet any criteria for ensuring that the sample chosen was representative of all small businesses on Central Vancouver Island. As Miles and Huberman (1994:29) state in reference to this approach to sampling in qualitative research, “sampling must be *theoretically driven*... Choices of informants, episodes and interactions are being driven by a conceptual question, not by a concern for ‘representativeness’”. In addition, the extreme heterogeneity characteristic of the small business population (Curran and Blackburn, 2001) increases the difficulty of choosing a sample that is representative of *all* small businesses in a given area. With this in mind, potential subjects were identified through convenience sampling, a well-known strategy in this type of qualitative research (Silverman, 2005). This enabled the selection of readily accessible cases, according to the selection criteria outlined above, who were appropriate for achieving the aims of this study.

4.5 Data Collection

Data for this study was collected from March 2005 to July 2006, through a series of in-depth, semi-structured interviews with small business owner-managers operating their businesses on Central Vancouver Island, and using the CIT framework as the primary method of data collection. Interviewing was chosen as the most appropriate method for obtaining data on the various dimensions of problem solving as explained by owner-managers and fit well into the interpretive assumptions guiding the study:

... interviewing is one of the most common and powerful ways in which we try to understand our fellow humans... Increasingly, qualitative researchers are realizing that interviews are not neutral tools of data gathering but rather active interactions between two (or more) people leading to negotiated, contextually-based results (Fontana and Frey, 2005:698).

The interviews provided a valuable tool for collecting rich accounts of owner-manager experiences with regard to how they approached the identification and resolution of problems and the perceived impact of these approaches on the development of their business.

4.5.1 Choice of Research Participants

Personal contacts, recommendations from other business owners and various business directories were utilized to identify potential participants for the study. An attempt was also made to interview individuals from a wide variety of businesses, with the aim of constructing a sample of owner-managers from diverse sectors in order to establish whether there are any differences in the range of problems confronted by individuals as a result of their business sector. Some participants were initially approached in person in order to establish their interest in participating in the study and to confirm that they met key sampling criteria. Other participants were sent a letter explaining the research objectives and the reason for requesting their participation. Follow-up phone calls to each potential participant were completed one week after they received the letter. Interviews were then scheduled for each participant demonstrating a willingness to participate in the study. Only two of the potential participants approached did not return follow-up phone calls and, as a result, did not participate in the study. All of the owner-managers who participated in the study, except for one, had businesses with at least 3 and up to 35 employees. The only exception was one business in the hospitality industry, run solely by the owner-manager.

4.5.2 Designing the Interview Schedule and Conducting Interviews

Essentially, the application of the CIT approach to designing an interview schedule for the study and conducting the interviews involved five phases (Flanagan, 1954):

- 1) Specifying the general aim of the activity being analyzed to determine the extent to which participants were effective (or ineffective) in a particular situation;
- 2) Developing the plans and specifications for collecting data;
- 3) Collecting incidents from the relevant sample of individuals;
- 4) Identifying themes in the critical incidents collected and sorting the incidents into categories; and
- 5) Interpreting and reporting the data.

In the context of this study, the general aim (as indicated in point 1, above) was to analyze owner-managers' perceptions of the actions taken to solve the problems encountered in operating their businesses, and the extent to which they perceived these actions to have an impact on their firm. Critical incidents were defined as *specific problems owner-managers were faced with, which they identified as having a critical impact on the functioning of their business*. Incidents were derived from asking each participant the following questions:

- 1) Tell me about the critical problems you have encountered since the start-up of your business. (*critical incident*)
- 2) How did you deal with each problem? (*behaviour/action*)

3) How did it turn out? What was the result of your actions? How did this influence the development/performance of your business? How did you know your approach to solving the problem was successful/effective? (*outcome*)

Two preliminary interviews were completed in March 2005 to identify any shortcomings in the research approach and the formulation of questions contained in the interview guide (see Appendix 2). The interview questions were found to be appropriate in achieving the research objectives since they obtained in-depth responses from each participant that were clearly related to the research questions. As a result, data from these interviews was used as part of the sample of interview results from owner-managers participating in the study. The pilot interviews also allowed the researcher to practice the skills necessary to conduct face-to-face interviews in an effective manner and within the context of the CIT format.

All the interviews were carried out face-to-face at the interviewee's home, place of work or an alternative location. Prior to each round of interviews, an interview guide consisting of open-ended questions was prepared within the framework of the CIT (see Appendix 2), in order to provide a consistent approach to exploring problem solving practices in each small firm.

Ethical issues were addressed by having each participant read and sign a consent form prior to each interview and by reassuring them of the confidentiality of the research results, thus ensuring that everyone participated in the study with free and informed consent. The Participant Consent Form was written in accordance with

guidelines stipulated by the University of Hertfordshire's Ethics Committee. A copy of this form is included in Appendix 1 of this study. Each participant was informed of their right to withdraw from the research at any time. Consent was also obtained from each participant to digitally record the interviews, to ensure that the data being transcribed accurately captured what owner-managers were saying in order to reduce potential researcher bias when recounting and interpreting the interview results.

The beginning of each interview focused on clearly introducing the research purpose to each participant, in order to explain the importance of their role in the process while also introducing how the CIT method would be applied in the context of the interview. Respondents were asked to recall critical problems they had encountered in the history of their small business and the approach they had taken to solve these problems. The key to obtaining each participant's view on the topic was to keep the interview as informal and open as possible in order to allow responses to emerge naturally. "Typically, qualitative in-depth interviews are much more like conversations than formal events with predetermined response categories" (Marshall and Rossman, 1999:108).

The next step in the interview consisted of maintaining a focus on the research questions being addressed while allowing some flexibility for other elements to emerge as each participant responded to questions. Chell's (1998:58) suggestion to use a double-headed arrow to graphically represent the progression from the start of the business to the present day "here and now" was indeed very useful in helping participants focus on identifying the critical problems they had encountered in their history, as it gave them a chronological image to work with. Use of the arrow also

helped relate findings to the life-cycle phase of the firm and the participant's relative ability to resolve problems. When considering the image of the arrow, some participants worked backwards from their current most pressing problems to the beginning of their history, while others did the reverse. This variation in order of discussion did not create any differences in the ability to identify problems. In each interview, it was necessary to continually ask questions to encourage owner-managers to elaborate on the critical incidents that occurred throughout their history. Questions in addition to those contained in the interview guide in Appendix 2 were used to further dialogue, such as, "How did you experience that as a problem?", "O.K., so what else? What other problems came up", "How did that work out for you?", "So you just got by?", "And how do you deal with that when that happens?", "How so?", "Can you tell me more about that?" and "What does that mean?". Prompts such as "Yeah.", "Really?", "Oh, I see." were also used to encourage participants to continue with their recollection of incidents.

In concluding the interview, each participant was thanked for their time and participation and the next steps in the research process were laid out. Throughout this data collection process, owner-managers expressed their appreciation for the opportunity to talk about their businesses in the interview. Once the interview was completed, most participants expressed their satisfaction with the discussion, since it enabled them to think back on their business history and recount events that they had not considered for quite some time. On a number of occasions they also expressed curiosity about what other participants in the study had identified as key contributors to their success. Though it was difficult in a few instances to find the time to sit down for an interview, once the interview took place, each participant was generally

open throughout the process. As one participant stated, “That was fun. I haven’t thought about this stuff in a long time!”.

After a preliminary analysis of the transcripts from these first in-depth interviews, the necessity of completing a second interview with the majority of the participants became apparent. The purpose of these interviews was to gather additional data on the themes that emerged from an analysis of the first interview and to discuss any changes they had experienced in their approach to solving problems as a result of participating in the initial interview. As a result, a second round of interviews was completed with six of the eleven participants in the study. The questions guiding this second interview appear in Appendix 3. Gaskell (2000:43) aptly describes the reasons for stopping at six interviews in this second round when discussing this type of qualitative interview process: “... progressively one feels increased confidence in the emerging understanding of the phenomenon. At some point a researcher realizes that no new surprises or insights are forthcoming.” By the sixth interview, most participants were repeating information similar to that provided in their first interview and not presenting much additional information, which was interpreted as “a signal that it is time to stop” (Gaskell, 2000:43).

4.6 Organizing and Coding the Data to Generate Themes and Categories

Once the data was collected through one-on-one digitally recorded interviews, the results of each were transcribed, coded and analyzed, using the CIT framework combined with a grounded theory approach, to identify emerging categories and subsequent themes. It should be noted that, in keeping with the interpretive paradigm

discussed earlier, the interpretations that emerged from this process are a reflection of *my* attempt as a researcher to bring forth new meaning from the analysis of interview results. As Denzin and Lincoln (2005:26) affirm, with regard to interpretation and evaluation when conducting research, “qualitative research is endlessly creative and interpretive... There is no single interpretive truth.” As such, the analysis of research findings that resulted from the process of interpretation outlined in the following section reflects my own “creative” attempt to make sense of the data collected in the course of this study.

4.6.1 Critical Incidents and Emerging Categories

The first step in the data analysis process was to utilize the CIT framework outlined in sections 4.4 and 4.7 to explore how the behaviours exhibited by each participant when resolving the problems encountered contributed to perceived outcomes for their firm and to identify what characterized their approach to problem solving. To apply the CIT framework, verbatim elements of each printed transcript were highlighted to identify what were perceived to be “critical incidents”, “actions” taken to address the incident and the perceived “outcomes” of these actions for each owner-manager. Colored index cards were then used to codify each participant’s interview transcript in more concise and visual terms. To identify problems encountered, critical incidents were coded with an “I”, a letter to designate the participant who recounted the incident and a number to designate the incident. All critical incidents were recorded on red index cards. Actions, which described how participants reacted to each incident, were identified by an “A”, the participant identifier and the number of the incident to which the action corresponded. Participant actions were recorded on orange index cards. Finally, the perceived

outcome of the action taken to address the incident was identified by an “O”, the participant identifier and the number of the incident to which the outcome corresponded. Outcomes were recorded on blue index cards. The following examples demonstrate how the information was captured for each incident.

Figure 4.1 Example of Index Cards for Each Critical Incident

<p><u>Red Card – C1I</u> C (participant indicator) 1 (incident number) I (critical incident) <i>Lost money at the end of the first year.</i></p>
<p><u>Orange Card – C1A</u> C (participant indicator) 1(incident number) A (action taken) <i>Wake up call! Add at least 30% to your costs to make a profit and ensure a mix of ‘spec’ and contract homes to ensure continuity and to account for the impact of not charging adequately for labour.</i></p>
<p><u>Blue Card – C1O</u> C (participant indicator) 1 (incident number) O (perceived outcome) <i>End of year 2, ended up making a profit by carving out a niche in a high-end market with a unique style of home and a reputation that grew.</i></p>

The next step in the process of analyzing the data was to look at all of the recorded critical incidents, actions and outcomes until categories emerged that constituted a pattern that was significant to respondents. “They depict the problems, issues, concerns, and matters that are important to those being studied” (Strauss and Corbin,

1998:114). As a researcher, I had to immerse myself completely in the data to uncover these new interpretations. In this phase of analysis, raw data from the interview transcripts, combined with the analysis resulting from the CIT, were organized through open coding by comparing multiple critical incidents identified by each participant and asking, “What category or property of a category does this incident indicate?” (Glaser, 1992:39) until core categories of problems emerged.

The following example from a selection of four data incidents demonstrates the process I applied to identify categories. When compared, they yielded a category that will be further explained in Chapter 5.

- 1) “No one really knows what the hell you go through.”
- 2) “Because in this industry, it’s so intense and if you get emotionally attached to a negative, you can sink into that...”
- 3) “It was really scary for me.”
- 4) “Yes, I think that what I’ve learned in the last while of deciding on this business course is that you just have to create it, to stay positive.”

My initial interpretation of these data incidents was as follows:

- 1) Intensity of problem solving not understood by others
- 2) Impact of negative emotions on ability to deal with problems
- 3) Fear resulting from intensity of problem
- 4) Need to stay positive

This category was then refined and named “Emotionality of Problem Solving” after comparing it with other incidents with similar themes. The words used by participants to describe the problems they encountered and how they dealt with them were clearly not identical in their formulation but they were identified as belonging to a theme or category once the meaning behind the words used described a common

underlying perception as demonstrated in the preceding example. This process was followed until theoretical saturation (Locke, 2001; Strauss and Corbin, 1998) was achieved and further examination of the data did not produce any new categories, new relationships between categories or additional dimensions within categories. Locke (2001), when discussing the challenges associated with grounded theory, acknowledges that though this approach certainly makes it possible for data analysis to continue further and further, a decision must be made to bring the analysis to a close when an adequate number of categories have emerged to allow the researcher to put forth sufficient analysis for the development of new explanations of the phenomena under study. In this case, this analysis was centred on arriving at a new understanding of problem solving processes, with the aim of interpreting owner-managers' perspectives on them. These results are presented in more detail in Chapter 5.

4.7 Quality of Data

Criticisms of the use of qualitative techniques for data collection and analysis, such as the CIT approach and grounded theory, focus on the lack of generalizability of findings since the research sample is not based on large quantitative survey samples. Indeed, Curran and Blackburn (2001:117) highlight the fact that qualitative interpretations in small business research are often unfairly criticized as being “little more than superficial, literary accounts rather than, ‘proper’ research”. Yet Chell (1999:69) demonstrates how this view is being increasingly challenged by qualitative researchers who maintain that there is significant value in focusing on smaller samples to gain more in-depth understanding of the workings of various business organizations: “In management and organizational behaviour/psychology,

understanding the detail of the processes and behaviours is paramount and a technique such as the CIT enables such an objective to be accomplished”. Shah and Corley (2006) also recognize the potential contribution that qualitative techniques such as grounded theory can make to the development of management theory, yet they acknowledge that, to ensure credibility, such an approach must be rigorously implemented and must be based in the researcher’s understanding of the epistemological assumptions underlying the use of this method. These underlying assumptions were acknowledged earlier in the justification of the application of an interpretive approach to the present study.

