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Small business strategic management practices and performance: A configurational approach

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\textbf{ABSTRACT}

Small businesses contribute to society on many fronts: job creation, tax revenues, functional products and services, charitable donations, technological developments, and social contributions to communities. Given these contributions, and small firms’ limited resources, it is important to understand what strategic management practices (SMPs) – activities engaged to develop and implement strategy – positively impact small firm performance. Small business leaders may apply various combinations of SMPs to achieve performance objectives. Here, we apply Fuzzy set Qualitative Comparative Analysis (fsQCA) to explore how various combinations of six different SMPs – entrepreneurial orientation (EO), strategic planning, goal setting, total quality management (TQM), social capital, and small business owners’ analysis of financial ratios – affect performance. From a sample of U.S. printing companies, we found four different configurations of SMPs related to higher small business performance.

\textbf{1. Introduction}

In 2018, small businesses accounted for 99.9\% of U.S. firms, employed 47.5\% of all U.S. workers, generated 1.9 million net new jobs, and represented 287,835 exporters (Small Business Administration, 2019). Because small businesses generate jobs, tax revenues, functional products, charitable donations, technological developments, and social contributions to communities (Chaganti, Brush, Haksever, & Cook, 2015; Halabi, Barrett, & Dyt, 2010; Hettihewa & Wright, 2018; Peake, Harris, McDowell, & Davis, 2015; Pinho & de Sá, 2013; Sharir & Lerner, 2006; Thompson, Smith, & Hood, 1993), their success and sustainability is important to societal and economic development. Yet, as small firm leaders strive to lead their firms to sustain and succeed (Dunne, Aaron, McDowell, Urban, & Geho, 2016; Pustovrh, Jaklič, Martin, & Rašković, 2017), they often lack a deep management team to whom they can delegate...
tasks related to strategy development and execution, which we refer to as strategic management practices (SMPs) (Williams Jr., Manley, Aaron, & Daniel, 2018a). In addition, small business leaders’ heavy involvement in day-to-day operations further constrains the time they have for SMPs (Williams, Manley, Aaron, & Daniel, 2018b). Given the time and resource constraints small business leaders face, in order to position and maintain their firms on a path towards endurance and prosperity, it is important they choose the most effective combination of strategic management practices (SMPs).

In this context, it is important to expand knowledge of which SMPs positively affect small firm performance. Multiple studies have explored the impact of various SMPs on small business performance, including strategic planning (Damke, Gimenez, & Damke, 2018; Kraus, Harms, & Schwarz, 2006; Sandada, Pooe, & Dhurup, 2014), goal setting (Aurelia, Cardonib, Baldoc, & Lombardid, 2018; Owens, Kirwan, Lounsbury, Levy, & Gibson, 2013), financial ratio analysis (Ashhari & Faizal, 2018; Thomas & Evanson, 1987), total quality management (TQM) (Chiarini, 2019; O’Neill, Sohal, & Teng, 2016), social capital (Hernandez-Carrion, Camarero-Izquierdo, & Gutierrez-Cillan, 2017; Stam, Arzlanian, & Elfring, 2014), and entrepreneurial orientation (EO) (Liguori, Bendickson, & McDowell, 2018; Wiklund & Shepherd, 2005)

However, small business leaders often simultaneously apply multiple SMPs to enhance their firms’ performance. As such, there is a plethora of potential SMP combinations that small business leaders might utilize. Therefore, this question surfaces: which of the possible combinations of SMPs best enhances small business performance? To date, few studies have explored the effectiveness of potential SMP combinations in small business (as an exception see Williams et al., 2018a, b)

In this study, we apply Fuzzy set Qualitative Comparative Analysis (fsQCA) to explore the relationships between small business performance and various combinations of six SMPs: strategic planning, goal setting, financial ratios analysis, TQM, social capital, and entrepreneurial orientation. By observing combinations of variables – rather than examining variables in isolation – fsQCA facilitates the study of multiple configurations in intricate detail (Fiss, 2011), making this method particularly applicable to the present study. We make two main contributions. First, we provide useful insights for both researchers and practitioners as they consider what combinations of SMPs merit attention and effort. Second, we present a way to examine small business management practices more holistically, as a set of activities by applying a recently-expanding methodological approach, fsQCA, to small business study. Three sections follow: a description of the SMPs explored in the present study, a review of the methods employed and our results, and a closing discussion.

2. Descriptions of the SMPs explored

From past our practitioner experience and academic research, we considered multiple potential SMPs, and after an exploratory review of the literature, we selected the six SMPs applied in this study. The six SMPs are discussed below.
2.1. Strategic planning

Since 1990, studies exploring the relationship between strategic planning and performance have produced mixed results (Falshaw, Glaister, & Tatoglu, 2006; Harris, Gibson, & McDowell, 2014; Valčić & Bagarić, 2017). Consequently, researchers have recently focused on what factors may affect the relationship between strategic planning and performance. For example, research found a positive relationship between strategic planning and performance was lacking unless employee strategic alignment was present (Ouakouak & Ouedraogo, 2013) or firms incorporated flexibility in decision making (Rudd, Greenley, Beatson, & Lings, 2008). Similarly, research suggests a firm’s stage in development may affect strategic planning’s effect on performance; the effect was stronger in young firms (Sarason & Tegarden, 2003).

