

# **The Impact of Strategic Orientation and Ethnicity on Small Business Performance**

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*The purpose of this study is to examine the relationship between strategic orientation and ethnicity and the resulting influence on performance in small businesses. Through analysis of a sample of 237 small business owners that were split with 50% minority ownership, this study examined the strategic orientation of minority owned businesses and the resulting performance of those organizations. Results indicated no differences in the strategic choices of Caucasian and minority business owners, but that performance was greater in those internally focused organizations. Limitations, practical applications, and future research area also discussed.*

## **INTRODUCTION**

Small business and entrepreneurship take on many different appearances. Beyond the organization, the individuals who start, own, and manage these organizations come from a wide variety of backgrounds and experiences. Research into entrepreneurship and small business has examined areas such as education levels, personality, geographic location, support systems, and more. Another important area, the strategic orientation of the business owner, can play a large part in the ultimate success or failure of the business. In addition, there has been much research on ethnicity and the role that minorities play in the entrepreneurial process. This study seeks to examine these final two factors, strategic orientation and ethnicity, and the effects these may have on performance in small business.

## **LITERATURE REVIEW**

Successful entrepreneurship is seldom the result of any single factor; indeed Thompson (2004) points out that successful entrepreneurs require a combination of temperament, talent and technique. Others have noted the importance of resources (Mazzarol, Reboud & Soutar, 2009) as a factor in organizational performance, and still others acknowledge that factors such as technique (or strategy) and resources are often associated with a business owner's ethnicity (Sriram, Tigineh & Herron, 2007). A better understanding of the strategies of business owners, coupled with any trends associated with demographic

factors such as ethnicity, can make an important contribution to the research literature, as well as provide implications for practical application to improve the entrepreneurial environment in a time economic flux.

### **Strategic Orientation**

There are many competitive strategies that emerge when examining the strategic management literature (Miles & Snow, 1978; Porter, 1980; Miller 1981). Many firm's strategic orientation can be categorized into one of two strategic directions. First, organizations can be more internally focused. These organizations tend to look at developing the inner workings of the organization that includes personnel, efficiencies, and cost control. Second, organizations may exhibit a more external or growth focus. These organizations are concerned with growing the organization through sales, revenues, and new customers through new products or services (Kumar, Subramanian, & Strandholm, 2002; Trinh & O'Connor, 2000).

There are two primary reasons for entrepreneurs pursuing business ownership rather than continuing to work for others; opportunity recognition and the lack of viable economic alternatives. Minorities have historically felt that they are less accepted in their current organization, perceive less job and task discretion, receive lower job ratings and promotional opportunities, and have lower career satisfaction (Greenhaus, Parasuraman, & Wormley, 1990). Thus, these individuals often pursue new venture development as a way to move past these workplace frustrations (Weiler & Bernsek, 2001; Heilman & Chen 2003). Previous research has found that the primary motivations for minority entrepreneurs taking the risk associated with new venture creation are achievement, opportunity, job satisfaction and independence (Hisrich & Brush, 1987). The areas that ranked the lowest were power and status. Thus, minority firm owners are more concerned with things such as achievement and independence than on power and prestige.

These motives may translate into the strategic direction the business takes under the direction of the minority business owner. As Enz, Dollinger and Daily (1990) found in their examination of minority versus non-minority owned small businesses, minority owners put a much higher degree of importance on values such as collectivism (respect for people), rationality (emotion-free decision making), materialism (wealth), duty (obligation and loyalty), novelty (change), and power (control of situation and people) than do non-minority small business owners. Many of these values translate over into the relationship that the owner has with people. Thus, it is expected that minority owned small businesses will put additional emphasis on working with employees and choosing a strategic orientation focused on relationship building than their non-minority owned counterparts. Couple this high regard for people with the reality that minority owned firms may often find a harder time securing outside financing for venture development (Heilman & Chen, 2003), and the result is a more internal strategic orientation than their peers; especially white males who tend to have a growth or external orientation (Boohene, Sheridan & Kotey, 2008).

### **Minorities and Differences in Resources**

Past research suggests that Caucasian business owners often have a resource advantage; minorities are faced with more obstacles in the entrepreneurial process, such as less education and business experience, limited resources, and fewer mentors and advisors (Kourilsky and Esfandiari, 1997; Heilman and Chen, 2003). In addition, minorities have greater difficulty obtaining traditional financing for their business endeavors (Verheul & Thurik, 2001; Coleman, 2002) and are more likely to have shorter, or inadequate, credit history (Shaw, Carter & Brierton, 2001).