The research presented in this study does not aim to be evaluated on the basis of statistical generalizability, as it is clearly placed within an interpretive paradigm that does not seek to generalize its findings to a larger population. Rather, it seeks to understand problem solving approaches from the perspective of each individual participant in the study and their unique business circumstances. However, when considering generalizability of findings, even though the reality of each firm is different, the approach used in this study to identify the types of problems experienced by owner-managers, the actions taken to solve these problems, and the perceived outcomes of these actions allowed for new conceptualizations to emerge that provide insights into further research required into the problem solving practices of small firms.

In qualitative research, two commonly used criteria for measuring the quality of data are validity and reliability (Gill and Johnson, 1997). “Qualitative researchers view reliability as the fit between what actually occurs in the setting under study and what

is recorded as data” (Martella, Nelson and Marchand-Martella, 1999:64). Findings are considered valid if the conclusions drawn from data analysis are accurate, since they meet the criteria for reliability. The validity and reliability of data collected in CIT interviews are dependent upon the consistency and rigour with which the interviews are conducted and the data is collected. As a result, the unstructured nature of the CIT interview requires the ability to prompt the interviewees, in order to elicit the required insights and information and to capture all the critical incidents in sufficient detail, while also ensuring that a consistent approach is applied to all interviews. Chell and Pittaway (1997:26), in their study of entrepreneurship in the restaurant and café industry, reveal the positive impact on the quality of data when applying the CIT: “Another advantage of the CIT is the completeness of the data, the incidents are uncovered in considerable detail, a respondent can be prompted to reveal how they felt about situations and can discuss what the incidents meant to them as an individual”. By using the CIT, the data collected in this study revealed owner-managers’ perceptions of their approach to problem solving and how it influenced the survival of their business.

4.8 Scope and Limitations

The small sample size of this study does not allow for the generalization of findings to all firms, yet does allow for the emergence of themes among the businesses that participated in the study. “Whilst the individual firm’s circumstances may be unique, the type of incident, and the context, strategy and outcomes as a pattern of related activities may in general terms be apparent in other businesses” (Chell, 1999:71). It should also be noted that though the firms studied may be representative of small

firms on Central Vancouver Island, they may not necessarily be representative of small firms in each of the sectors to which they belong.

Since the CIT relies upon the individual's ability to recall incidents, some incidents may be forgotten or distorted with the passage of time. Indeed, some criticisms of the technique (Easterby-Smith, Thorpe and Lowe, 2002) centre on the tendency of respondents to alter their descriptions of how events actually unfolded as they are asked to recall past experiences. In order to address this tendency, during the interview process, a constant effort was made to elicit very specific incidents and actions and to verify understanding of how these impacted the outcomes for each business. This practice was to ensure that the incidents being recalled as accurately as possible reflected owner-managers' perceptions of the problems they encountered.

Finally, the methods utilized in this study, which are grounded in an interpretive epistemology, reflect the following critical assumption: the phenomenon that is the focal point of the research, in this case problem solving processes in small firms, must be understood within the organizational context in which meaning is constructed by participants in the study. As such, I acknowledge the critical role I played as a researcher in interpreting the research findings, since it was through my interaction with research participants that new interpretations were produced to further our knowledge of the specific context of problem solving in the small firms studies. As a result, it is also important to recognize the potential impact of my own beliefs, assumptions, values and subjective perceptions when interacting with participants during the interview process. "To maintain an interpretive awareness means to acknowledge and explicitly deal with our [the researcher's] subjectivity

throughout the research process instead of overlooking it” (Sandberg, 2005:59). This “interpretive awareness” (Sandberg, 2005:58) on my part is represented by the way in which a justification for the methodology used in this research process has been presented in order to explain how I arrived at the interpretations of the lived experience of participants in the study in addition to recognizing the potential bias I may have introduced into the research findings.

4.9 Personal Reflection on Undertaking Fieldwork

The interpretive paradigm emphasizes the position that it is only through the interactive relationship between the researcher and the subject of research that new interpretations of “lived experience” will emerge in the research process (Ponterotto, 2005:131). Based on this assumption, I believe it is necessary as the researcher in this interactive process to reflect on my experience undertaking fieldwork in small businesses, which turned out to be quite challenging in a number of ways. Holliday (1995:17) effectively reflects my experience by stating, “textbooks on methodology can never quite prepare researchers for the actual experience of doing fieldwork”. Through the practice of completing each interview and carrying out an analysis of the data, I have learned about the issues associated with effectively using qualitative methods of inquiry to complete research in the field.

My choice to use qualitative methods based in the application of an interpretive research paradigm that drew on grounded theory and did not rely on statistical methods to provide quantitative measures of problem solving practices was intentional. However, it presented me with challenges as a researcher as I implemented the approach. The most significant challenge with an approach focused

on understanding small business owner-managers' subjective perceptions of their problem solving practices and their impact on the firm, was to adequately capture the interpretations offered without letting my own perceptions distort the participants' accounts. This challenge allowed me to appreciate the complex nature of this type of fieldwork. "A grounded theorist is interested only in discovery of what does exist and applies conceptually, irrespective of what he would wish professionally or of his professional perspective or experience" (Glaser, 1992:7). As a result, I gave conscious attention to letting each participant's experiences emerge as they perceived them while not letting my views dominate the perspectives that surfaced during the interviews. Strauss and Corbin (1998:97) affirm that though it is impossible for research to be completely free of bias, an important action that can be taken to address this concern is to recognize when "biases, assumptions, or beliefs are intruding into the analysis". During every interview I conducted, I continually acknowledged the necessity of identifying and putting aside my own perspectives as owner-managers answered the interview questions. I also had to acknowledge but put aside my apprehension that using such an unstructured approach might actually result in owner-managers' inability to articulate significant problems in the history of their business. As it turned out, each individual who participated in the interviews was readily able to identify the critical problems they had encountered in their history, which quickly assuaged my concerns.

The other significant challenge that emerged in the data collection process was precisely captured by Glaser in his observation that while undertaking grounded research, "the researcher must have patience and not force the data out of anxiety and impatience while waiting for the emergent" (Glaser, 1992:4). As I began the process

of data analysis, this need for “patience” manifested itself as I grappled with the seemingly vast number of transcripts I had to analyze before I reached a critical point and categories, behaviours and outcomes began to clearly emerge from each iteration of coding transcripts into meaningful groupings.

Overall, the methodological approach to data collection and analysis outlined in this chapter provided me with the necessary flexibility to sufficiently explore the questions at the centre of this study. The interpretive assumptions underlying my chosen research process allowed for an examination of the problem solving phenomena in small firms from a more exploratory perspective than would have been possible within a positivist paradigm. As a result, the qualitative methods applied over the course of this study allowed for the discovery and development of new interpretations on the nature of problem solving processes in the sample of small firms studied.

For while systematic data create the foundation for our theories, it is the anecdotal data that enables us to do the building. Theory building seems to require rich description, the richness that comes from anecdote. We uncover all kinds of relationships in our “hard” data, but it is only through the use of this “soft” data that we are able to “explain” them, and explanation is, of course, the purpose of research. I believe that the researcher who never goes near the water, who collects quantitative data from a distance without anecdote to support them, will always have difficulty explaining interesting relationships (though he may uncover them) (Mintzberg, 1979:587).

The chapters that follow discuss the results of the “anecdotes” collected in my interviews, and analyze the themes that emerged from the data collected when contrasted with existing literature on the topic.

CHAPTER 5

Results of the Study and Analysis of Emerging Themes

This chapter presents the results of interviews with 11 small business owner-managers by identifying the central problem categories and themes that characterize the participants' approaches to problem solving. These categories and themes emerged from the data analysis procedures outlined in the previous chapter. An overview of participants in the study is also provided to give a general sense of the businesses studied. Participants will be referred to by first name only (not their own) in order to maintain confidentiality and provide continuity in the discussion and analysis that follows.

5.1 Participants in the Study

Table 5.1 presents a summary of each business according to industry sector, number of employees and length of time in business. These were the key sampling criteria for the selection of participants. The table is followed by a more detailed description of each participant in the study and their business.

Table 5.1 *Participant Profiles According to Selection Criteria*

Participant	Industry Sector	Number of Employees	Length of Time in Business
1. Amal	Hotel	35	9 years
2. Sarah	Restaurant	30	12 years
3. Doug	Construction	2–13	18 years
4. Vanessa	Health and Fitness	1–3	10 years
5. Ted	Specialty Wine Shops	3	9 years
6. Gary	Autobody and Repair	13	9 years
7. Julie	Notary Services	5	14 years
8. Mark	Hair Salon	13	12 years
9. Lucy	Restaurant	8	6 years
10. Kelly	Bed and Breakfast	0	10 years
11. Lara	Specialty Coffee and Tea Shops	10	7 years

Amal

Amal and her husband are the owners of one of the only independently owned four-star hotels in the area. Her business benefits from a very positive reputation. The hotel employs 35 people and has been operating since 1998 (nine years). This is not Amal's only business, since she is also co-owner of a commercial real estate business that continues to be successful. Amal deals with most of the operational and business issues for the hotel and, as a result, her husband was not present for the interview.

Sarah

Sarah and her husband are the owners of a successful high-end restaurant that employs 30 people. The restaurant has been operating since 1994 (13 years). Sarah is

responsible for all aspects of the business relating to management of the restaurant. Her husband is the chef for the restaurant and therefore was not present for the interview. Their restaurant was awarded the “Business of the Year Award” by the local Chamber of Commerce the year prior to the interview.

Doug

Doug is the owner of a building design and construction firm that focuses mainly on the high-end housing market. His business employs between 2 and 13 people depending on demand and has been operating since 1988 (19 years). He is also the recipient of three gold provincial CARE (Construction and Renovation Excellence) awards and two silver Vancouver-based Georgie awards for best home design.

Vanessa

Vanessa is the owner of a yoga studio and is well known across Vancouver Island for being one of the best instructors in her field. Her business employs one to three instructors depending on demand and has been in operation since 1997 (ten years).

Ted

Ted is the owner of a high-end specialty wine store that employs three people. The business has been in operation since 1998 (eight years) and has relocated three times to accommodate the need for expansion. A fourth expansion was being planned at the time of the interview.

Gary

Gary is the owner of a successful truck/auto repair and paint shop and employs 13 people. The business has been in operation since 1998 (nine years). Gary started out as an employee in this business and subsequently bought it from the owner in 1998.

Julie

Julie is the owner of a notary firm and is known throughout the Central and Northern Vancouver Island area for the excellence and fair pricing of the services she offers. Her business employs five people and has been operating since 1993 (14 years). Before starting her business, Julie worked as an employee in various lawyers' offices.

Mark

Mark and his wife own a hair salon that has been operating since 1995 (12 years) and employs 13 people. Mark is responsible for operational and management decisions relating to the business.

Lucy

Lucy and her husband are the owners of a high-end restaurant that employs eight people and has been operating since 2001 (six years). Lucy's husband is the chef and Lucy is responsible for operating and managing the business.

Kelly

Kelly is the owner of a bed and breakfast that has been in operation since 1997 (ten years). She is the sole owner and does not have any employees.

Lara

Lara is the owner of a specialty coffee and tea shop that has been in operation since 2000 (seven years). The business employs ten people.

5.2 Problems Encountered by Owner-Managers

Following the analysis of interview transcripts according to the research process outlined in Chapter 4, distinct categories of problems emerged from business owners-managers' discussions of the critical problems impacting their businesses. Table 5.2 presents the problems identified by each participant as the critical incidents they have experienced since their firm's start-up.

