

Objective setting in the micro-business

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Abstract *Contends that micro-business owner-managers invariably have objectives, although they do not always make them explicit. These objectives tend to relate to personal rather than business criteria. In addition, the vast majority of micro-business owner-managers indicate little inclination to maximise profit or pursue growth. The supposed non-existence and ambiguity of objectives amongst owner-managers probably arise because they often subconsciously set objectives, rather than make them explicit as part of a written business plan. In practice, micro-businesses generally pursue a number of economic and non-economic objectives relating to factors such as income levels, job satisfaction, working hours, control and flexibility. These objectives were derived from the influence of the micro-business owner-manager's individual, social and economic contexts. Moreover, the behaviour of owner-managers is most appropriately characterised in terms of satisficing behaviour. The impact of this is very important, because it means that there is often no drive to improve the business in terms of growth, sales and profitability. Furthermore, the willingness of owner-managers to alter their aspiration levels, if objectives were not being easily achieved, often means that they do not initiate changes in the way they run their business when perhaps they should.*

Introduction

There is a substantial literature on the objectives of the firm (see, for example, Simon, 1955; 1959; Baumol, 1959; Marris, 1963; 1964; Williamson, 1963; Cyert and March, 1992). A considerable amount of theory has been developed in response to perceived flaws in the concept of profit maximisation. One of the difficulties with profit maximisation as the goal of the firm is the rise of managerial capitalism emanating from the divorce of ownership and control (Nyman and Siberston, 1981). This is important because managers may pursue objectives other than profit maximisation (Baumol, 1959; Marris, 1963; Williamson, 1963; Thompson and Wright, 1993). Moreover, organisations can be conceptualised as a coalition of different interest groups with decisions arising out of a political process, the result depending upon the bargaining power of each interest group (Cyert and March, 1992).

Such theories have evolved out of the study of large scale organisations (e.g. Shipley, 1981). However, factors such as the divorce of ownership and control and the political process of decision making are not as important in small businesses and can be regarded as largely irrelevant in the micro-business (i.e. firms with fewer than ten employees), where decision making is concentrated in the hands of one or two owner-managers. In the small business the lack of separation of ownership and control means that the owner-manager more closely matches the entrepreneur of neo-classical theory, who aims to maximise profit (see Koutsoyiannis, 1979, p. 257). Despite this, the small business literature has questioned the assumption that small firms aim to maximise

profit (see, for example, Keasey and Watson, 1993, p. 101; Jennings and Beaver, 1995; Goffee and Scase, 1995).

The aim of this paper is to analyse objective setting in the micro-business. It begins by examining the main objectives specified by micro-business owner-managers. The paper then examines the formulation and articulation of these objectives. Next, the question of how success is defined by the micro-business owner-manager is considered. Finally, a contextual model is introduced as a basis for understanding objective setting in the micro-business.

Research methodology

This paper is based on 55 semi-structured interviews with the owner-managers of micro-businesses. In the majority of these firms there was either one owner-manager, or a dominant owner-manager, and this was the person interviewed. Where there was no principal owner-manager, an attempt was made to interview all the owner-managers. This meant that, in three firms, both partners were interviewed (there were no businesses with more than two owner-managers). Therefore, a total of 58 owner-managers were interviewed.

The research involved asking owner-managers questions about how they made decisions relating to business start-up, marketing and the utilisation of labour. This paper focuses on the role objective setting plays in the decision-making process. The approach involved the use of open ended questions, which allowed respondents to describe in detail what their objectives were and how they set their objectives.

A sampling frame was constructed for three sectors: accountants, builders, and printers in a local labour market area. The different sectors were selected, because the nature of their activities and the markets in which they are involved are diverse. Micro-businesses were randomly selected for interview. The response rate varied by sector, with 42.9 per cent of accountants, 28.1 per cent of builders and 50.0 per cent of printers agreeing to be interviewed. Sectoral differences in response rates have been experienced in other studies (see, for example, Craig *et al.*, 1985; Curran and Blackburn, 1994).

The key characteristics of the businesses in the sample are summarised in Table I. As can be seen, the businesses had been in operation for varying periods of time, with one interviewed a month after it was formed, and, at the other end of the scale, a builder had been established for 44 years. Nearly one-third of the businesses employed no one besides the owner(s) and half of them employed one to four people. Many of the latter employed only one or two people and these were often part-time. The size of businesses by turnover indicates that many of the businesses are, in financial terms, very small. The vast majority of businesses were unincorporated, with 60 per cent operating as sole traders and nearly 33 per cent as partnerships.

Objective setting

Jennings and Beaver (1995) cite Schumpeter (1934) as identifying a dichotomous classification of entrepreneur and small business owner.

Table I.