Research has also indicated that minorities are less interested in starting a business (Matthews & Moser, 1995; Kourilsky & Walstad, 1997). When minorities do choose to start a small business, it tends to be smaller and is frequently within the retail or service sectors (Perry, 2002), where failure rates are much higher than other business sectors (Brush & Chaganti, 1999). Robb (2002) and Marlow and Patton (2005) suggests that this occupational segregation may result from the capital restraints faced by many minority entrepreneurs.

Consistent with this, the strategic orientation of Caucasians is based more off of tangible resources that emphasize production and financial performance, an external focus. As such, we hypothesize that:

- H1: Organizations that pursue an internal strategy (relationship and customer service oriented) will exhibit stronger levels of performance than those organizations that pursue an external (growth and financial optimization) strategy. As such, a main effect for strategic orientation is anticipated.
- H2: Although minority business owners are anticipated to utilize more internal strategies than their Caucasian peers, the early advantages experienced by Caucasian business owners are anticipated to negate any performance advantage that might be realized as a result of strategic orientation. As such, no main effect is anticipated for ethnicity.

Research has shown that business growth is based on a combination of both strategy and resource availability (Mazzarol, Reboud & Soutar, 2009). Consistent with this fact and our first two hypotheses, it is anticipated that the highest levels of performance will be realized by those organizations that are internally focused and characterized by a strong resource base. As such,

- H3: Organizations led by Caucasians, and utilizing an internally focused strategy, will have significantly stronger performance than will other organizations.

## **METHOD**

### **Participants**

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

### **Measures**

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

As part of the survey, participants provided demographic information, including gender, age, and ethnicity. Of the 50% of the sample that self-identified as being non-Caucasian, 86% reported being African American. Given the small representation of other ethnic minority groups, differences in strategies were tested for across the various ethnic minority groups. Finding none, it was concluded that ethnicity would be dichotomized for purposes of this study into Caucasian and Non-Caucasian groups.

Participants were also asked to indicate to what degree each of several statements was consistent with the strategic emphasis for their businesses. These items were measured using a variation of Davis, Miles and McDowell's (2008) questions on strategic orientation. This thirteen item, five point Likert scale assessed two strategic orientations – a focus on internal strategies (six items;  $\alpha = .882$ ) and a focus on external strategies (seven items,  $\alpha = .803$ ). The items, factor loadings, and associated descriptive statistics are shown in Table 1.

**TABLE 1**  
**INTERNAL & EXTERNAL STRATEGIC EMPHASIS ITEMS**

Items	Factor Loadings		Mean	SD
	Internal Strategy	External Strategy		
Fostering employee participation and empowerment	.860		3.39	1.38
Monitoring and enhancing employee satisfaction and morale	.835		3.46	1.38
Incentive compensation based on team or facility performance	.775		2.96	1.40
Attracting and Retaining High Quality Employees	.752		3.57	1.42
Training and continuing education of employees	.704		3.20	1.37
Employee profit sharing	.648		2.20	1.43
Increasing growth in revenue		.776	4.24	.96
Improving profit margin		.773	4.12	1.01
Continuous improvement of existing products or services		.735	4.40	.85
Realizing returns on new products or services		.717	3.86	1.09
Customer Satisfaction		.692	4.68	.75
Advertising and promotions		.448	3.35	1.21
Offering lower priced products or services		.397	2.75	1.31

Performance was also measured by a series of ten Likert-type questions which were combined to yield a single scale score for performance. While financial performance data may be common to measure performance, in this sample examining many differing types of organizations, a subjective performance evaluation utilizing the approach of Kumar, Subramanian, and Strandholm (2001), which tested the degree of satisfaction with a variety of organizational performance items was appropriate. These results can be found in Table 2. Previous empirical evaluations have found these subjective measures to be highly correlated with objective measures (Dess & Robinson, 1984; Vernkatraman & Ramanujam, 1986), thus useful in this research setting. In order to confirm the appropriateness of this method, the factor analysis of the scale items was assessed. The factor structure coefficients were sufficient, ranging from .519 to .781 with a scale reliability of  $\alpha = .851$  thus ensuring good fit to the data. Table 2 shows the descriptive statistics for the performance items.