Table 5.2 *Summary of Problems Identified as Critical Incidents*

Participant	Problem
<p>1. Amal Industry Sector: Hotel Employees: 35 Length of Time in Business: 9 years</p>	<p>Staffing Small town location Long hours Financial challenge created by investors pulling out</p>
<p>2. Sarah Industry Sector: Restaurant Employees: 30 Length of Time in Business: 12 years</p>	<p>Limited labour pool Human resource issues Economic slump for 4 years Low profit-return in industry Long hours Boundary issues of husband and wife working together Structuring to ensure longevity Lack of small business support</p>
<p>3. Doug Industry Sector: Construction Employees: 2–13 Length of Time in Business: 18 years</p>	<p>Financial losses due to lack of experience Economic slump after start of a major project Community opposed to building project Need to build reputation Worrying about risk of projects</p>
<p>4. Vanessa Industry Sector: Health and Fitness Employees: 1–3 Length of Time in Business: 10 years</p>	<p>Getting usage out of business space Limited profit in industry sector Bringing in sufficient customers</p>
<p>5. Ted Industry Sector: Specialty Wine Shops Employees: 3 Length of Time in Business: 9 years</p>	<p>Red tape at the provincial level Restrictions on pricing Competition Limited supplies</p>

Participant	Problem
<p>6. Gary</p> <p>Industry Sector: Autobody and Repair</p> <p>Employees: 13</p> <p>Length of Time in Business: 9 years</p>	<p>Customer demand is too high and beyond current capacity to deliver</p> <p>Revenue generation</p> <p>Finding qualified staff</p> <p>Increase in staff numbers</p> <p>Negative perceptions of bigger clients based on age</p> <p>Maintaining quality considering customer demand</p> <p>Increase in physical space required but not possible</p>
<p>7. Julie</p> <p>Industry Sector: Notary Services</p> <p>Employees: 5</p> <p>Length of Time in Business: 14 years</p>	<p>Finding qualified staff in the area</p> <p>Impact of economy as a result of declining logging industry</p> <p>Loss of trained and qualified staff</p> <p>Administration of the office</p> <p>Demanding clients</p>
<p>8. Mark</p> <p>Industry Sector: Hair Salon</p> <p>Employees: 13</p> <p>Length of Time in Business: 12 years</p>	<p>Finding qualified staff</p> <p>Running the business</p> <p>Working and having children</p> <p>Accounting</p>
<p>9. Lucy</p> <p>Industry Sector: Restaurant</p> <p>Employees: 8</p> <p>Length of Time in Business: 6 years</p>	<p>Lack of research into customer base in “blue collar” town</p> <p>Need to build a reputation to attract sufficient customers</p> <p>Lack of skilled employees</p>
<p>10. Kelly</p> <p>Industry Sector: Bed and Breakfast</p> <p>Employees: 0</p> <p>Length of Time in Business: 10 years</p>	<p>Business partner pulled out prior to business opening</p> <p>First-time experience in business</p> <p>Isolated location limits customer base</p>
<p>11. Lara</p> <p>Industry Sector: Specialty Coffee and Tea Shops</p> <p>Employees: 10</p> <p>Length of Time in Business: 7 years</p>	<p>Lack of industry experience</p> <p>Costly legal issues related to lease</p> <p>Running the business in addition to having a different full-time job</p> <p>Finding the right suppliers</p> <p>Employee turnover in the service/food industry</p>

Participants identified a number of problems they had to deal with in the evolution of their businesses. During each interview, owner-managers had no difficulty in precisely identifying the problems that they perceived to be most critical, and would expand on the facets of these problems throughout our conversation. When analyzing interview transcripts, a clear distinction emerged between problems that were external and internal to the firm. Table 5.3 categorizes the internal problems that were identified by type, with relevant examples, and indicates the number of incidents of the problem and the number of firms in which they occurred.

5.2.1 Internal Problems

Of the critical incidents identified as the most important problems each owner-manager had faced, the most frequently reported related to the issue of finding and training qualified staff based on the limited labour pool to which they have access on Central Vancouver Island. Sarah's immediate response when asked to name the most critical problems she had faced in running her restaurant was,

Sarah: "Right from the start, I know that the biggest challenge to date is still the human resources. It's hiring the right people despite that limited labour pool that we're exposed to because we're in such a seasonal town."

Gary identified a similar issue in finding specialized staff for his autobody and repair shop.

Gary: "It's hard to find people. Yeah, we struggle big-time to find qualified body-men."

In addition to the general problem of staffing, finding qualified employees who could deliver the level of quality participants expected from their businesses was also cited as a major source of concern, especially once their reputation for quality had been established. When attempting to reduce his 80-hour work week to more manageable proportions, Gary delegated more responsibilities to his crew; however, the results were problematic. As he explains,

Gary: “Because now I’m trying to teach them more of what I did. And in turn, I suffer a little bit because the quality of the work to me is not the same. I get a *liveable* quality, not the quality I want. It’s two different things.”

This challenge represents an ongoing issue that he has not been able to resolve. The staffing issues experienced by most of the businesses interviewed are consistent with the labour shortage faced by small Canadian firms in general (Beauchesne, 2006).

The majority of owner-managers also mentioned critical problems relating to the area of finance. As discussed in Chapter 3, internal problems related to financial issues are cited in most of the existing literature about the major problems faced by small business owners. Issues such as lack of financial resources as a result of partners or investors withdrawing from their intended investment before start-up were brought up as critical incidents to be addressed. Amal recounted her experience prior to the start-up of her hotel business.

Amal: “We broke ground and our investors pulled out because they didn’t see the potential for growth they had initially anticipated.”

When asked how she dealt with this problem, Amal responded,

Amal: “We poured everything into this. We kept digging a deeper and deeper hole [for the building of the hotel] and kept hoping that we could keep our head above water.”

Just before she opened her bed and breakfast, Kelly’s intended business partner and then-husband informed her that he no longer wanted to participate in the venture, and they divorced shortly thereafter. The support provided by her community enabled Kelly to pull through.

Kelly: “Because they knew what I was going through and they said, ‘Yes, you can, you can do it.’ I have really close neighbours that have been here for a long time and they were 100% behind me. ‘Yes, you can do it. We’ll help you out with whatever you need.’ And I just took little steps and before I knew it, it was working for me.”

Both of these individuals experienced critical financial problems at start-up yet were able to overcome them, as evidenced by the survival of their businesses.

Another area of financial concern was related to lack of accounting experience. This lack proved costly for Mark and his wife, who were fined for not properly paying various taxes during their first years in business.

Mark: “The worst for us is accounting. That day-to-day numbers thing. We don’t do numbers very well. Neither of us do so we have to hire people. That’s the big trick, to know when to get out of it when it’s not your field. If you can’t make the GST payment and then the fines are costing you more than the person you should hire, then why are you doing it?!”

Others experienced low profit-return in the industry on an ongoing basis, and had to address this financial problem by focusing on providing a quality product or service to increase their customer base. As Vanessa explained,

Vanessa: “There’s not a lot of money in yoga. Yoga got big and you’d think there’s money in it but now there’s so many teachers and there’s also the same amount of money because it’s spread out much further right?”

She has had to continually focus on building her reputation as a knowledgeable yoga instructor to keep expanding her client base and ensure her survival.

Ted continues to struggle with government regulations that restrict the price he can charge for a bottle of wine in his specialty shop.

Ted: “So if a bottle is \$12.95 at the winery or at the liquor store, we have to be \$12.95. The profit is very low on a bottle of wine. The wineries want some, the government wants some and we want some.”

His deliberate focus on providing customized, high-quality customer service has served him well, since his business continues to expand despite the restrictions on his profit margin. At the time of the interview, Ted was making plans for a fourth move into a larger space that would allow for the continued expansion of his store.

A significant number of owner-managers clearly found it a difficult ongoing problem to balance the demands of operating a business with those of their personal lives. The long hours and continual risks involved in starting up and running a business were especially difficult for husbands and wives involved together in the business. Sarah recalled that for the first five years of business, she and her husband – who is the chef at their restaurant – never took a day off together. They also lived directly above the restaurant for the first ten years of operations, which created significant boundary issues between their work and their personal life. She described her experience of this problem:

Sarah: “It’s very difficult stuff. Luckily there’s the love. Because you know, you don’t hear of many people that work together day to day and still nurture the love. We’ve had our breaking points in that too. So having that priority of making sure we touch base once a week and try to put fires out that haven’t been communicated is so important.”

Doug described his wife’s reaction to each new significant business venture upon which his building company embarked.

Doug: “My wife, she doesn’t like the risk. She lies awake at night worrying about the risk. And that’s always a problem. I’m a risk-taker to a certain extent, although I try to calculate my risk, but far more than she is. She’s far more conservative.”

Despite these concerns, many though not all of Doug’s business ventures turned out to be successful as a result of the risks he took.

Critical incidents related to guaranteeing the development of their businesses were also mentioned by a number of participants. The focus of this development related to various stages of their firm’s history. The need to focus on building a reputation at start-up was expressed by Lucy, for example, who realized after the first year of operating her restaurant that she had unrealistic expectations of how many customers she was going to be able attract.

Lucy: “The first year we were expecting it to be a lot busier than it was. All that we saw was that there was no restaurant quite like us. ‘Oh god, we’re going to do great!’ you know? There’s no real fine dining restaurant in this city. We’re going to do fabulous.”

After the first year, through word of mouth in the community, especially among the professional population of lawyers, doctors and teachers, the restaurant’s reputation started to grow and it has been attracting sufficient numbers of customers since.

Others complained about the lack of time they had to focus on developing the business once it was set up. Doug explained how this happened to him and how it also tends to happen to carpenters and contractors in the business in general.

Doug: “They [carpenters and contractors] get on this treadmill where they’re doing one house after another. And you’re so immersed *in* the business, you don’t have time to stick your head up above the fog, so to speak, and look around and figure out where the business is going. And work *on* the business.”

His awareness of the balance required between focusing on developing his business and actually doing the work of building houses enabled him to embark on various construction projects that contributed to his ability to survive through the difficult economic times that had a particularly devastating impact in his sector.

Many owner-managers also brought up the need to implement structural changes in order to ensure longevity and sustainability once their businesses were well established. At the time of the interview, Sarah was in the process of transitioning her restaurant to a new management structure that included profit-sharing. Her goal in training a full-time manager was to gain more personal flexibility to focus on long-term planning for the future of her business and to create more internal expertise from an operational perspective. As she stated, “It’s about having more legs to ensure longevity.”

Table 5.3 *Categorization of Internal Problems by Type*

Type of Problem	No. of Incidents	No. of Firms	Examples
Internal			
Staffing	10	7	Finding, training and retaining qualified staff; Limited labour pool to draw from in the area; Finding staff that provides the expected level of quality; Loss of core trained staff in first years of business; Employee turnover in the service industry.
Finances	7	7	Investors in the business pulling out prior to start-up; Low profit-return in industry; Lack of accounting experience; Business partner pulled out prior to business opening.
Balancing personal and business life	6	5	Long hours; No time off to rest and renew; Husband and wife working together created boundary issues; Constantly worrying about risk involved; Running the business and having children; Running the business and holding a different full-time job.
Business development	5	5	Structuring in a way that will ensure longevity of the business; Need to build reputation; Lack of time to focus on developing the business; Growth in physical space an urgent requirement but not possible due to monetary restrictions; Lack of time to complete administrative functions related to day-to-day operations.
Lack of business experience	5	4	Lost revenue in first year as a result of not charging adequately for services; Lack of experience in the industry; Ongoing and costly lease issues resulting from initial lack of experience; Perception of first-time experience as frightening; Supplier issues.
Total	33		

The majority of the critical incidents reported by owner-managers were concerned with internal problems related to their business operations. Although much less frequently cited than internal problems, critical incidents related to the influence of external factors are presented in the next section. Table 5.4 identifies the external problems by type and frequency of occurrence in the businesses studied.

5.2.2 External Problems

The most frequently reported external problems related to maintaining and expanding a customer base in view of the rural – and as Lucy stated, “blue collar” – location of the business, and to the inability to keep up with customer needs and

demand once a reputation was established. Gary struggled as he faced continually growing demand from customers as a result of his reputation for excellence.

Gary: “So that’s the hard part of this. The growth thing is very difficult because we have a small building for the volume that we do. There’s car shops out there that have 2,000 more square feet than we do and we, somehow, I don’t know how, we manage to do it in a little building. The building could have probably had three size upgrades in the past five, six years. And we still need more. Because I’m turning away work because I don’t have space.”

As a result, a pressing concern for Gary, as mentioned earlier, is maintaining the quality of service provided despite overwhelming demands.

Gary also had to deal with the negative perception of a larger, very important client, who judged him to be “too young” in his first years of operation, before his reputation had been established. When I asked Gary to elaborate on this problem, he explained,

Gary: “Yeah... young-ass. I used to have a lot of trouble with some of the bigger clients. You know when you go into their boardroom offices and you’re pulling a deal together to do multiple machines you know, you’d walk through and they’d all go like this (he turns his head), ‘Is there another guy coming?’ ‘Sorry, this is the best I can do!’ (laughs) So anyways, that was tough at the start.”

With the passage of time and as he gained experience, though, Gary gained the necessary self-confidence to address the issues presented by these ageist attitudes.

Economic decline in the area and its impact on vital industries such as logging was the second most cited external factor. An unexpected and lengthy decline in the economy had a tremendously negative impact on one of Doug's major construction ventures, which involved building condominiums at a popular ski resort in the area.

Doug: "Well, we got into building it, and as we were building it, the economy started going down, down, down and it went into a tailspin. So by the time we finished, the economy was in really bad shape. With the market spiralling down nobody was going to buy. So we sat on it. We sat on it for about a year, sort of panic-stricken that nobody was going to buy this thing that we had several hundred thousand dollars invested in."

Though he tried to implement a solution to this major problem by subdividing and renting out the condominiums to vacationers, Doug ended up losing a significant amount of money in this venture. Nonetheless, he was able to apply the lessons learned from this experience toward the completion of future, more successful, projects.

The influence of a declining logging industry had a substantial impact on Julie's business and forced her to implement a job-sharing initiative in her accounting firm in order to avoid losing valuable staff.

Julie: “It worked really good for the girls and for me because then I didn’t have to lay one of them off because you know how hard it is to find somebody who’s trained.”

Despite this attempt to address the impact of the economy by implementing a different work structure, after a year of job-sharing, Julie lost both of her experienced and fully trained employees. One relocated to the mainland while the other left the firm for medical reasons.

The fact that owner-managers identified internal problems as critical incidents much more frequently than they did external problems is consistent with the literature presented in previous chapters. Existing literature maintains that the most important factor impacting a small firm’s ability to survive is the internal management capability of the owner-manager in addressing internal problems as they arise, and that the role of external influences is not as significant (see, for example, Tal, 2002; Industry Canada, 2003a; RBC Financial Group, CME and CFIB, 2003).