The characteristics of
the micro-business in
the sample

Characteristics	Categories	Number	Percentages
Industry	Accounting	18	32.7
	Building	18	32.7
	Printing	19	34.5
Age of business (years)	0-5	21	38.2
	6-15	17	30.9
	16+	17	30.9
Number of employees (full-time equivalents)	0	18	32.7
	1-4	27	49.1
	5-9	10	18.2
Sales revenue (excluding VAT)	Up to £50,000	25	45.5
	£50,001-£100,000	15	27.3
	£100,001-£250,000	9	16.4
	£250,001-£500,000	5	9.1
	£500,001-£1 million	1	1.8
Legal status of business	Sole trader	33	60.0
	Partnership	18	32.7
	Company	4	7.3

Schumpeter argues that entrepreneurs seek business objectives such as profit and growth, whilst small business owners pursue personal goals. However, the idea that entrepreneurialism can be defined in terms of the objectives pursued by owner-managers is far too simplistic. Moreover, there are a number of definitions of entrepreneurialism (Hornaday, 1990, p. 28; Deakins, 1999, pp. 9-16), which in practice means that it is multi-dimensional in nature. For example, Thurik (1996) discusses:

...the Schumpeterian entrepreneur (doing new things), the craftsman entrepreneur (doing small things effectively), the growth entrepreneur (trying to do more things) or the lifestyle entrepreneur (maintaining doing things).

Furthermore, micro-business owner-managers in this research tended to cite a number of goals relating to both business and personal objectives. Therefore, it would be very difficult to classify owner-managers as being either entrepreneurs or small business managers, using the objectives they pursue as the criterion.

In Table II the micro-business owner-manager's objectives have been classified as economic, non-economic and business. The economic and non-economic objectives relate to personal rather than business objectives.

Personal objectives

Economic objectives

Personal economic objectives were the most frequently cited objective, with 84.5 per cent of owner-managers specifying such objectives. However, only three owner-managers referred to wanting to make a high or higher income, with the vast majority specifying a desire to make a "satisfactory living". A

	Accountants (n=19)	Builders (n=18)	Printers (n=21)	Total (n=58)	Objective setting in the micro- business
<i>Personal economic objectives</i>					
High or higher income	2	1	0	3	
Satisfactory income	15	17	12	44	
Money for luxuries	1	0	1	2	
Total number of owner-managers	18	18	13	49	
<i>Personal non-economic objectives</i>					
Job satisfaction	12	8	1	21	
Control	9	7	4	20	
Flexibility	4	0	0	4	
Reasonable hours	5	2	5	12	
Total number of owner-managers ^a	30	17	10	57	
<i>Business objectives</i>					
Profit maximisation	0	0	1	1	
Survival/break-even	0	0	4	4	
Maintain employment	0	1	2	3	
Establish business	1	1	0	2	
Growth	5	2	5	12	
Total number of owner-managers	6	4	12	22	

Note: ^aAccount is taken of the fact that micro-business owner-managers may cite more than one objective

Table II.
The main objectives
specified by micro-
business owner-
managers

typical comment from an accountant was, "I want to earn enough to live on and I want to earn enough to pay my bills . . ."

The majority of owner-managers who specified the need to make a satisfactory living often linked this to the needs of their family. Lafuente and Salas (1989) analysed work aspirations to identify four types of small business manager, including the "family oriented" type who is primarily concerned with family welfare. This appears to be a particularly strong characteristic of micro-business owner-managers in this sample. In the family business the overlap between family and business concerns has been emphasised (Longenecker *et al.*, 1994, pp. 138-9; Poutziouris and Chittenden, 1996, p. 13). However, this study indicates that it may also be important in other businesses where family members do not have a formal owner-management role.

A couple of owner-managers said that their objective was to make money to pay for "luxuries". Both these businesses were run by women and their incomes supplemented their husbands'. For example, one of them, a printer, said, "My husband keeps our house going. Anything I take home is a bonus." Again, the objectives of this business need to be placed in the context of the household and family.

Non-economic objectives

A large proportion of micro-business owner-managers (67.2 per cent) also specified non-economic objectives. The most frequently cited objective was job

satisfaction, specified by 36.2 per cent of owner-managers. For builders and accountants this was an important objective. This might be expected amongst builders with their craft background (see Stanworth and Curran, 1986; Tuck and Hamilton, 1993; Gallagher *et al.*, 1996). In support of this a number of builders described how they obtained a good deal of satisfaction from carrying out high quality work:

I'm one of the best builders around, I do a great job and I get job satisfaction. It's *not* about the money. I mean I like the money, but to me it's not about money. I get a lot of satisfaction, say, from building a house and that's why I do it. I mean, you know, I can stand back and think "I did that" and it's going to be there in 150 years' time.