**TABLE 2**  
**ORGANIZATIONAL PERFORMANCE ITEMS**

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

## RESULTS

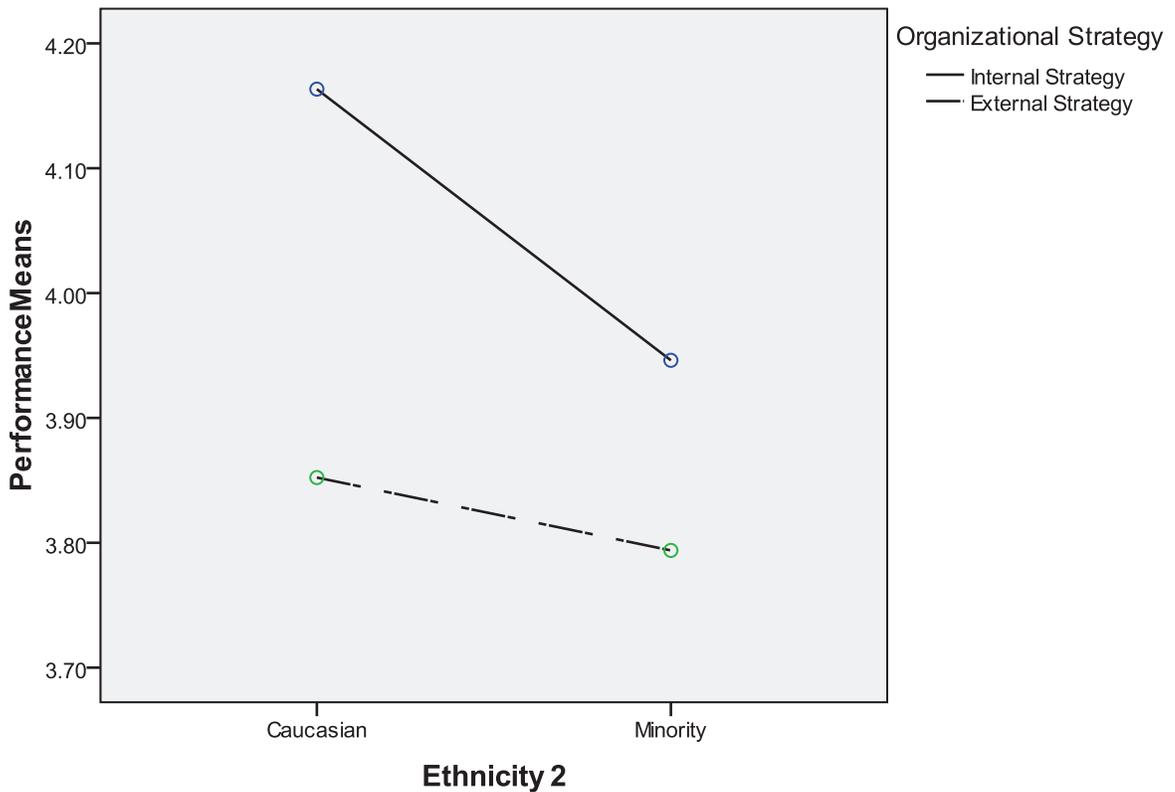
This analysis was designed to assess the effects of both strategy and ethnicity on organizational performance. Organizational performance scores were subjected to a two-way analysis of variance having two levels of strategy (internal, external) and two levels of ethnicity (Caucasian, non-Caucasian). The ANOVA supported hypothesis one; the main effect of strategy type yielded an  $F$  ratio of  $F(1, 188) = 3.359, p < .05$ , indicating that the performance was significantly higher in the organizations that pursued an internal strategy ( $M = 4.07, SD = .667$ ) versus those that pursued an external strategic focus ( $M = 3.83, SD = .654$ ). Support was also found for hypothesis two; the ANOVA revealed no significant main effect for ethnicity ( $F(1, 188) = 1.188, p > .05$ ). Unfortunately, the interaction effect was also non-significant,  $F(1, 188) = .395, p > .05$ ; however as can be seen Figure 1, Caucasian business owners utilizing an internal strategic focus had the highest levels of performance (albeit not significantly higher than their minority peers), which is consistent with hypothesis 3. Table 3 provides the descriptive statistics for performance by both strategic orientation and ethnic group.

**TABLE 3**  
**DESCRIPTIVE STATISTICS FOR PERFORMANCE BY ETHNICITY AND STRATEGY TYPE**

Ethnicity	Organizational Strategy Type				Total	
	Internal		External			
	M	SD	M	SD	M	SD
Caucasian	4.163	.497	3.852	.616	3.906	.607
Non-Caucasian	3.946	.860	3.794	.711	3.822	.736
Total	4.074	.667	3.829	.654	3.872	.661

FIGURE 1

Organizational Performance by Strategic Orientation & Ethnicity



DISCUSSION AND IMPLICATIONS

Past research on strategic differences in the small business context has been mixed, and our findings add another important piece to the puzzle. In particular, it is interesting to find that the anticipated performance differences based upon strategic orientation combined with ethnicity were not evident. While prior evidence has shown that Caucasians and African Americans often enter into business ownership for difference reasons and vary in their access to resources (Sriram, Tigineh & Herron, 2007), our findings indicate that they use similar strategies to operate their businesses. So, while they may differ in how they get to that point, once a business owner has established the venture, the type of strategies used seems to stay relative constant regardless of ethnicity. Past research by Sonfield, Lussier, Coleman and McKinney (2001) found that no gender differences existed in the types of strategies used by small business owners, and our findings seem to suggest that this also applies to ethnicity. Despite any start-up differences, both the Caucasian and African American business owners in our sample used similar strategies, and those strategies that focused on internal factors such as customer service and satisfaction were most successful. This seems to provide more evidence that minority business owners are closing any real or perceived resource gap in regards to business practices and performance.