Table 5.4 *Categorization of External Problems by Type*

Type of Problem	No. of Incidents	No. of Firms	Examples
External			
Maintaining/expanding customer base	7	5	Attracting customers considering the location; Lack of research into customer base in a “blue collar” town; Lack of time to fulfill client requests as reputation grows; Maintaining quality of product with expansion of customer base; Demanding clients; Larger clients’ perception of owner-manager as being “young”.
Economic factors	3	3	Four years of economic decline in the area; Launched into a significant project just as the economy went into sudden and rapid decline; Impact of a devastated logging industry on client base.
Competition	3	1	Locked in on the price of product due to government regulations; Competition from government suppliers of the product; Running out of the product due to limited supply.
Location	2	2	Various Island towns perceived as being small for the business; Community resisting development initiatives.
Government/financial institutions	2	2	Negative bank loan experiences; Problems with Human Resource Development Canada (HRDC) agents; Getting through the “red tape” at the provincial level.
Total	17		

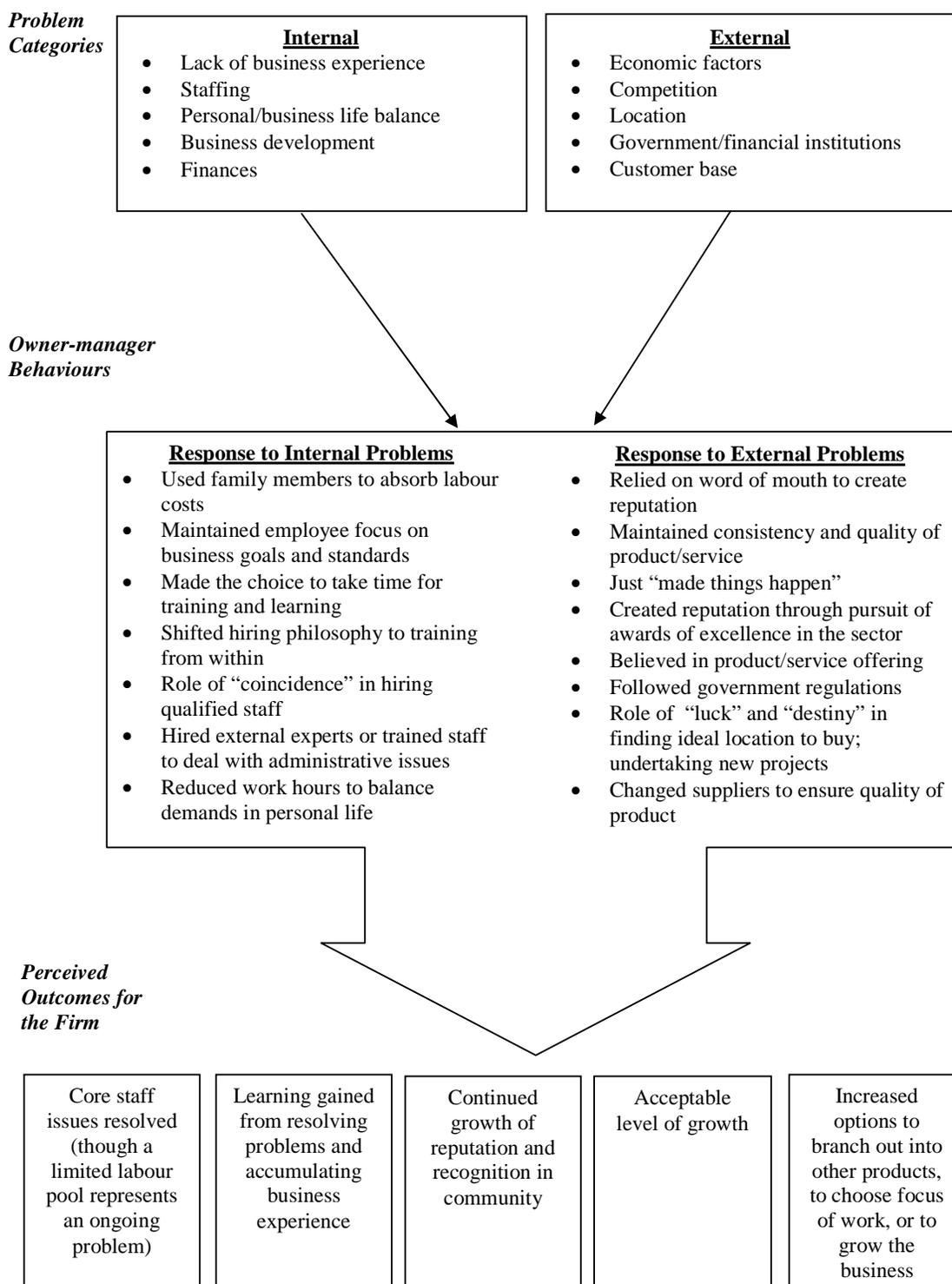
A great deal of attention has been focused on grouping the obstacles faced by small businesses into categories of most commonly faced problems. A number of the overall categories identified in this study that contained problems either internal or external to the firm such as staffing (Dodge, Fullerton and Roberts, 1994), finances (Koontz Traverso, 2001), lack of business experience (Huang and Brown, 1999), the influence of external economic factors (Cohen, 2006) and business development concerns (Hisrich, 2004) have been cited in the small business literature aimed at providing small business owners with guidance on how to solve organizational problems. Though the findings of this study indicate that this type of categorization might be appropriate to identify the problems encountered in small businesses, further analysis of how owner-managers perceive they actually solve the problems and the outcomes for their businesses provides new insights into the particularities of these processes in the small firm.

5.3 Analysis of Emerging Themes

The focus of this study was to identify the problems encountered by participants and to analyze, through the application of an interpretive method of inquiry, *how* owner-managers went about addressing each problem, in order to distinguish what, if anything, characterized their approach to problem solving. The framework presented in Figure 5.1 presents a summary of interview findings according to the CIT approach applied in this study (as outlined in Chapter 4), which identified the problems encountered by owner-managers in terms of “critical incidents”, the “actions” taken to resolve each problem, and finally, the perceived “outcomes” for the firm as a result of the actions taken. The following section presents the characteristics of owner-managers’ approaches to problem solving that emerged from the analysis of interview data through the application of the CIT and the grounded theory approach.

It is important to note here that some gaps in the literature review were identified once research findings were analyzed and coded and that relevant literature has been integrated in the following section to account for this. As Locke (2001:122) affirms, such gaps can occur when utilizing an approach that relies on grounded theory, since the goal of such an approach is to uncover new interpretations of the phenomenon under study as opposed to verifying existing theories, and research questions often generate unanticipated findings.

Figure 5.1 *Analysis of Problem Solving Practices and Outcomes According to the CIT Framework*



5.3.1 Problem Solving As an Intuitive Process

When analyzing the interview results, there was much evidence of an approach to solving critical problems that was not process-oriented in nature. Rational, process-oriented approaches that are part of the positivist tradition have been proposed as the most effective method for problem solving in large corporations (see, for example, Hood and Lowey, 2004; Rasiel and Friga, 2002; Mitroff, 1998); yet, there has been limited application to the reality of small firms (as presented in the literature review in Chapters 2 and 3). Amal reflected on this absence of a rational, formally planned approach to solving problems by stating:

Amal: “You don’t even take the time to think about problems. If you think about every problem as a problem, you just can’t deal.”

Julie expressed a similar perception when asked how she actually went about solving problems:

Julie: “So whatever problems come along, any day, I deal with it that day and then get on to the next day because you don’t have a lot of time. I mean, if you took time to think about it, the problem would be an awful problem by then. Like it could balloon into something you really don’t want, especially in this business.”

Neither participant saw value in a step-by-step approach, expressing the view it would be too time consuming and does not reflect the rapid pace at which problems must be dealt with in order to effectively manage their businesses.

Mark affirmed his reliance on intuitive skills to make critical business decisions. Choosing which products to sell in his hair salon represents one of his biggest risks, since the wrong choice of product can lead to significant financial losses. When asked how he goes about choosing which products to sell, Mark explained:

Mark: “Just your instinct. And you have to figure out what’s going on. It’s always something that you’re thinking about. What do people need? What are people going to be getting into next?”

These findings call attention to the role intuition plays in small firm performance and contrasts with the predominant rational paradigm in the field of management decision making. Despite the continued emphasis on the necessity of applying rational techniques in decision making and problem solving, intuition represents an important resource for owner-managers to draw from when solving critical problems. There is increasing recognition in the field of management studies of the role played by intuition as an effective approach to decision making; however, this research has mainly focused on decision making processes in large firms (see, for example, Khatri and Ng, 2000; Patton, 2003; Korthagen, 2005). Even though the focus on large firms represents an important limitation, current research on intuition does provide alternative perspectives that can be applied to analyze the results of this study.

Despite the lack of agreement on how “intuition” should be defined, the following definitions capture three recurring themes in the literature on the topic (Sinclair and Ashkanasy, 2005). Khatri and Ng (2000:60) define intuition as “a holistic perception of reality that transcends rational ways of knowing”. Similarly, Dane and Pratt

(2007:40) define intuition as “affectively charged judgments that arise through rapid, nonconscious, and holistic associations”. Intuition, then, originates from beyond a conscious level, involves the holistic processing of information and is accompanied by an emotional response. These characteristics make it challenging to actually describe intuitive processes as they occur (Korthagen, 2005). However, the interpretive approach taken in this study allows for description and analysis of such processes to occur, as owner-managers recounted how intuition impacted the ways they solved organizational problems. To understand effective problem solving practices in the specific context of small firms, intuitive influences on the process represent a critical consideration.

From an organizational perspective, the results of this study also indicate that the resolution of problems in small firms may indeed occur through the application of improvised strategies (Gorton, 2000) shaped by the requirements of the moment in which the problem occurs. Or, as Ehrich and Billett (2004:504) fittingly observed when studying small firms learning to engage in new practices, the “just getting in and doing it” mentality was often exhibited by owner-managers.

With regard to problem solving, these findings are situated within an interpretive paradigm and reflect the subjective interpretations of small business owner-managers that continue to expand our understanding of *how* these processes occur in organizations from the perspective of the individuals involved. This provides insights into situations where intuitive approaches might be appropriate when compared to rational approaches to problem solving in small firms.

5.3.2 The Roles of Coincidence, Luck and Destiny

A number of respondents recounting the actions taken to resolve critical problems as required to move their businesses forward, used words such as “luck” and “destiny” to describe how “things just happened” or how they “were just lucky”. This perception often applied to the resolution of critical issues such as staffing, finding the ideal location and undertaking new projects, as discussed below.

When reflecting back on the start-up phase of her restaurant, Sarah stated,

Sarah: “I think one of the lucky things for us was timing. We just timed it, like, any other restaurant could have come into town and had the success that we did I think. It’s just that we saw that hole just before that growth happened in the area.”

Vanessa found the ideal location for her yoga studio after putting it off for a number of years. She recounted the story of how this actually happened and of how “luck” was a critical factor in enabling her to open her own studio:

Vanessa: “Oh, that was a very funny story. (laughs) I mean, it’s big you know. There’s not a lot of money in yoga... So, when I was planning to get the studio, I was like, ‘Can I afford to buy and do this?’ And then I thought about it for about two years, exactly what I wanted and all that and then one day I was at a philosophy class and the teacher said something about bartering with God. And I thought, ‘I’ve *never* bartered with God!’ Well I guess we do on little things. And then I thought, ‘Well, God’s just your inner being right? And if you think of it, you’re only bartering with yourself, right?’ On the way home I thought, ‘Good, then I’m sick of thinking about

this studio. I don't even want it. Why would I want to work that hard?' (laughs) I thought, 'You seem to want this, you're going to have to give me some sort of sign that it's happening because I've been working for it for two years and nothing. And personally, I'm not interested anymore.' And then I go, 'By the way, if we're going to do it, it's going to be affordable, central, easy to heat and safe when I come out in the evening, I want to feel good right?' Then I thought, 'Good, I'm done with it. Yahoo! I don't have to think about it anymore.' I walk through my door, the telephone rang and an acquaintance said, 'I want to do a studio, would you like to do one together?' If I hadn't of thought that on the way home, I would have been not so keen to do it. I would have thought, 'Oh, I don't know.' But because I had done that on the way home, I said, 'Sure.' It was so funny. So we went in it together and then I bought the place... Things just happened. I was lucky, I guess."

Vanessa's story demonstrates the extent to which luck can be viewed as a factor in the resolution of certain critical problems. In this case, Vanessa attributed her decision to buy a studio for her yoga business to luck, as opposed to actions consciously taken on her part.

Julie described a similar perception when discussing the need to resolve a critical staffing issue:

Julie: "Well, I managed to almost run over someone in Overwaitea [a popular supermarket chain] one day (laughs) that I knew through the industry that used to work for a friend of mine in a notary's office and I said, 'Is there any way you would possibly come back to work?' And she said, 'You, know, it's funny that I should run

into you today because I've been thinking about it.' It was amazing. It was just amazing. I thought, 'Thank God she's been delivered here to Overwaitea today.'"

Julie's perception here is that her ongoing staffing problems were resolved by "God" and destiny rather than being the result of any actions taken on her part.

When discussing how she found the location for her restaurant, Lucy also attributed her success to being in the right place, at the right time:

Lucy: "We found this place like (snaps her fingers). Going into business here, it was the last thing on our minds. We saw the business was for sale and we knew the woman who owned it before and she had a good business."

The external manifestation of an available location, which occurred by mere chance, was the instigating factor that made Lucy decide to go into business even though this had not been something she was even thinking about.

When describing a risky construction venture he chose to undertake, despite the devastating effects of an economic slowdown, and in which he was very successful, Doug explained,

Doug: "We got lucky to a certain extent. The economy couldn't get any worse so we sort of knew where the bottom was. And I guess that's part of the thing that spurred us on because we knew it could only get better. We went ahead and did it. There was a risk. It could have lost us a lot but we got lucky."

Again, Doug acknowledged that embarking on a new project despite the enormous impact of an economic slowdown was a risky endeavour, but he attributed his success in the venture primarily to luck, as opposed to any other factor.