Other constructs may account for the inconsistency found in research between strategic planning and firm performance. For example, strategic planning benefits may not transpire immediately, requiring longitudinal analysis (Brinkmann, Grichnik, & Kapsa, 2010; Ensley, Carland, & Carland, 2003). In addition, researchers typically assume that all strategic plans are good plans (Pearce, Freeman, & Robinson, 1987; Simon & Kim, 2017); however, not all leaders have the skills necessary to plan strategically (Ensley et al., 2003; Heriot & Loughman, 2009). Furthermore, for a good strategic plan to be effective, leaders must execute the plan well, which may not always occur (Bregman, 2017; Mintzberg, 1987; Zagotta & Robinson, 2002). Additionally, causality between planning and performance is not clear. Does planning enhance performance or does good performance provide resources that allow leaders to engage in strategic planning (Gibson & Cassar, 2005; Schwenk & Shrader, 1993)?

Related to small business, Sandada, Pooe, and Dhurup (2014) found a relationship between strategic planning and performance among firms in South Africa’s dynamic economic environment. Further, Kraus, Harms, and Schwarz (2006) found formal strategic planning formalization had a positive relationship with small firm growth in Austria, but the authors did not find a solid connection between strategic planning and small business financial performance.

2.2. Goal setting

With more than a thousand studies conducted over the past four decades, researchers have extensively explored goal setting’s effect on performance at organizational, group, and individual levels (Seijts & Latham, 2012). At every level, evidence suggests a positive relationship – goal setting leads to better performance (Johnson et al., 2018; Lee, Locke & Latham, 1989; Locke & Latham, 1984; Mitchell & Silver, 1990; Van der Hoek, Groeneveld, & Kuipers, 2018). Locke and Latham (2002) suggest goals affect performance through four mechanisms: providing direction, energizing, prompting persistence, and “affect[ing] action indirectly by leading to the arousal, discovery, and/or use of task-related knowledge and strategies” (Wood & Locke, 1990, p. 707). Research has consistently shown specific and difficult goals yield greater motivation and better performance than vague, easy goals (Kleingeld, Mierlo,
Past research posits a linear relationship between goal difficulty and performance, a trajectory that crumbles only when the goal’s achievement is perceived impossible (Latham & Steele, 1983; Locke & Latham, 2002).

As “planning implies the specification of goals and fosters the identification of effective steps to achieve these goals” (Brinkmann et al., 2010, p. 27), the inexorable link between goal setting and strategic planning is also well-established in the literature. Quinn (1977) states, “Effective strategic goals do more than provide a basis for direction setting and performance measurement. They are essential to establishing and maintaining freedom, morale, and timely problem sensing in an enterprise” (p. 29). Quinn’s remarks are consistent with studies showing that goal setting improves strategy implementation, increases decision-making speed, and enhances efficiency (Brinkmann et al., 2010; Chesney & Locke, 1991; Kownatzki, Walter, Floyd, & Lechner, 2013). Finally, small business research indicates a connection between owner-managers having a goal-setting orientation as a personality trait and firm performance (Owens et al., 2013).

2.3. Financial ratio analysis

Financial ratio analysis involves examining financial results as multiples or proportions, which may reveal more information than available from income statements, balance sheets, and cash-flow statements (Delen, Kuzey, & Uyar, 2013; Thomas & Evanson, 1987). Examples of important financial ratios include: gross margin to sales, net profit to sales, net profit to inventory, inventory turnover, current assets to current liabilities, net sales to inventory, total liabilities to net worth, return on assets, return on equity, return on investment, days in accounts receivable, and days in accounts payable (Delen et al., 2013; Edmister, 1972; Isberg, 1998; Thomas & Evanson, 1987). Business managers can use ratio analysis to gain a better grasp of leverage, liquidity, operating efficiency, returns, and profitability (Isberg, 1998; Liang, Lu, Tsai, & Shih, 2016).