Some argue that limited career opportunities for African Americans have forced them more into entrepreneurial ventures (Basu & Altinay, 2002; Sriram, Tigineh & Herron, 2007). And once involved in business development, other research indicates that minorities will often cater to specific niche markets that serve “co-ethnic” customers (Smith-Hunter & Boyd, 2004). However, no matter the reason for starting a business or the types of customers served, our findings indicate no strategic advantage for either

ethnic group, which should only help encourage more African Americans to consider business ownership as a viable career goal. The current economy is highly dependent on small businesses, and this very much includes the enterprises of African Americans business owners.

Much is still unknown about why some racial groups are more successful in their entrepreneurial endeavors than others, but a recent model of urban entrepreneurship suggests that the necessary strategies, motivation, and resources are all important factors for entrepreneurship to occur in the African American community (Sriram, Mersha & Herron, 2007). The model emphasizes that personal traits and values are impacted by culture and work together in determining an individual's level of motivation, which in turn impacts entrepreneurial behavior. Sriram, Mersha and Herron (2007) suggest that entrepreneurial achievement is driven by individual behavior, which can include strategic choices, and is moderated by resource availability. While our study did not focus on access to resources, the similarity in strategic choices seems to indicate that Caucasians and African Americans are making similar types of business decisions despite any real or perceived differences in resources. Research has shown that business growth is based on a combination of both strategy and resource availability (Mazzarol, Reboud & Soutar, 2009).

Another important contribution of our findings is to highlight the importance of internal strategies for business success. Moreno and Casillas (2008) argue that business strategy is tied directly with the availability of resources, which may indicate that the business owners in our sample had similar resources when starting their business ventures. Edelman, Brush and Manolova (2005) found that internal customer service strategies are often more effective for non-technology related businesses. An internal orientation often includes a focus on social connections to create important business networks that can lead to greater accessibility to resources (Mazzarol, Reboud & Soutar, 2009). An internal strategy can also help a business owner better prepare for incremental growth based specifically on customer demands, which is particularly helpful in economically challenging times. Research has shown that African Americans often enter the retail and service sectors due to fewer resource requirements, but unfortunately these sectors have the highest failure rates (Robb, 2002; Marlow & Patton, 2005).

As suggested by Sandberg (2003), minority business owners need to adopt a long-term approach to strategic planning based on incremental expansion. A focus on internal business strategies can help level the playing field in times of economic stagnation. The current economic crisis may dictate that all business owners adopt a more cautious approach to strategic planning, one that focuses on investments in customer service and internal networks to maintain current market share. Research has shown that intangible resources can be used to offset financial constraints, and that minority groups can be successful in using these types of resource to enhance business performance (Runyan, Huddleston & Swinney, 2006).

Sriram, Tigineh and Herron (2007) suggest that entrepreneurial opportunities are critically important within the minority community as a means of overcoming the stagnation in our national economy. When compared with their model, our findings seem to indicate that the current generation of minority business owners is well suited to pursue and succeed in business development. They not only have the motivation to pursue new business opportunities, but also possess the strategies to be successful. While there still may be some improvement needed to bridge any gap in performance satisfaction, our findings indicate the existence of a more level playing based on similar strategic orientation and choices. Kourilsky and Walstad (1998) found that the supply of entrepreneurs could increase if more people were to develop a positive perception about the feasibility and desirability of entrepreneurship. A recent study from Junior Achievement found that 86% of African American teens are interested in business ownership (*African American Entrepreneurs*, 2009), which indicates that entrepreneurship is becoming more of a legitimate career opportunity within minority groups.

## **FUTURE RESEARCH**

Numerous factors have the potential to impact the performance of small businesses, including the strategic planning and decision making capabilities of business owners. The current paper examined two such factors – the ethnicity of the owner and his/her strategic orientation (either internal or external).

While no significant interaction for these two variables was found, future research should continue to examine demographic variables and factors associated with strategic choices, as well as any contextual factors such as industry type, geographical location, and organizational size. Any knowledge gained can encourage more people to consider business ownership, and help develop better small business assistance programs that can possibly improve start-up success rates and stimulate growth even during tough economic times.

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