The significance of job satisfaction was, however, more important to accountants, with 63.2 per cent specifying this as an objective, compared with 44.4 per cent of builders. Some insight is provided by this accountant, who describes why she obtains satisfaction from preparing accounts:

... I want to be able to help people. There's a lot of satisfaction from sorting people's accounts out, people's messes out. People are very appreciative and it's a good feeling when you get a set of accounts out at the end.

Another frequently specified objective was "control". This was cited by 34.5 per cent of owner-managers and was particularly important to accountants and builders. Jarvis *et al.* (1996) have commented on how control has different meanings for different people. This is supported by this research, where control was referred to in terms of the type of work carried out, ownership and decision making. For instance, one accountant said that her objective was:

Being in control. I know it sounds as if I'm domineering or something, but I don't look at it that way; I'm not that sort of person, but you can just make your own decisions. I can decide the type of work I want to do.

Similarly, another accountant commented, "I like to be responsible, I like to make the decisions. I'm responsible for whether I sink or swim and I like that." A builder who had been made redundant perceived control in terms of being in command of his own destiny, "The future is in my hands – it's up to me to get work. Nobody can just finish me."

Finally, four businesses (all accountants) said that flexibility was one of their objectives. The difference between flexibility and control might be regarded as minimal, and a reflection of the words chosen by the interviewee, rather than representing a substantial difference in meaning. Indeed, it is control that enables an owner-manager to have flexibility. However, control was often referred to in terms of the ability of the owner-manager to make his or her own decisions and be responsible for their own destiny. In a way it was a characteristic of somebody with an internal *locus* of control. In contrast, those using the word "flexibility" tended to relate it specifically to the ability to determine when and how many hours they worked. Not surprisingly, three of the four accountants citing flexibility as an objective were women who combined work with family commitments.

In reality of course, control and flexibility are not objectives that are easily achieved. As one builder said, "At the end of the day it is the market that has control, or more exactly the customer – it's they who have the power." Likewise, a printer said:

When you work for somebody, they tell you what to do. Well, when you actually own the business, your customers tell you what to do – there isn't all that much difference.

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Business objectives

As can be seen from Table II, only 37.9 per cent of micro-business owner-managers cited business objectives such as profit, break-even or growth. There were substantial sectoral differences in the propensity of owner-managers to specify business type objectives, with accountants and builders less inclined to cite such objectives (31.6 per cent and 22.2 per cent respectively) than printers (63.2 per cent). However, there was no evidence that micro-business owner-managers were utilising either business or personal objectives in a mutually exclusive way because of their lack of knowledge or familiarity with business terms. For example, owner-managers failing to specify business objectives were not instead referring to personal economic objectives. Nor was there any significant difference between the sub-sample citing business objectives and the remainder of micro-business owner-managers in terms of education, training or management experience.

Despite profit maximisation being regarded as the dominant economic theory (Hodgson, 1994) and the rational profit maximiser remaining the stereotype for the small business owner-manager (Stanworth and Curran, 1986, p. 87), only one business cited this as an objective. Nine owner-managers were concerned with issues such as survival, break-even, establishing their businesses and maintaining employment. All the businesses concerned with business survival or break-even were printers. It seems that circumstances were dictating any difficulties that were arising. For instance, one of the printers had problems emanating from the departure of his business partner, whilst another was having difficulty generating enough sales.

The most frequently mentioned business objective was growth, with the majority of owner-managers relating growth to increased sales revenue rather than employment. Nevertheless, growth was only specified by one-fifth of the owner managers in this research. The rationale for pursuing growth varied between businesses. In most instances, however, the growth objective resulted from circumstances rather than an intrinsic desire for growth. For example, two accountants wanted to retire in the near future and they wished to build up their practices, so that they obtained a better price when they sold them. Another accountant had moved premises and needed to grow the business in order to cover his higher overheads. Two printers were endeavouring to secure enough work for family members to enter their businesses. One of the printers had avoided growth but was now ready to expand the business:

We've held back strongly on growth so that we can maintain family life. But now the children have got older we can take the brakes off. So we're going to expand and bring the family in.

My wife is doing a degree and is going to take a more active role when it's completed and my sons are going into the business.

Again the family context can be seen to be important in the determination of micro-business objectives.

Nearly half of the micro-business owner-managers in this study articulated a no-growth objective. Likewise, Baines and Wheelock (1998) found that 38.5 per cent of their sample of micro-businesses explicitly rejected future growth. Lean (1998) in a study of micro-businesses found that motivation was important to the attainment of growth. Similarly, Gray (1992) and Keeble (1996) found a positive relationship between intention to grow and firm size.

Many owner-managers often specified that they had no desire for further growth once they had reached a certain size, or had a point to which they were willing to grow. This is exemplified by the comments of a printer who had two employees:

I'd like to grow to five or six [employees]. I should think that's the turning-point really, where up to then everybody's busy, but after that you have to start doubling up on people and then you get skivers and I'm not paying skivers.