The previous excerpts illustrate that a number of participants in the study seem to have an external locus of control when viewing how they solved the problems they encountered; yet, they also express satisfaction with the outcomes, which include the continued survival of their businesses, as a result of the “external” events that occurred. Research in this area has demonstrated that individuals with an external locus of control, that is, those who generally believe that fate and luck and other external forces play a powerful role in determining the outcomes of their life, tend not to be as successful in management roles as those with an internal locus of control (Spector, 1982). Indeed, Spector’s (1982) research establishes that small firms are less likely to fail when led by managers with an internal locus of control. While his research has made a positive association between internal locus of control and individual and organizational success, the findings of this study demonstrate that possessing such an orientation does not necessarily preclude owner-managers from finding appropriate solutions to the problems they face. It is interesting to note that these findings also reflect the results of a quantitative survey conducted by Statistics Canada of 1,505 small businesses with one to four employees in 1995 and still in operation four years later. Of the participants surveyed, 51% identified “luck” as a key determinant of the firm’s survival and success (Industry Canada, 2001:26).

In their research on intuitive decision making among successful senior executives, Matzer, Bailom and Mooradian (2007:15) provide another exploration of the role of luck, concluding that although some senior executives appear to be lucky, it is their ability to recognize and act upon “chance opportunities” that contributes to their success. The participants in this study also demonstrated the ability to seize the opportunities that arose to solve critical problems, although some attributed their ability to do so to external factors.

5.3.3 Self-efficacy and Determination

Though many participants expressed an external locus of control by making attributions to “luck” and “destiny” when explaining their ability to solve problems, a contrasting theme that emerged in other participant accounts was a sense of determination and an underlying belief that they possessed the ability to achieve the outcomes they set out to accomplish for their business. This expression of an internal locus of control when addressing problems represents a major contrast to the responses presented in the previous section. It is interesting to note that participants either attributed their ability to solve problems to external manifestations beyond their control or clearly thought they had control over the events that occurred. Lucy was the only owner-manager to express that both factors had an influence on her actions. When asked why she thought her business had survived for so long, Lucy’s response clearly reflects this perception of an internal locus of control.

Lucy: “I think because I *wanted* it to work for us. We’ve invested a lot of money in this so we want to see a return on that investment. I think it’s just been through sheer will. We’ve been beaten up but we just keep saying, ‘Okay what can we do now?’”

Lucy's determination is reflected in her ability to acknowledge how difficult running a business can be at times but that her desire to see the positive results of her work has made all the difference.

Amal's comments reflect a similar theme:

Amal: "I keep wondering if others have standards like we do. Are we crazy to have such high standards?!... I hate failure (emphatic). I can't fail. I've never failed my whole life. We feel responsible for our people here. We come from a different generation where loyalty and responsibility are so important."

Amal is unwavering in her belief that it is her need to be successful and not to fail that has pushed her to work as hard as she has in building and running her hotel.

Julie's determination is greatly influenced by her family:

Julie: "My determination to be successful exists because I have two kids to support and a husband that relies a lot on me, always has done, but that's just our relationship. So the determination to be successful, and I just like helping people. Because God, it's just a huge investment to put out, you just don't want to lose it."

Again, the desire to see the results of such significant financial and personal investment, especially when considering the importance of her family, has sustained Julie's determination through the years.

When asked about his intentions to expand, Mark was very clear about his determination and reasons for doing so:

Mark: “Well we have to grow or die. It’s as simple as that. And I think it’s because of the fact that you just can’t stay the same. If you look at any business, any successful business, they’re all growing, merging, getting bigger. That’s just the way it is.”

Mark’s intentions are clearly to grow and not merely to survive.

In capturing the life stories of entrepreneurs to explore how entrepreneurial learning occurs, Rae and Carswell (2001) link the motivation to achieve with the ability to learn and the development of a high level of self-confidence. Though the focus of this study was somewhat different, the findings presented here with respect to owner-manager learning through problem solving and their self-expressed confidence in their abilities reveal a parallel theme.

5.3.4 Reflection and Learning Through the Problem Solving Process

Critical problems represented powerful learning events for a number of participants. Seeing the results of their actions and reflecting on these outcomes led to the realization that they had to implement fundamental changes in terms of how they operated their businesses. As Mark affirmed when recalling the critical financial problems he had experienced through his inability to follow proper tax guidelines and deadlines and his lack of necessary accounting skills,

Mark: “Well, finally, how many times are you going to bang your head against the wall? And when you’re young too, you don’t know. How are you supposed to know? You just think you should do everything yourself and then when you do everything yourself, it’s just a nightmare. You just don’t have the energy, you don’t have the know-how and then you don’t have the energy to learn all you need to so it’s just this big circle. And then finally you figure it out and it makes sense and everything works out great... You do the same thing over and over again and you get the same results. So we sat down and decided what was going to work for this particular business differently and it worked fantastic.”

Mark’s ability to learn from his mistakes, in addition to the insights gained from his accumulated business experience, enabled him to take actions that would resolve critical business problems.

Later in the interview, Mark described how difficult the learning process can be with regard to running business operations:

Mark: “It’s hard. You have to sooner or later figure out that you’ve got to run the business, the business can’t run you. When you learn that, it’s the biggest step for an owner or hairdresser to step away from the chair and start running the business. Especially at this point, we’re a pretty big salon right now.”

This learning was critical in helping Mark distinguish between the requirements of operating a business and those of being immersed in the work and not taking a

general view of operations. As a result, he was able to focus more on putting mechanisms such as training from within in place, which resulted in increased employee retention. Employee turnover had represented an ongoing problem for his business and was subsequently resolved.

Other participants were emphatic about “how much there is to learn” with regard to solving business problems as they occur.

Doug recalled the learning curve he experienced as he dealt with problems at start-up:

Doug: “So when I built the first house I thought, well, I can save some money by doing *this* and I can save money by doing *that* and what was interesting is that what I found, at the end of the first year I had built one house and had put a whole lot of labour in it and at the end of the year, I’d lost money. Because being new in business I didn’t really account accurately for my overhead, which I think *a lot* of people do. They have a very poor understanding of what overhead really consumes. By the time I included all our truck costs and tool costs and accounting and legal and all the other gamut of stuff that goes with it, I had actually lost money. So that was a bit of a wake up call at the end of the first year... I learned fairly quickly but that first year or two (pauses) I stumbled along.”

As a result of this learning, Doug was able to adjust his bidding and pricing structure to reflect costs more accurately. Once he made these adjustments, he generated

income that made his business sustainable and even profitable over the course of its history.

He also reflected on another key lesson learned with regard to risky ventures and not adequately researching the required financing on a major construction project when faced with a slowing economy:

Doug: “But I think part of the trick is not to extend yourself too far. That was a good lesson probably. I learned something from that. You learn how far and how much to extend yourself.”

Following a failed project, Doug learned the importance of putting an adequate amount of research into building projects, their costs, the external factors potentially impacting them and the potential for return on investment. As a result, his subsequent projects turned out successfully.

Lara described another type of learning experience, gained by starting up in a new industry that was completely unfamiliar to her:

Lara: “It’s one of those businesses that we went into with absolutely no knowledge and it’s been a real learning curve. What works, and what we’ve decided on is that we’ve gone for quality. You have to do that or you don’t make it. I’ve learned so much about the business.”

Lara was completely new to the specialty coffee industry but quickly learned what would make the business survive. Her main lesson learned was the importance of making a conscious choice to compete on quality of product, and not on price. This approach has served Lara well, and she is now in a position to diversify her product offering and will be expanding into specialty teas.

Lucy gave her impressions of the learning she has accumulated through the years:

Lucy: “As you get older, you gain experience in a lot of different ways and you learn to problem solve. There is a solution – whether it’s good or bad, there’s always a solution. I have been *very* resourceful over the years. My age is more where I draw from. My education has mostly been through learning.”

This accumulated experience has made it easier for Lucy to deal with problems as they arise: her belief in her ability to find a solution to any problem has increased. The abilities to learn as a result of accumulated education and experience and to thereby ensure the success of her restaurant are clearly important to her:

Lucy: “It’s about experience. It’s about getting education in all dimensions of this business. If you think that it’s just good food that’s going to get you there, it’s not. There’s service, there’s a whole bunch of things. It’s experience too.”

As a result, Lucy sees the running of a successful restaurant as something that is about more than food. It also includes continual learning about the latest trends, in order to create an incomparable customer experience through exceptional service.

During our second interview, Vanessa elaborated on what she had to do to address the most critical problem of bringing in more students to ensure the survival of her yoga studio:

Vanessa: “Well, like you know from my last interview, I pretty much winged it right! (laughs) And now, with so much yoga around, I’m a decent enough teacher, but that doesn’t necessarily bring people in so I realized I had to become a *‘business woman’*. Oh god! So... I’m taking this long-distance course over the Internet. It’s being offered by a yoga studio person so it’s about *yoga* problems – how to rejuvenate your studio, or how to start a studio. So, that’s probably the real first time I’ve reached for something, other than looking at what other people had done before.”

Vanessa struggled with the idea of *yoga* as a *business*, but her learning on this issue culminated in the time that elapsed between our two interviews. She came to the realization that, with the increased number of competing yoga studios in the area, she had to focus on “selling” *yoga* in a more strategic way if her business was to survive. She has now started advertising more strategically and is well beyond what she described as the “crossroads” she was at between just doing *yoga* and selling *yoga* as a business.

Kielser and Sproull (1982:551) acknowledge the “conventional wisdom” of the idea that managerial learning occurs through past experiences and mistakes; however, they consider this view to be limited and affirm that managers, when sensing problems, will do so “later rather than sooner, slower rather than faster, superficially rather than seriously, and erroneously rather than correctly”. This view is not consistent with these research findings, which demonstrate that through varied learning experiences owner-managers are indeed able to successfully apply past learning to avoid similar problems in the future. Gibb (1997:15) defines learning in the context of small firms as “the human processes by which skills, knowledge, habit and attitudes are acquired and altered in such a way as behaviour is modified”. This definition emphasizes the importance of both skills and knowledge, in addition to the owner-manager’s attitude in the learning process, which leads to the modification of behaviours. When considering the results of this study, it is evident that participants’ abilities to learn from previous experiences with the resulting accumulation of knowledge and experience enabled them to adapt their problem solving behaviour, thus making a critical contribution to their survival.

Ekanem and Smallbone’s (2007) research on decision making processes in small manufacturing firms highlights the inadequacy of existing approaches to understanding how owner-managers make investment decisions through different learning behaviours. Their research emphasizes the need to understand how learning processes impact decision making ability by examining how, why and under what circumstances individuals make their decisions. The present study reflects a similar theme, and highlights the need to consider an additional dimension when looking at participant accounts of learning: *when* and *why* learning actually occurred for them.

For some owner-managers, like Mark, it took numerous years of dealing with the negative results of not adequately resolving a problem for him to try a different way of operating his business to address the issue. For Doug, on the other hand, the timeframe for learning was relatively short as he was able to apply what he learned from significant mistakes at start-up relatively quickly, which contributed to his survival during this critical period. As for *why* learning occurs, some participants cited a critical incident as the deciding factor that forced them to do things differently in order to ensure survival; for example, for Vanessa this critical incident was her lack of customers. Others, like Lucy, learned continually over the passage of time and the accumulation of age, experience and self-confidence. To what extent do these differences impact how owner-managers actually learn? Considering the questions raised by these results, the concluding chapter of this study proposes further research into the particularities of learning processes in small firms to further our understanding of *how* learning actually occurs.

5.3.5 Problem Solving Capability and the Organizational Life-Cycle

Another theme that emerged over the course of this study builds on the research presented in the literature review in Chapter 2 which demonstrates how small businesses encounter different types of problems as they move from one stage of the organizational life-cycle to another. The problems that characterize each stage require a shift in managerial focus, as summarized in Table 2.2 (Churchill and Lewis, 1983; Dodge and Robbins, 1992; Gasse, 1997; RBC Financial Group, CME and CFIB, 2003). In order to determine how the experiences of this particular sample fit within the findings of research undertaken in a wider context, owner-managers who participated in the second interview were asked to rank the problems they had

experienced in order of critical importance. The aim was to establish if there was any connection between the stage in the organizational life-cycle in which they encountered the problem and their ability to solve the problem.

The results of the second interviews demonstrated that participants' problem solving capabilities did improve over time. The problems they identified as being most critical were the same as those identified in the first interview, and were related to issues such as staffing, generating adequate cash flow to enable growth and dealing with critical legal issues. When asked if their ability to solve problems had improved over the years and when specifically this improvement had occurred, all participants interviewed a second time agreed that their capability had improved.

Julie: "Oh yes, definitely! Because you don't panic as much. When you first start, it's like everything is just so new and overwhelming and it's like, 'What the hell am I going to do now?' You turn to all your resources, and then you realize as the years go on that there are so many resources out there for us whether it be human relations, employment standards, government information is so vast that you realize that 'Okay, I've got to deal with this, there's got to be places for me to go to get the information I need to deal with it.'"

Julie developed the ability to deal with problems more calmly as a result of her accumulated experience, since she now knows how many resources she has to draw from.

Lucy's ability to deal with problems had also shifted since her start-up:

Lucy: “Yes. [I] Probably [noticed a change] after two years. Just understanding the business itself took time. One of the biggest challenges was trying to find suppliers for different products. We started with one supplier and realized let’s try different suppliers. I finally learned that prices weren’t set. People used to give me a price and I thought that was it. Then, I realized with them, the price is not the price. They’re salespeople but they’re on commission as well. I’m scanning all the time now and it’s saved me a lot of money.”

She is now able to deal with suppliers more effectively, since she knows how to identify suppliers who will meet her requirements for quality but at the most competitive price.