Jarvis *et al.* (1996) also found in their study that firms specified an upper size limit in order to remain in control of their businesses.

A number of reasons have been advanced for small firms adopting a no-growth strategy. There are often concerns about the impact on the owner-manager's personal life (Bosworth and Jacobs, 1989) and its effect on job satisfaction (Scase and Goffee, 1980). A number of writers have linked the lack of desire for growth to artisan or craft type small businesses (e.g. Stanworth and Curran, 1986; Dodge and Robbins, 1992). There may be concerns about the need for larger premises, with higher overheads and greater financial risk (Jarvis *et al.*, 1996). There may also be a desire to remain under the VAT threshold (Hakim, 1989). Atkinson and Meager (1993) argue that making the transition from being a zero-employee business to employing people is a major change, as is the need to recruit the first non-owning manager. Foley (1989) found that maintaining control over the business was the main reason for adopting a no-growth strategy. Foley (1989) also made the point that owner-managers were often making a satisfactory living from their businesses, so there was no pressure to seek growth.

The findings of this research strongly support Foley's (1989) contention that firms adopt satisficing behaviour. Therefore, provided that owner-managers are obtaining a satisfactory living, they will feel under no pressure to pursue growth. McKenna and Oritt (1981, p. 21) have pointed out that "... it has been accepted as an article of faith that the growth of the enterprise is normal and desirable." This study, however, indicates that many micro-businesses do not feel compelled to pursue growth. A typical comment from a builder was "We're happy just to plod along, we're not ambitious really. We do very well just making a living." Where micro-business owner-managers do seek growth, we have already seen that it is often because of changing circumstances. Also, the

type of growth they are pursuing is generally fairly limited, with upper size limits often specified.

A number of writers have highlighted the risks involved in growth. Greiner (1972) emphasised that growth involves overcoming particular “crisis points”. In addition, Drummond (1996) illustrates the high risk, stress and financial sacrifice involved in adopting a high growth strategy, whilst McKenna and Oritt (1981, pp. 23-4) provide examples of the adverse consequences of growth. Moreover, Jarvis *et al.* (1996, p. 16) argue:

Increases in the size of a firm, whether described in terms of the number of employees or in terms of sales turnover, are seen as potentially creating instability in the firm’s operations.

The micro-business owner-managers in this research appeared to be well aware of the potential dangers of pursuing growth. For example, a printer described how another business found itself in trouble after trying to expand the business:

I know someone . . . someone with a business like this, this sort of business, and the son broke away and decided to start on his own. And he went full into it – vans, selling, the lot – and it was all right for perhaps 12 months or so, but then nobody paid him, all this money he laid out for people who were slow payers, non-payers, they were going bust left, right and centre and he became bankrupt and everything went.

Other owner-managers regarded growth as problematic:

Well, if you grow you get more problems – the bigger you are, the more problems you’ve got. (Printer)

The bigger it gets, the more headaches you’ve got. (Builder)

. . . you can do without the hassle and stress of a business that grows too much. (Builder)

The anticipation of problems was often related to labour. Employing people, especially if they were not family members or friends, was frequently regarded as risky – a perception that often originated from their previous experience:

At the beginning I wanted to grow but . . . employing staff is not easy nowadays. It’s become more and more of a problem and regulations have become more and more of a problem . . . [also] people are very difficult nowadays, I mean it’s unusual to find honest people, quite honestly. It is a problem, and we’ve had one or two nasty experiences and I suppose, as we’ve grown older, we’ve decided what’s the point of all this, what’s the point of having hassle with members of staff? – we get on quite well with the small team that we’ve got . . . (Printer with four employees)

The no-growth objective can also be linked to other objectives. A number of micro-business owner-managers talked about the desire to remain in control of their business and the fact that this could be jeopardised if they expanded. Other owner-managers said that they wished to work a given number of hours and expansion would entail working longer hours. There were a range of other issues that stopped owner-managers from pursuing growth. For example, a couple of accountants felt that expansion would entail moving premises, something they did not want to undertake; a builder wished to concentrate on building, whereas expansion would force him to adopt more of a managerial

role; and a printer did not like making people redundant, so he did not want to risk hiring people.

The formulation and articulation of objectives

The owner-managers in this study sometimes appeared to have no objectives at all. A good example is provided by a builder who responded to the question of whether he set objectives with the following answer, "No, not really. I live from day to day. You'll find a lot of builders do that – a lot like me."

A number of other builders reacted in a similar way to this question. Several accountants and printers also said that they had never thought about objectives and made comments such as "we just plod along", "we've never mapped out our life". Owner-managers who claimed not to set objectives explained their actions by making statements such as "I'm not very business-minded" or "I don't know what I'll be doing tomorrow, never mind next year". One accountant said that he did not want the pressure of business targets, whilst a printer stated that there was no point in setting objectives because "You can spend all day setting yourself objectives – what's the point? Objectives change daily – you've got to do just the best you can." However, this printer went on to say, "But we do have a turnover figure in our mind we have to do above which to break even, and we're striving all the time to better that." Therefore, whilst he claims not to set objectives, in practice he does.

Similarly, the builder quoted at the beginning of this section, who claimed not to have any objectives, when discussing pricing talked about wanting to earn £80 per day, but having to accept £70. Therefore, whilst this builder did not articulate any objectives to the specific question, they were present and were being formulated as he ran his business. March (1972) provides support for this, when he argues that people tend to discover goals as they operate, rather than formulating objectives prior to action. This seems to arise because the lack of planning in the micro-business negates the formalisation of objectives.

A lack of planning appears to be a feature of small businesses (Bosworth and Jacobs, 1989; Fann and Smeltzer, 1989; Waalewijn and Segaar, 1993; Hogarth-Scott *et al.*, 1996; Barclays Bank, 1996; Stone and Brush, 1996). Moreover, the smaller a firm, the less likely it is to plan and the detail involved is reduced (Atkins and Lowe, 1997). This is supported by this study, which found that very few micro-businesses produced written plans.

Another dimension to objective setting that is often discussed is the extent to which goals are quantified. According to Jennings and Beaver (1995), owner-managers are likely to pursue objectives that incorporate both quantitative and qualitative factors. The micro-business owner-managers that did refer to quantitative objectives generally referred to sales revenue or income targets. For example, one builder stated that he required £1,200 per month, which he equated to £10 per hour:

My wife buys food with her wage and I just pay the mortgage and bills. I need – I think it's getting on to about £700 a month. Now on top of that I'm meant to be putting away tax money and for things that might crop up, so I try to bring in £1,200 a month. [Therefore] I try

and make £300 a week, every week, if I can, so I break that down to £60 a day and break that down again – with a bit of running about between jobs I try and work it out as £10 an hour.

However, many of the micro-business owner-managers in this study appeared not to quantify their objectives. A typical response from a printer was that his objective was “Just to do as well as we can” whilst another printer said, his objective was to be profitable but, when he was asked how profitable that he replied, “I don’t really know.”

It would therefore seem that many owner-managers do not quantify their objectives. This would appear to add support to the contention that people tend to have ambiguous objectives (March, 1972, p. 420; 1988, p. 269; Rice and Hamilton, 1979, p. 9). However, in the same way that owner-managers often subconsciously set objectives, it seems that they may also quantify these objectives. For example, the builder referred to at the beginning of this section who seemingly had no objectives, said he currently aims for an income of £70 per day. Other owner-managers also prescribe objectives by setting hourly rates for themselves when they are costing and by specifying how many hours a week they wished to work. Therefore, owner-managers tend to have objectives, even if they are not always articulated, and it seems that they might also quantify their objectives, even when they do not always appear to do so. Furthermore, because objectives are not always articulated, or are incompletely evoked, owner-managers are likely to pursue more objectives than are indicated by this study.

The fact that owner-managers frequently pursue a number of diverse and often mutually exclusive goals inevitably results in the need to trade off specific objectives. According to Scase and Goffee (1987), many small business owners are proud of their craft or professional skills and wish to maintain high standards, even if it means sacrificing profits. This is illustrated by a builder who describes how he will never earn a high income because he wishes to undertake quality work:

It’s personal pride really. I just can’t do a bad job for some reason. My dad always used to say that a tradesman will never do well in business. People that do well in the building business are people like labourers who’ve just picked it up and they’re not bothered what the job’s like, they’re just interested in making money and they’ll make money. I know a few in the Preston area who are millionaires, they’re just not interested, they just do the job and that’s it. Somebody who’s been trained properly will do a good job and they can’t do any differently.

So you see yourself as a craftsman rather than a businessman?

Yes, that’s the big mistake.

This builder therefore regards his craft orientation as adversely affecting his ability to make more money, hence his feeling that it is a “mistake” to work the way he does. Similar comments are made by other builders who were reluctant to compromise on the quality of their work in order to improve the profitability of their businesses. Tuck and Hamilton (1993) contend that micro-businesses tend to be run by owner-operators, who regard themselves as artisans rather

than entrepreneurs or managers. As we have seen, there is also evidence of a similar outlook amongst many accountants in this sample.