Amal clearly recalled a shift in her ability to deal with the varied problems involved in operating her hotel:

Amal: “Yes. (laughs) I can tell them where to go now! When you’re financially trapped you have to be careful with what you say. Point in time? Three years into it was the point in time. It was gradual, it started in 2000. As we got over the financial burden, we were able to have more flexibility. Once you’re financially okay, even your worst problem isn’t a problem.”

Once her business was established she felt more confident in dealing with problems, since she was no longer constricted by the financial uncertainty associated with setting up in the first three years.

Gary also expressed an increased ability to deal with problems, though he could not pinpoint a moment in time when a shift happened, since dealing with problems is an ongoing process:

Gary: “I think it depends on the day. You know, you get a bad day going on. Generally, bad days compile problems. I would say yes, we handle them better than we used to. [Was there a moment in time?] No, you know the old saying ‘roll with the punches’. We just kind of take them, change them, move them, do what you need to do. And solving problems I think is something I think you do. Like I said, you get the best people to make those decisions or help you make them. And you know, other than that, you just kind of roll with the punches.”

For Gary, solving problems depended on the requirements of the situation and continued to be challenging at the best of times, though his ability to find the appropriate resources to deal with problematic situations had increased.

Kelly was emphatic about her improved ability to deal with problems:

Kelly: “Oh for sure! Because I had an incident here about a month ago. [describes the incident in detail] But it worked out. They thought it was hilarious that I came back with humour when I came back up on the deck. But maybe before, I might have been really stressed out... It’s definitely come along and it’s to a point now where I’m very comfortable, very comfortable. It’s become really easy. [Can you name the moment in time that you started to know that had shifted?] Yes, probably about four

years. I mean things like burning stuff in the morning, it just happens. You break a plate or you know, the muffins don't rise. So I just think you start realizing it isn't a big deal and stuff just happens in life and you should just be honest with people."

After four years of running her bed and breakfast, problems that initially represented significant stress for Kelly were mitigated by experience and her increased confidence that things would work out in the end.

Vanessa explained that her ability to deal with problems is good, though her belief in this ability has wavered over the years:

Vanessa: "Yeah. I mean at the very beginning, I was still learning yoga. My main focus was learning yoga, which was a lot of the reason people came because they had the passion of learning yoga right? But now it's different. Now, everyone knows yoga, well... they think they do! (laughs) So, it creates a place where you can say now, you enjoy yoga, okay, try this. So it actually makes me and my team of teachers have to teach deeper, which is great. It's not just aerobics yoga or gym yoga. So it's good for our growth. It's challenging but it also feels positive. My ability to deal with problems is good. I'm in a better space than I was in. I went through a little slump last year where I thought, 'Oh, what do you do now?' Right? No, I'm much more positive about it. I think, if there's room for everybody, you just create maybe a little niche, decide what you're really good at and maybe focus on that along with other things but developing your speciality."

She is now focused on developing her business to promote her unique expertise as a qualified and experienced yoga instructor.

Table 5.5 provides a summary of the problems experienced by owner-managers and the life-cycle stage in which each problem occurred.

Table 5.5 *Problems Experienced and Life-Cycle Stage*

Participant	Problem	Time Experienced
1. Amal Industry Sector: Hotel Employees: 35 Length of Time in Business: 9 years	Staffing Small town location Long hours Financial challenge created by investors pulling out	Ongoing Ongoing Ongoing Pre-start-up
2. Sarah Industry Sector: Restaurant Employees: 30 Length of Time in Business: 12 years	Limited labour pool Human resource issues Economic slump for 4 years Low profit-return in industry Long hours Boundary issues of husband and wife working together Structuring to ensure longevity Lack of small business support	Ongoing Ongoing Start-up Ongoing Ongoing Ongoing Year 11 Start-up
3. Doug Industry Sector: Construction Employees: 2–13 Length of Time in Business: 18 years	Financial losses due to lack of experience Economic slump after start of a major project Community opposed to building project Need to build reputation Worrying about risk of projects	Year 1 Year 8 Year 12 Start-up Ongoing
4. Vanessa Industry Sector: Health and Fitness Employees: 1–3 Length of time in business: 10 years	Getting usage out of business space Limited profit in industry sector Bringing in sufficient customers	Ongoing Ongoing Ongoing
5. Ted Industry Sector: Specialty Wine Shops Employees: 3 Length of Time in Business: 9 years	Red tape at the provincial level Restrictions on pricing Competition Limited supplies	Start-up Ongoing Ongoing Ongoing

Participant	Problem	Time Experienced
6. Gary Industry Sector: Autobody and Repair Employees: 13 Length of Time in Business: 9 years	Customer demand is too high Revenue generation Finding qualified staff Increase in staff numbers Negative perceptions of bigger clients based on age Maintaining quality considering customer demand Increase in physical space required but not possible	Ongoing Ongoing Ongoing Ongoing Initial years Year 9 Year 9
7. Julie Industry Sector: Notary Services Employees: 5 Length of time in business: 14 years	Finding qualified staff in the area Impact of economy as a result of declining logging industry Loss of trained and qualified staff Administration of the office Demanding clients	Ongoing Years 4–5 Ongoing Ongoing Ongoing
8. Mark Industry Sector: Hair Salon Employees: 13 Length of Time in Business: 12 years	Finding qualified staff Running the business Working and having children Accounting	Ongoing Ongoing Ongoing Ongoing until year 9
9. Lucy Industry Sector: Restaurant Employees: 8 Length of Time in Business: 6 years	Lack of research into customer base in “blue collar” town Need to build a reputation to attract sufficient customers Lack of skilled employees	Pre-start-up Years 1–2 Year 1
10. Kelly Industry Sector: Bed and Breakfast Employees: 0 Length of Time in Business: 10 years	Business partner pulled out prior to business opening First-time experience in business Isolated location limits customer base	Pre-start-up Start-up Ongoing
11. Lara Industry Sector: Specialty Coffee and Tea Shops Employees: 10 Length of Time in Business: 7 years	Lack of industry experience Costly legal issues related to lease Running the business in addition to having a different full-time job Finding the right suppliers Employee turnover in the service/food industry	Start-up Years 2–6 Ongoing Ongoing Ongoing

An interesting finding is that the majority of problems encountered by participants were ongoing and not limited to a finite period. The relatively few problems participants remembered encountering exclusively at a specific stage in their history were consistent with those presented in the life-cycle frameworks reviewed in Chapter 2 (Greiner, 1972; Churchill and Lewis, 1983; Dodge and Robbins, 1992; Gasse, 1997; RBC Financial Group, CME and CFIB, 2003). At start-up, for example, participants were concerned with building their reputation, finding adequate financing, properly researching their customer base and dealing with the lack of government support. Essentially, the main problems to be overcome by participants at this stage were concerned with creating a solid foundation for the new venture, and required an intensive focus on day-to-day operations on their part. Other critical problems occurred once the business was well established, such as not having the capacity to meet customer demand and needing to train employees to become “managers” of the business so that the owner could take a more strategic role in operating the business. Again, these findings align with the “success” stage defined by Churchill and Lewis (1983), where managers must make the decision to expand the business or remain the same. Gasse (1997) refers to this stage as “first stage of growth”, where the key management challenge is to put in mechanisms to maintain control of the expansion brought about by the successful establishment of a customer base. This is consistent with the findings of the first comprehensive, nationwide survey of internal barriers to Canadian SME growth (RBC Financial Group, CME and CFIB, 2003), which demonstrated that managers must pay particular attention to their internal management deficiencies during the middle stages of growth in order to maintain their productivity and profitability.

Knowing the development stage of their small business may increase an owner-manager's ability to anticipate, assess and find the appropriate solution to issues, as they recognize that different problems arise and call for different solutions as the firm moves through the cycles of establishing and growing its business to the desired level of stability and profitability. Yet, based on the results of this study, it should also be acknowledged that a number of problems are ongoing and must be skilfully addressed regardless of life-cycle stage or other external factors.

5.3.6 The Emotionality of Problem Solving

Another theme that characterized owner-managers' approach to problem solving was the impact of emotions as they dealt with various problems. The following statements suggest that emotions play an important role in shaping how each person perceives a problem and influence the approach and the actions taken to solve each problem.

Amal: "No one really knows what the hell you go through. They ask me, 'How do you keep a smile on your face?' You just do it or get out of this business!"

The emotional demands of operating a hotel came through in both interviews with Amal. She acknowledged the difficulties associated with ensuring the smooth running of business operations, and was very clear about the tough attitude required to do this well.

Sarah also reflected on the highly emotional reality of running a successful and consequently busy restaurant:

Sarah: “You can guarantee that you’re going to have a human resource issue every day. And there are days when you get slammed with three of these issues, and weathering that and actually seeing what can get you through is a challenge... Because in this industry it’s so intense and if you get emotionally attached to a negative, you can sink into that... It’s those little challenges that are thrown at you. You talk about what’s here in your heart and you wonder, ‘Am I tapped? I have nothing more to give.’”

Sarah’s ability to deal with human resource issues had improved over time, though the impact of continually dealing with them had been hard on her. She even suspected that the demands of running such an intense business had negatively impacted her ability to have children.

When reflecting on the difficulties she experienced when starting up her bed and breakfast, Kelly explained,

Kelly: “Scary, scary. It was really scary for me. I would lie awake at night thinking ‘I’ve got people coming in! I’ve got kids running around. I have to get to work *and* do this breakfast thing so how will I get working? How will this all come together?’ ... It was hard at the beginning. Because I thought, ‘God, they’re coming into my home! Will they like what I’ve done in the rooms?’ You have those big questions.”

Despite the fear she experienced at start-up, Kelly has now learned through experience to not let these issues impact her as negatively as they would have before.

Vanessa emphasized the importance of having a positive outlook when dealing with problems:

Vanessa: “Yes, I think that what I’ve learned in the last while of deciding on this business course is that you just have to create it, to stay positive. That’s something you can just keep developing. When you enjoy your work and it’s something you’re not going to drop, you just find a way to do it.”

Vanessa learned the importance of maintaining a positive outlook and that a conscious choice must be made to do so in order to enjoy the demanding work involved in the business.

These findings suggest that emotionality represents an integral part of how problems are dealt with in small firms, and that alternative perspectives to rational theories of problem solving in organizations are required to capture its influence. This is reflected in Culkin and Smith’s (2000) argument that the emotional, complex and ambiguous nature of managing a small business must be considered in order to improve the effectiveness of government interventions aimed at supporting this sector in the UK. Their research focuses on the complexity that characterizes the small business sector and the emotional realities of running a business, where personal and work issues are continually overlapping, which impacts small business owners’ motivations when making decisions. Though not specifically related to the

impact of emotions on problem solving in small firms, important links can be made between Culkin and Smith's (2000) assertions on the importance of considering emotions when understanding the nature of small firm processes and the emotions expressed by participants in the study when recalling how they solved critical problems.

Dexter and Behan (1999:172) characterize the small business as "an emotional economic unit", where the emotional behaviour that is an integral part of managing a small business represents an important consideration for researchers examining this sector. "In this market, understanding the context, attitudes and values of the individual becomes equally as important as dissecting the attributes of the business: they are the business, and the business is inextricably tied up with their life and identity". The authors affirm that valuable contributions can be made to research on small businesses by understanding the necessity of studying emotional behaviour when choosing research methodologies.

The influence of the owner-manager's personality as measured by Jung's (1923) personality styles (presented in the literature review in Chapter 3) might also provide additional insight into the emotional as opposed to rational approaches to problem solving adopted by these owner-managers. The utilization of a tool applying Jung's personality theory, such as the Myer's Brigg's Type Inventory (Myers et al, 1998), was beyond the scope of this study, especially since such a tool does not fit within the specifications of an interpretive approach. Yet, based on the interview findings presented in the previous section, it would appear that many owner-managers had an approach to problem solving that reflects an "Intuitive-Feeling (NF)" personality

type, which relies on a relatively subjective interpretation of events and is influenced by subjective values when processing information and making decisions. Once again, this observation provides a new understanding of the tendency of many of the owner-managers in the study not to apply rational and objective approaches to solving problems. Rather, their approach seems to be characterized by a primarily emotional perspective.

Though the examination of how emotions impact behaviour in organizations has gained increased significance (see, for example, Hartel, Zerbe and Ashkanasy, 2005; Fineman, 2003), the impact of emotions as it relates to entrepreneurial behaviour (Goss, 2005) or to behaviour in small businesses (Dexter and Behan, 1999) requires further exploration, more specifically as it relates to problem solving capability in small firms. Another consideration is that, for the most part, the existing research on emotions takes a functionalist and not an interpretive perspective on organizations (Hartel, Zerbe and Ashkanasy, 2005). The results of this study were obtained using an interpretive research approach, and provide new insights that demonstrate the importance of emotionality in explaining how individuals react to problems as they are encountered in the specific context of the small firm.

5.4 Perceived Outcomes for the Firm

The final component of the CIT framework captures participants' perceptions of the outcomes of the actions taken to address critical problems. When discussing the perceived outcomes for the firm, owner-managers generally expressed satisfaction at the results of their actions (refer to Figure 5.1 for a summary of outcomes). These actions allowed them to resolve core staff issues, though a limited labour pool

represents an ongoing problem for many. They also ensured an acceptable level of growth, in addition to increased positive reputation and recognition in the community. As Doug stated,

Doug: “We’re at the point now where I can sort of pick and choose my work. We have enough cash flow here. We’re not wealthy but we can survive.”