Keasey and Watson (1993, p. 11) have argued that, because there is no divorce of ownership and control, the owner-managers of small businesses are able to trade off financial and non-financial objectives in order to pursue personally satisfying goals. However, whilst small businesses may not have shareholders to consider, this research suggests that other stakeholders, such as employees, customers and the owner-manager's family, have an important influence on the objectives of owner-managers. Therefore, the owner-managers of micro-businesses cannot simply pursue personally satisfying objectives.

The existence of responsibilities such as family and employees means that certain minimum objectives have to be met before others can be considered. In the example provided above, the builder may wish to pursue job satisfaction by producing high quality work, but he still has a responsibility to make a particular level of income. Likewise, a certain level of sales volume may be required to maintain employment. After such key minimum objectives have been achieved, other objectives can then be considered.

An important aspect of pursuing multiple objectives, where compromise is necessary, is that maximising behaviour is not possible. Therefore, individuals have to accept satisfactory objectives, if they are to reconcile conflicting objectives. Simon (1959, p. 264) argued that "There is some empirical evidence that business goals are in fact stated in satisficing terms." This is supported by this study, particularly in relation to income, where the majority of micro-business owner-managers said that they wished to make a "satisfactory" income.

Simon also argued that satisficing behaviour involves the setting of minimum objectives, which are adjusted according to how difficult they are to fulfil (Simon, 1955; 1959; 1979). The concept of objectives being changed in the light of experience has been advanced by other writers (for example, March, 1987; Kahneman and Snell, 1990); with Simon (1979, p. 503) writing "... as psychological inquiry has shown, aspiration levels are not static, but tend to rise and fall in consonance with changing experiences."

There was evidence that micro-business owner-managers changed their objectives. For example, nearly half the micro-business owner-managers had altered their objectives since start-up. This was demonstrated by a chartered accountant who found that his experiences of self-employment had forced him to have less ambitious objectives. He commented, "My ambitions have been trimmed back." Likewise a printer said, "I think everybody starts off thinking that they're going to make a fortune. Now it's a case of just paying the bills and getting out wages."

On the other hand, an accountant had started up wishing to achieve nothing more than business survival. However, after being successful and moving into new premises, objectives such as growth, job satisfaction and control are part of his vocabulary. Similarly, a builder had upgraded his objectives:

At first [my objective was] just to make a wage. I had just got married but I had no children. I'd now like to have a business I can pass on to my children – if they want to go into building, if they want to, it's there.

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Again, the importance of the family is illustrated.

Are micro-businesses successful?

Measures of success are generally defined in accounting terms (i.e. sales, profit, cash flow, etc.) or quantitative measures of employment growth (Jennings and Beaver, 1995; 1997). For example, Chell *et al.* (1991, p. 63) discuss the failure of firms to grow in terms of “arrested development” and Kirby and King (1997, p. 294) discuss the “failure” of new firms to grow. However, Stanworth and Gray (1991) argue that most firms never grow beyond micro-business size. Moreover, because owner-managers do not have the desire to expand, growth is highly unlikely (Perren, 1996; Orser and Hogarth-Scott, 1996; Lean, 1998). It can therefore be argued that there is a need to escape what Watson (1995, p. 35) refers to as the “evolutionist strait-jacket”.

Keasey and Watson (1993) contend that small firms cannot be judged in terms of traditional economic measures of success, because they also have non-economic objectives. This is backed by the findings of this study, where micro-business owner-managers have demonstrated a willingness to sacrifice financial success in order to meet non-economic objectives. Therefore, more flexible definitions of success need to be applied to small businesses (Jennings and Beaver, 1995).

The majority of micro-businesses in this sample would not be regarded as especially successful, if judged against traditional performance criteria such as employment growth and profitability. However, Table III indicates that most of those interviewed – at least 81 per cent – were satisfied with running their own business. This is similar to the findings of a Belgian study of small businesses by Donckels and Dupont (1987), who found that 74 per cent of their sample were either “fully” or “rather” satisfied. Bryson and White (1997) also found the self-employed were more satisfied than employees. Other studies have shown that the self-employed often prefer this type of employment to employee status (for example, Rainbird, 1991; Granger *et al.*, 1995; Nisbet, 1997). Indeed, a

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Satisfaction level	Accountants		Builders		Printers		Total	
	No.	%	No.	%	No.	%	No.	%
Very satisfied	8	42.1	4	22.2	5	23.8	17	29.3
Satisfied	8	42.1	10	55.6	12	57.1	30	51.7
Dissatisfied	3	15.8	3	16.7	2	9.5	8	13.8
Very dissatisfied	0	–	1	5.6	1	4.8	2	3.4
Don't know	0	–	0	–	1	4.8	1	1.7
Total ^a	19	100.0	18	100.1	21	100.0	58	99.9

Note: ^a Totals do not always sum to 100 due to rounding.

Table III.
The level of
satisfaction amongst
micro-business owner-
managers

number of owner-managers in this research commented on how self-employment was preferable to employed status.