This attitude was echoed by the majority of participants interviewed, who expressed that they now felt able to choose the focus of their work, to grow their business or to branch out into other product lines as a result of their ability to resolve the problems they encountered as they met them. These findings are consistent with other studies on the changing nature of problems in the life-cycle of the small firm as they reach later, more stable stages (Churchill and Lewis, 1983; Dodge and Robbins, 1992), which find that later stages are characterized by a focus on internal issues that can enable the owner-manager to maintain the firm’s size or expand its growth possibilities.

Small business owner-managers do see themselves as effective in addressing problems as they arise, though they acknowledge their own inherent limitations in dealing with some of the problems and recognize that sometimes things “just happen”. As Amal aptly states,

Amal: “We look back and are amazed at ourselves, how we did it, how we survived. You have to believe in what you’re doing and have faith. My God, it’s hard work!”

With this acknowledgement of the work involved in running a hotel, Amal also emphasized her amazement at actually being successful.

A final consideration, when looking at owner-managers' satisfaction with the outcomes of their actions, is their overall aspirations for growth. As Gary clearly states,

Gary: “When I bought this place, I told my wife, I don't want to be a millionaire. I just want to be able to get by, support my family, pay the bills.”

Ted expressed a similar outlook when I asked him how he was able to gauge his performance against that of the competition. His response was,

Ted: “Are we paying our bills?”

The individual's motivation to grow represents a key factor in how they will operate their business and their satisfaction with the outcomes of their approach:

To many [small firm owner-managers], retaining the status quo is satisfactory. Growth (and possibly other aspects of continued entrepreneurship) is then perceived as no longer serving, or even as threatening, important personal goals. This group – probably the majority of all small firm owner-managers – thus is relatively conservative in their business attitudes and behaviours. It must be emphasized that their being satisfied with maintaining the status quo does not mean easy living is characteristic for them. What it means is neither external nor internal pressures necessitate anything more than working hard on what they are currently doing (Davidsson, 1991:423).

Those who seek long-term stability as opposed to continued growth for their business have been referred to as “lifestylers”. It is estimated that 55% of micro-businesses (those employing less than four employees) in Canada belong to this group (CIBC World Markets, 2004b:2). This operating goal represents a growing trend for 60% of all small business owners in Canada (Tal, 2006:1), demonstrating that *growth* as an essential definition of success as a business owner or as part of the natural evolution of the small firm experience (Churchill and Lewis, 1983) is not necessarily a reality. An increasing number of individuals are choosing to manage a small business in order to generate income while maintaining a balance with their other lifestyle choices. These findings are consistent with a survey of 1,505 Canadian micro-enterprises (one to four employees) still in operation after four years, which demonstrated that 66% of owners had no plans for expansion and of these, almost one-half expressed that it was because they were content with the way things were (Industry Canada, 2001:16). “From a policy perspective, one has to realize that a blanket policy aimed at ‘helping small business to grow’ must first consider the fact that the majority of small firms in Canada do not wish to grow” (Tal, 2006:8). The reduced growth orientation of small Canadian firms has policy implications for the Canadian government regarding how it tailors its support initiatives for small businesses.

5.5 The “Secret of Success”

At the end of each interview, participants were asked to capture in one word (or a few words) why they thought *they* specifically had survived for so many years, or, using a more common phrase, what they considered to be the “secret of their success”. This chapter concludes with a presentation of the “secrets” identified by

each owner-manager, which also reflect many of the themes contained in the analysis of results. Every participant shared their answer without a moment of hesitation.

Sarah: “Consistency. My husband is very dedicated and so am I. I think in that sense, even when there is a negative, we go out of our way to turn it around.”

Amal: “Perseverance and hard work! There’s no way you back out of it. And you have to keep the right, positive attitude. You can’t be in public and have a miserable face. You won’t survive.”

Doug: “Tenacity. In *my* industry you *have* to make things happen. You can’t sit back and wait for it to come to you. We created an image here, which we work really hard to preserve and enhance. We advertised, we provide service to customers. If there was a problem in their home we looked after it right away. We always had a good reputation. People would come to us, I would give them a list of previous home owners and say phone them. So you need to build that image and you need to maintain it. You can’t say, ‘Well we’ve got our image now so it doesn’t matter.’ You have to keep looking after it. And I think in terms of finding work, doing work, you have to go out there and dig for it. You cannot just sit back and let it happen. You find ways to make things work. You just have to.”

Vanessa: “I guess it would have to be passion for the subject. I don’t think you can be in this business without liking your subject.”

Ted: “Just doing the job properly. Like a mechanic’s got to be able to crawl under a motor and fix it. We have to get inside a customer’s head and give service. Give them what *they* want and that’s the whole secret.”

Gary: “It’s just *luck*. Buying the right place at the right time. I work my ass off but it’s still luck.”

Julie: “I’m very accommodating for people and people like that. People like to feel important as we all like to feel important so to make people feel important when they come in we accommodate their needs. And we provide good service. Yeah, accommodating.”

Mark: “Hard work. Or maybe education. I think the biggest thing is people don’t realize how much there is to learn. You have to be an accountant, a banker, a...”

Lucy: “Love. I love food. I love people. There’s so much love in this. I love my staff. It’s all about that. Love. I want people to have that memorable experience. There’s an affection there. I want my employees to be having fun with what they’re doing. I don’t ever want to give them ‘I’m the boss and you’re...’ It never goes down that way. I want my waiting staff to grow culturally. Pull the chair out, put the napkin this way, know how it would be done in France because that’s fun! That’s what I love about this industry. It takes you around the world. So it’s as simple as that.”

Kelly: “I think just being kind. Listening to people. People really like to talk and be heard. I think you just have to be a nice person. I really do. You can’t be grumpy because you have too much to do that day. You have to let everything go. They’re first on the priority list in the morning. And I enjoy it. Everybody has a story and I love them. I think it’s just being kind.”

Lara: “Focus on quality.”

Despite the varied responses, all of these comments reflect an absolute clarity and unwavering conviction on the part of each individual as to what it has taken to make their business successful. This clarity of conviction has served as a guiding principle in how they dealt with problems as they occurred and has had a critical influence on their ability to survive beyond the initial five-year period during which so many businesses fail.

5.6 Summary

A number of the themes that emerged from interviews with participants in the study have been mostly overlooked by prior research in the area of problem solving in the specific context of small firms. No other authors have considered the notion of problem solving in small Canadian firms that have survived beyond the critical five-year period through the application of an interpretive epistemological perspective concerned with producing “a complex, quiltlike bricolage, a reflexive collage or montage – a set of fluid, interconnected images and representations” (Denzin and Lincoln, 2005:6) that is the result of the “interpretive *bricoleur’s*” research efforts.

To begin with, most of the critical problems identified by owner-managers participating in the study were internal and ongoing in nature. With regard to solving these various problems, the findings presented in this chapter suggest that problem solving in the sample of small firms studied is an intuitive, often emotional process that is not characterized by objective conceptualizations of problems that lead to rational solutions. Also of note, while engaging in the process of solving problems, owner-managers clearly exhibited the ability to learn from their experiences as their businesses evolved over time. They did so by reflecting on how effective or ineffective the actions taken to solve problems were for their firm and adjusting their behaviours in consequence. The necessity of demonstrating the confidence required to keep moving forward despite the problems encountered was also of great importance and represents a deciding factor in the survival of these small firms. Though this chapter underlined a few differences with regard to participant responses, such as whether they attributed their ability to deal with problems to internal or external influences, and the amount of time it took various individuals to learn from their mistakes, more *similarities* were uncovered in the analysis of interview results. The analysis presented in this chapter enabled the presentation of core themes that clearly reflect participant accounts of problem solving. The next chapter synthesizes the research data through the presentation of a framework for problem solving in small firms that emphasizes the findings and contributions of this thesis.

CHAPTER 6

A Holistic Framework for Problem Solving in Small Firms

The findings presented here have provided some new interpretations of *how* small business owner-managers address critical organizational problems and the perceived impact of these actions on their firms, in addition to identifying the actual problems encountered as recounted by participants in the study. This chapter presents *A Holistic Framework for Problem Solving in Small Firms* as an alternative way to conceptualize problem solving in small firms and thus makes a contribution to building new theory in this area of inquiry. The framework synthesizes the results of this study in order to demonstrate the interdependence of influences that affect problem solving in small firms and the resulting need to consider these dynamic processes from a holistic perspective.

6.1 Problems Encountered in the Small Firm

To begin with, the study ascertained which problems owner-managers *perceived* to be of critical importance through the completion of an interview developed through the CIT method. The literature review in Chapter 3 highlights the tendency of research into problems in small firms to apply methods that gather data using pre-determined, quantifiable lists of problems that do not attempt to reflect the actual problems recounted by the individuals involved. The analysis of interview results in the present study addresses this gap. Many of the internal problems related to staffing and finance or the external problems related to economic factors and lack of customer base, as recounted by owner-managers, have already been cited in the literature on problems in small firms. However, by following a different approach to

examining the influence of factors such as intuition, self-efficacy and determination, perceptions of luck and destiny, and finally, emotion, this study provides new interpretations of *how* problem solving occurs in small firms.

6.2 Distinct Attributes of Problem Solving in Small Firms

Intuition

In this study of small business owner-managers on Central Vancouver Island, distinct attributes were found to characterize the problem solving process. Using their intuition to solve critical problems as they occurred turned out to have an important impact on the way owner-managers addressed each problem. Indeed, in none of the cases studied were distinct steps to problem solving identified. Instead, owner-managers recounted how they took actions to solve problems intuitively, without taking the time to think about or plan a rational process to solve each problem. This approach differs from a number of theoretical research frameworks on problem solving (presented in the literature review in Chapter 3) that propose well-defined and delineated steps in the problem solving process as best practice. The results of this study suggest that more dynamic processes occur in practice. The role of intuition has been extensively researched with regard to decision making processes in large firms (see, for example, Khatri and Ng, 2000; Patton, 2003; Korthagen, 2005). The results of this study make a contribution to existing research by analyzing an unexplored dimension of intuitive organizational processes – the importance of intuition with regard to problem solving capability in small firms.

Learning

The research also found an essential relationship between an owner-manager's ability to reflect on past mistakes and their ability to apply their learning in subsequent problem situations. One interpretation of this finding could be that the ability to learn can be positively linked to the potential survival and success of the small firm. Indeed, all of the firms participating in the study were chosen because they had survived beyond the crucial first five years of existence. The fact of their survival could potentially be linked to their ability to solve critical problems throughout the history of their firm, though more research on this specific theme would be required to support this assumption. It is important to research small firms that continue to survive beyond the critical five-year mark in order to generate new understanding of the factors that contribute to this survival. Indeed, as reflected in the results of the present research study, a significant amount of expertise and know-how resides in the lived experiences of the individuals responsible for such longevity, and their accounts of these experiences should be captured to add to the existing body of knowledge on effective small firm management practices.

Emotions

The emotions that surfaced when encountering problems represent another critical influence on the ways in which owner-managers dealt with problems. Once again, the significant influence of emotion on the actions taken to solve major organizational problems indicates the lack of a rational, objective approach to problem solving in most of the firms studied. The role of emotions in effectively managing the small firm has had limited consideration in the field of small business research. This omission is perhaps a result of the inherently complex and ambiguous

nature of the concept of “emotions”, which is less likely to be objectively captured through the application of the functionalist paradigm that still dominates the field of small business management (Grant and Perren, 2002). The results of this study demonstrate the impact of emotions on the conduct of owner-managers and make an important contribution to understanding the nature of small firm owner-manager behaviours, since they capture an additional unexplored aspect of the dimensions that influence their behaviour.

Luck and Destiny

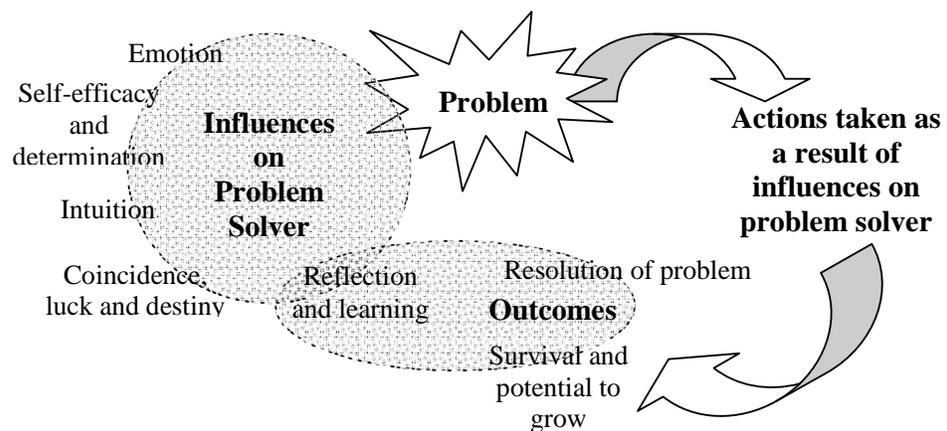
While most owner-managers were guided by the determination to succeed when faced with problems throughout the history of their firm, there was contradictory evidence that they sometimes attributed their ability to successfully deal with problems to luck and destiny. These results could indicate that those with strong personal initiative may have a better chance of long-term survival. It also suggests that the application of Jung’s (1923) theories on personality using an assessment tool such as the Myer’s Briggs Type Inventory (Myers et al, 1998) could provide useful insights into owner-managers’ internal or external motivations when dealing with problems and the impact their personality profiles have on their ability to deal with problems.