However, the results of this, and other studies, have to be interpreted carefully because interviewees may feel that they need to justify their decision to become self-employed (Loomes and Sugden, 1982). Moreover, owner-managers in this research indicated a readiness to alter their objectives if they were failing to meet them. As Simon (1955) argues, the implication of this is that objectives will invariably be achieved.

The changing of aspiration levels reduces cognitive dissonance and enables satisfaction to be maintained. However, it can also be argued that such an approach means that the opportunity to improve business performance is not addressed. The overwhelming impression given by the owner-managers in this research was that they were not proactive. This meant that they did not look ahead and initiate plans. Moreover, an examination of what they said reveals that in many ways they did not even react to external changes when they occurred. Instead, they tended to alter their objectives. For example, one builder had responded to a decline in sales by cancelling the family holiday – he had not attempted to respond to the decline by attempting to increase sales. This largely emanates from a feeling amongst micro-business owner-managers that they have no control over the environment within which they operate. A typical comment from a printer was “We’re all in the hands of fate, aren’t we? Business can take off or it can go the opposite way.” Similarly, a builder stated, “Over the next five years it will be just a case of seeing what way the economy goes . . .” It could be argued that many of these micro-businesses are simply relying on an environment that remains compatible with what they are producing to ensure that they continue to meet their aspiration levels. When circumstances mean that they do not meet their aspiration levels, they often react by downgrading their objectives.

A contextual model of objective setting

As already stated, the research for this paper initially involved questioning owner-managers about how they made decisions relating to business start-up, marketing and the employment of labour. An analysis of their responses revealed that decision making by micro-business owner-managers was extremely complex and resulted from the interaction of their individual, social and economic contexts (see, for example, Greenbank, 1999). This contextual model can also be used to help understand how objectives are formulated (see Figure 1).

The social context relates to the fact that individuals operate within a social structure that has influenced them both in the past and in their current situation. Therefore, factors such as education, employment, family, membership of organisations (e.g. professional and trade associations), networks of friends and associates – all influence micro-business owner-managers (see Schutz, 1970; Abelson, 1976; Simon, 1979; Hindess, 1988; Weale, 1992; Hargreaves Heap, 1992; Jones, 1995; Hodgson, 1997). This social structure

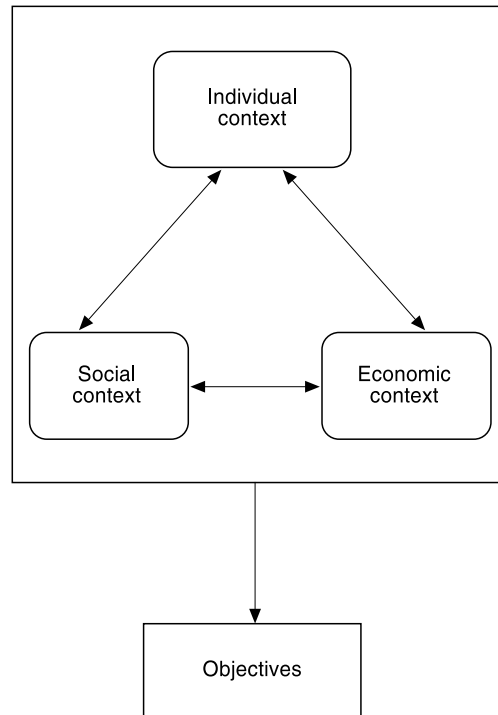


Figure 1.
A contextual model of
objective setting

helps to form values, perceptual frameworks and expectations – which in turn influence the owner-manager's objectives. For example, the influence of professional or trade associations and previous work experience can engender a craft or professional ethos that results in owner-managers carrying out quality work in order to achieve the objective of job satisfaction. In this research, accountants and builders were seen to pursue such objectives. The owner-manager's position in an organisation prior to running their own business can also be influential in determining their financial aspiration levels. Similarly, friends, family, business associates, education and training all influence the objectives an individual pursues and their aspiration levels.

The individual context relates to inherited and learned behaviour, abilities, perceptions and beliefs. As discussed, owner-managers in this study frequently exhibited a reluctance to take risks, which resulted in a "no-growth" objective. A lack of confidence in their own ability to effectively grow their businesses was an important influence. Other owner-managers believed high risk to be an inherent factor in growth strategies, a perception that was often subconsciously adopted from observing the experiences of other owner-managers. This indicates that an owner-manager's individual context is influenced by their social context. For example, a lack of confidence to pursue growth may result from their social background, their lack of education or the absence of role models.