Building New Theory on Problem Solving

One of the distinguishing features of this study is the use of an interpretive methodology to develop new theories on problem solving through the application of grounded theory combined with CIT methods. “Interpretive theory calls for the imaginative understanding of the studied phenomenon. This type of theory assumes

emergent, multiple realities; indeterminacy; facts and values inextricably linked; truth as provisional; and social life as processual” (Charmaz, 2006:127). The research contributions presented here are synthesized in Figure 6.1 and demonstrate the interdependence of critical influences when looking at the problem solving process in small firms. This synthesis contributes to building new theory on this topic, since it reveals the holistic nature of the problem solving process in the particular context of small firms. This holistic aspect is embodied in the understanding that owner-manager behaviour with regard to solving problems can be interpreted through the consideration of various interconnected influences on the process.

Figure 6.1 *A Holistic Framework for Problem Solving in Small Firms*



The first element to consider in Figure 6.1 focuses on the problem solver, whose capacity to solve problems is influenced by emotions, the desire for self-efficacy and determination to succeed, intuition, and finally, attributions of coincidence, luck and destiny. These influences impact the owner-manager’s perception of the problem and

the resulting actions taken to solve the problem. These actions lead to perceived outcomes for the firm that then continue to influence the problem solver. As illustrated in this framework, reflection and learning are both outcomes of problem solving and influences on the perceptions of the problem solver as a result of either the presence or absence of learning. The interpretive methods utilized to collect and analyze participant accounts of problem solving enabled an in-depth understanding of owner-managers' interpretations of their reality, as synthesized in this framework. Implicit to the interpretive tradition is the understanding that these interpretations do not represent an objective rational truth, but rather provide additional insights into the subjective experience of problem solving within the parameters of the study.

6.3 Summary

The framework presented in this chapter incorporates a set of interrelated variables that demonstrate the integral link between the owner-manager's perceptions of a problem as shaped by specific influences and *how* they will act to resolve their problems, as well as the resulting outcomes for the firm. Chapter 7 identifies the wider implications of this study and addresses the limitations of the research.

CHAPTER 7

Implications and Conclusion

Though primarily concerned with the unique attributes of problem solving in small firms, this concluding chapter presents the implications of the study within the broader context of small firm management practices from two perspectives. The first is aimed at researchers in the field and presents the methodological contribution made by the research approach taken in the study. Limitations of the study are identified and suggestions for future research in the area of problem solving in small firms are provided. The second perspective is practical in nature and relays the potential applications of the research for small business owner-managers.

7.1 Implications for Research

The approach taken in this study is positioned within an emergent body of research in the field of small business and entrepreneurship that applies an interpretive paradigm to uncover the complex facets of how individuals develop their capabilities and management practices (Chell and Allman, 2003) with a particular emphasis on the small business owner-manager. The assumptions guiding the choice of methods for the study are firmly placed within an interpretive perspective that is committed to a social constructivist philosophy (Burrell and Morgan, 1979). As such, this thesis makes a methodological contribution through the use of an interpretive framework that employs critical incident analysis while also integrating key principles from grounded theory to capture and analyze the perceptions of 11 small business owner-managers on Central Vancouver Island in relation to the problems encountered in the history of running their businesses. This interpretive research approach has not been

utilized before in relation to problem solving processes in small firms, and subsequently enabled the development of a new framework for understanding problem solving, as presented in Figure 6.1.

Statistical studies that analyze elements such as job growth, economic contribution and business exits abound, and are certainly valuable in providing a backdrop for the general conditions of the small business sector in a given country. Yet, studies such as this one, which move beyond these rational analyses and focus on providing in-depth examinations of management behaviours in small firms, offer new insights into the complex, multi-faceted reality of small firms and the individuals who own, manage and operate them. As a result, it is imperative that researchers in the field continue to look into the unique behaviours and attitudes of small business owner-managers in a variety of settings.

7.2 Implications for Small Business Owner-Managers

These results also have a number of implications for small business owner-managers. Internal management deficiency has been identified as one of the leading causes of bankruptcy in Canadian firms, most often occurring in small firms (Baldwin et al, 1997:9). More particularly, bankruptcy is most prevalent in the early stages of the life-cycle due to internal deficiencies that prevent managers from adequately responding to problems:

Management must master the basic internal skills – general and financial knowledge, control, communications, supervision of staff, and market development – or will fail solely or primarily from the weight of these problems. As a surviving business grows, a new set of problems arise that are associated with the increased complexity of running an older and larger firm.

All the participants who took part in the study had survived past the first stages in their life-cycle, since a key selection criterion was that they had been in existence for a minimum of five years. Their ability to respond to problems in each stage of their evolution enabled them to avoid the reality of bankruptcy faced by many small Canadian businesses.

Bannock (2005:53), in his comparison of a number of international surveys ranking problems faced by small firms, affirms that there is a “mismatch” between what small business owners are actually preoccupied with, and the focus of the research done on them, which is often driven by policy concerns and current trends. Such trends are reflected in the Canadian government’s continued emphasis on growth when researching and tailoring their support initiatives for small firms (Halabisky, 2006), even when the majority of small business owners do not view growth as a priority (Chambers and Shaw, 2004). From an external perspective, the results of the present study have an important implication with regard to the development of small business support initiatives by the Canadian government. That is, given the intuitive, improvised and non-linear nature of how problem solving skills are developed by dealing with typical problems associated with start-up and continued operations, it may be more appropriate for external experts to provide specialized assistance tailored to the unique needs of each business. For example, outside experts from government or government-affiliated support agencies could focus on providing one-on-one consultations with owner-managers to identify the problems they are encountering and come up with solutions tailored to each business, as opposed to offering – as is most often the approach of support agencies – broad-based courses, workshops or development programs that require participants to cover the same basic

content (Small Business BC, 2007). Another option would be to implement a centralized government referral service of experts with a range of knowledge that would provide small business clients with the specialized information they needed with regard to various problems. Owner-managers might benefit more from these types of specialized interventions than from those that guide them through a step-by-step process on how to start-up, plan and operate their business. Their skills can thus be enhanced by the opportunity to call on external expertise in critical areas where they are lacking in particular knowledge.

From an internal perspective, owner-managers need to become aware of the importance of continually developing their problem solving skills to ensure the survival of their business. The development of these skills can occur internally through ongoing learning and reflection as they address particular problems through the development phases of their business. It can also involve the ability to identify the various influences on their perceptions of problems, in order to ensure that they are adequately dealing with problems as they arise.

7.3 Limitations of the Thesis

The application of the CIT combined with grounded theory methods facilitated the capture of a number of rich accounts of distinctive problem solving experiences in small firms, and was limited to a sample of 11 businesses that had survived beyond a critical five-year period of operations in the specific context of Central Vancouver Island. Though the methods used to achieve the research objectives did not aim to create generalizations from this sample to a larger population, it is important to acknowledge that the results of this research may indeed not provide relevant

generalizations for the wider sector of Canadian small businesses and additional research would be required to do so.

With regard to research into small firms, Curran and Blackburn (2001:9) affirm that, “the findings from any research are never more than provisional if only because the real world is constantly changing”. This study has focused on problem solving in a specific sample of firms, and its contribution should also be placed within the context of this “constantly changing” world reality. Indeed, because of the subjective nature of the interpretive research approach utilized, it should be emphasized that the findings reflect both my own and the participants’ interpretations of their world realities and, as such, definitive conclusions on the nature of problem solving cannot be projected to all small firms. Nonetheless, as Gummerson (2006) affirms when elaborating on the essential contribution of qualitative approaches, despite criticisms of their limitation because of their subjective nature, there is a critical need in management research for qualitative approaches such as those applied in the context of this study to further our understanding of management practices.

7.4 Suggestions for Future Research

With regard to problem solving in small firms, future research is needed into a number of areas of inquiry highlighted in the results of this study, which uncovered some findings that require further exploration. First, though the potential impact of life-cycle stage on problems encountered in the firm surfaced as a theme, a longitudinal study of a cross-section of small firms that focuses specifically on identifying the problems encountered through each stage of growth from start-up to maturity would add to the understanding of the cause and nature of problems in each

of these stages. Analyzing the actions of owner-managers when dealing with these problems may provide additional insights into the most effective approaches to be taken depending on the life-cycle phase of the firm. As was the case with this study, the use of grounded theory and in-depth case analysis would be most appropriate here, since such an approach could uncover facets of problem solving that would not necessarily surface through the application of a highly structured, positivist approach.

The emphasis of this study was on researching small businesses on Central Vancouver Island that had survived for more than five years. The purpose of the study was not to determine how results might vary according to different geographical regions. As such, it would be interesting to apply similar methods to those used in this research in other geographic locations to determine how owner-managers in other parts of Canada go about solving problems and, if significant differences exist, to identify the reasons for differences and the implications for research in this area.

This study has called attention to the learning that occurs as owner-managers deal with problems and apply the lessons learned about how effective or ineffective their approach was to address the problems they later encounter. Researching how reflection can lead to learning in small firms, though difficult to assess because of its intangible nature, could provide valuable insights into the owner-manager as a reflective practitioner and then be interpreted into “practical theories” (Rae, 2004) of learning that would contribute to a growing body of research on the specific attributes of organizational learning in small firms. Indeed, such research could go

one step further and examine the impact of a “reflexive” as opposed to a merely “reflective” approach to management that enables the individual to perceive problems not only by reflecting on their own situation in relation to their environment but also by going one step further. “Reflexivity denotes a meta-level of awareness, or consciousness about being conscious” (Berthon, Pitt and Morris, 1998:35). Reflexive management entails the ability to intentionally examine perceptions of problems and subsequent actions from a critical standpoint, and highlights the importance of reflexivity in the management process. A longitudinal study of small firms with characteristics similar to those involved in this study might enable us to establish the extent to which owner-managers’ problem solving capabilities change over time as a result of these reflexive practices, and provide additional confirmation of the results of the present study. Such a study would also address the questions about owner-manager learning raised in the context of the study and the need to further explore *when* and *why* they learn and the impact this has on their learning capability.

7.5 Summary

Problem solving in small firms is a dynamic process characterized by the existence of numerous influences on the problem solver. This study has made a unique contribution by presenting unexplored facets of problem solving in small firms, as synthesized in Figure 6.1: *A Holistic Framework for Problem Solving in Small Firms*. It is hoped that the results of this thesis will be useful to researchers in the field, to small business owner-managers and to those responsible for the development of ongoing government support initiatives for small businesses in Canada.

Researchers in the field of small business management are increasingly cognizant of the potential that lies in studying the dynamics of small firms by capturing the unique perspectives of the individuals who manage and operate them. There is great value in furthering our understanding of how small businesses operate, especially with regard to the unique attributes of problem solving processes that have been identified as a result of this study. This value must be further emphasized when we consider the tremendous contribution made by the small business sector to the strength of Canada's economy. The complexity and uniqueness of small firm management processes, when compared to their larger counterparts, confirms the importance of undertaking research that builds on the results of this study in order to provide new conceptual understandings that apply to the specific realities of these firms. Such research could also go beyond the topic of problem solving to include the development of management skills in small firms from a more general perspective within the context of the Canadian business environment. This examination, in combination with the suggested additional research on the topic, would provide small business owner-managers with support that more appropriately reflects their reality and ensuing needs.

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Appendix 1

Consent Form

The Effect of Owner-Manager Problem-solving Practices on Small Firm Performance

Business School Protocol Number: BS/R/008-03

**Researcher: Isabelle Giroux
University of Hertfordshire
(250) 334-0634**

Dear Participant,

You are being asked to participate in a study I am conducting on small businesses in the Central Vancouver Island area that is part of the requirement for completing my doctoral thesis at the University of Hertfordshire. The purpose of this study is to further our understanding of how the management practices employed by small business owners in the area contribute to the continued survival of their business. Your participation in the research study is voluntary. Before agreeing to be part of this study, please read and sign the following consent form. Feel free to ask questions if you do not understand something as you read through this form.

Please note that all information obtained from you during this interview is for academic purposes only and the results will remain strictly confidential. The data collected however, may be used as part of publications and papers related to the field of small business management but you will not be identified individually in any way as a result of your participation in this research. You have the right to have any of your responses deleted at any time. You also have the right to refuse the use of a tape recorder during the interview.

In addition, I can be reached at (250) 334-0634 if you have any additional questions or concerns about the research.

By signing below you indicate that you have read and understood the above information and consent to participate in this study.

Participant's signature

Researcher's signature

Date: _____

Appendix 2

Interview Guide

- *Introduce research purpose and CIT interview process*
 - *Confidentiality agreement*
-

1. Are you the sole owner of the firm?
2. In which industry group does your firm operate?

Business services___ Accommodation and food___
Health and Social Services___ Education Services ___

Trade___ Transportation and Utilities ___

Construction _____ Manufacturing _____ Other _____
3. At this point in time, how many employees does your firm employ? _____
4. How many years has your business been in operation? _____

Critical Incident Interview

- 4) Tell me about the critical problems you have encountered since the start-up of your business.(critical incident)
 - What was the problem?
- 5) How did you deal with each problem? (behaviour/action)
 - What did you do or say?
 - How did you respond?
 - How did you decide what to say or do?
- 6) What happened as a result of your actions?
 - How did it turn out?
 - How did this influence the development/performance of your business?
 - How did you know your approach to solving the problem was successful/effective? (outcome)

Appendix 3

Interview – Part II

Name: _____

Date: _____ **Time:** _____

1. Have you always been self-employed? What other businesses or employment have you had before this one?
2. In your business, when you face a particular problem or situation about which you know little or nothing, how do you address it?
3. If you had to name which problem you faced that was the most critical, the one that was really the ‘make or break’ one for your business, which one would it be? (*refer back to initial interview, most have identified this*)
4. Do you think your ability to solve problems has improved over the years? If yes, can you identify the time in terms of your history when that happened?
5. Do you think your age or education influenced your ability to solve problems?
6. Since our last interview, do you find that you now look at problems differently or approach them differently?
7. Why do you think *you’ve* survived for so long?