Individuals are not, however, merely social actors whose actions are determined solely by their social environment. Hindess (1988, p. 112), for example, rejects the idea of “structural determinism” because it supposes that a person has no control over their actions:

... the techniques and forms of thought employed by actors are not uniquely determined by their social location. What is available to an actor may not be used and some of the limitations on what is available may be changed – for example, through education or specialized training. Nevertheless, what could be employed by an actor at any given time is never entirely a matter of choice and where there is an element of choice, that will be structured by the forms of thought available to that actor.

Therefore, an owner-manager’s individual and social contexts interact to influence the objective they pursue.

Also influential to an individual’s objective-setting process is their economic context. The economic desires and needs of the micro-business owner-manager (in relation to both their business and their domestic situation) are an important factor determining their objectives. Whilst the rational profit maximiser remains the popular stereotype for the small business owner-manager (Stanworth and Curran, 1986, p. 87), this and other research have questioned the assumption that they aim to maximise profit (e.g. Keasey and Watson, 1993; Jennings and Beaver, 1995; Goffee and Scase, 1995). Moreover, the results from this research suggest that micro-business owner-managers are more likely to adopt satisficing behaviour, with aspiration levels being determined by the owner-manager’s individual and social contexts, as well as their financial needs.

Therefore, the individual, social and economic contexts all interact on one another to influence the objectives of micro-business owner-managers. The implication of this model is that each owner-manager operates within a different combination of contexts, the result being that the basis of their objective setting will be unique to them. In order to attempt to understand an owner-manager’s objectives it is therefore necessary to examine the individual, social and economic context of their decision making.

Conclusions

An initial examination of the interview transcripts suggested that objectives were not always set and, where they were, they were often not very precise. However, a closer analysis, particularly of questions relating to decision making rather than directly to objective setting, revealed that owner-managers often did have objectives and they were frequently quantified. The apparent lack of instrumental rationality appeared to manifest itself because of the absence of formalised planning and the fact that owner-managers often did not perceive the way they set aspiration levels as “objective setting” in a business sense. This is a significant finding, because it means that consultants, advisers, and others involved with micro-businesses should attempt to discover and clarify what the objectives of micro-business owner-managers are, especially if they appear to operate with few clear objectives, or even without any objectives at all.

Micro-business owner-managers often pursued a number of diverse objectives. In the main, they tended to relate to personal rather than business criteria, and often involved both economic and non-economic objectives. The most frequently cited objective was to earn a “satisfactory income” with non-economic goals, such as job satisfaction and control, also often specified. Many owner-managers cited a “no-growth” objective and profit maximisation was not an important goal. Because owner-managers pursued multiple objectives, there was a need to trade off goals. However, certain objectives were given priority. For example, the desire to earn a satisfactory living was often an important objective, particularly for owner-managers with family responsibilities. The needs of the family tended to dictate the amount of income to which the owner-manager aspired. Nevertheless, such aspiration levels were flexible and owner-managers were willing to adjust their objectives in order to remain satisfied with running their own business. This willingness to adjust their aspiration levels meant that many owner-managers were not very proactive in initiating change. This is important because it was a major factor contributing to the inertia of many micro-businesses.

The majority of micro-business owner-managers, however, remain satisfied with running their own business. It could be argued that this arises because of their limited and flexible aspiration levels. The fact that running their own business provides owner-managers with a satisfactory income for their family and also enables them to meet other non-economic objectives should not be devalued. Indeed, the context for objective setting is influential. For example, owner-managers frequently have personal values that do not encourage them to pursue objectives such as profit maximisation and growth; also their experience (and their observation of others) may have taught them to be risk averse. Whilst such factors may mean that their businesses operate at sub-optimal levels in terms of profit and growth, this is not the criterion by which owner-managers themselves judge their own success. There may, nevertheless, be instances where owner-managers can improve the way they run their businesses, not just to enhance economic performance, but to meet other non-economic objectives. Moreover, the act of altering aspiration levels to avoid cognitive dissonance may at times only provide a short-term solution that fails to solve more fundamental problems. If these are not addressed, the longer-term consequence may be business failure.

Whilst research elsewhere has indicated that owner-managers pursue other objectives to profit and growth (e.g. Stanworth and Gray, 1991; Baines and Wheelock, 1998), less emphasis has been placed on the fact that owner-managers tend to exhibit satisficing behaviour and alter their aspiration levels in the light of experience. As discussed above, this is particularly significant in helping consultants, advisers, and others involved with micro-businesses to understand why the owner-managers of such businesses often appear to lack the drive to initiate change, even in the face of declining sales and profitability. Moreover, reference to the context (individual, social and economic) within which owner-managers formulate their objectives helps those working with

micro-businesses to understand how aspiration levels are framed. It is obviously difficult to fully understand the objectives of owner-managers because of the number of variables involved and the inter-related nature of these variables. However, those working with micro-businesses would benefit from examining the context within which owner-managers make decisions.

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