By signaling the need for change, accounting data may aid business leaders in making strategic decisions (Delen et al., 2013; Thomas & Evanson, 1987). Financial ratios supplement accounting data drawn from financial statements, enhancing leaders’ ability to base decisions on numerical assessments rather than subjective evaluations of what operational and strategic areas merit immediate attention (Delen et al., 2013). Financial ratio analysis assists small business leaders in seeing where the business has been, where it is now, and where it is going (Patrone, 1981; Williams et al., 2018a). Further, the use of financial ratio analysis enables evaluation of decision outcomes, developing strategies and related performance targets in quantifiable manner, and evaluating the returns of capital investments (Isberg, 1998). Given this overview, one would expect a positive relationship between financial ratio analysis and small business performance. However, research findings are mixed in regard to this relationship, (e.g., Esparza-Aguilar, García-Pérez-de-Lema, & Duréndez, 2016; McMahon, 2001; Thomas & Evanson, 1987).
2.4. Total quality management

Total quality management (TQM) is a structured approach to organization management, a company-wide effort focused on continuously improving quality. The focus of TQM is to improve the quality of an organization's outputs – its goods and services – through continuous improvement of internal practices (Douglas & Judge, 2001). TQM includes seven facets: top-management team involvement, quality philosophy, emphasis on quality-oriented training, customer driven, continuous improvement, management by facts, and total quality methods (Douglas & Judge, 2001). Multiple studies have found evidence of a positive relationship between TQM and small business performance (e.g., Martínez-Costa & Jiménez-Jiménez, 2009; Reid, 1999; Watson, Kober, Ng, & Subramaniam, 2003). Indeed, applying a longitudinal approach, Stam, Arzlanian, and Elfring (2014) demonstrated that small firms engaging a TQM-related orientation had a significant financial performance advantage over firms that did not.

2.5. Social Capital

Social capital embodies goodwill produced by social relations, which can be utilized to create economic value or competitive advantage (Adler & Kwon, 2002). Examples of activities that generate social capital include: supporting a community environmental effort, seeking strong supplier relationships to reduce monitoring costs, participating in community charity drives to extend the list of possible investors, and supporting an industry association to gain tacit knowledge on how other firms prosper (Carrasco & Buendía-Martínez, 2016).

Networks, relationships, and alliances are critical to small businesses in the context of marketing, funding, strategic decision making, and sustainability (Bosma, Van Praag, Thurik, & De Wit, 2004; Hernandez-Carrion et al., 2017; Petrou & Daskalopoulou, 2015; Torres, Marshall, & Sydnor, 2019). Small business owners often cannot rely on the deep pockets of investors or the expertise of a board of directors to guide them formally. Access to these resources and knowledge are typically more informal and organic in nature, such as professional networking relationships. Small business owners who are more adept at forming, cultivating, and maintaining these relationships will find themselves better equipped to reap the long-term rewards of interacting with their industry and community. Supporting these potential benefits of small business engagement in social capital activities, a meta-analysis found a positive link between the extent of owner-manager personal networks and small business performance (Stam et al, 2014).

2.6. Entrepreneurial orientation (EO)

EO differs from entrepreneurship. Whereas entrepreneurship is new entry, which may occur through new business, market, product, or process; EO represents behaviors associated with the extent to which firms employ an entrepreneurial ethos (Lumpkin & Dess, 1996). Quoting the Merriam-Webster definition of orientation: “a usually general or lasting direction of thought, inclination, or interest” (p. 857),
Covin and Lumpkin (2011) point to the word “lasting”. EO is a sustained set of entrepreneurial behaviors, not a short-term tactic. Therefore, EO reflects a strategic mindset and organizational culture that facilitates a firm’s entrepreneurial disposition (Hughes & Morgan, 2007; Wiklund & Shepherd, 2003, 2005).

Lumpkin and Dess (1996) proposed five EO dimensions: autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness. Autonomy reflects the freedom individuals in a firm have to think creatively, make decisions, and champion ideas. Innovativeness points to a firm’s willingness to engage new ideas, embrace creativity and experimentation, and seek new products, services, or processes. Risk taking is a firm’s willingness to accept uncertainty and make resource commitments in the context of risk. Firms that demonstrate a forward-looking, first-mover approach reflect the proactiveness dimension. Competitive aggressiveness refers specifically to how a firm approaches its competitors. Multiple studies found a positive relationship between EO and small firm performance (e.g., Baker & Sinkula, 2009; Kajalo & Lindblom, 2015; Runyan, Droge, & Swinney, 2008; Wiklund & Shepherd, 2005).

2.7. A configurational approach to strategic management practices

Strategic management literature points to how organizational outcomes may arise from a combination of causes. For instance, typologies demonstrate how strategic management content (Porter, 1980) and processes (Miles & Snow, 1978; Mintzberg, 1987) relate to firm outcomes (e.g., DeSarbo, Anthony Di Benedetto, Song, & Sinha, 2005; Kabanoff & Brown, 2008; Meyer, Tsui, & Hinings, 1993). Further, small businesses may configurationally embed SMPs in a complementary manner within an organization (Misangyi, Greckhamer, Furnari, Fiss, Crilly, & Aguilera, 2017). In other words, in driving firm performance, SMPs act in concert and not in isolation. Due to alternative pathways that involve different sets of features, particular SMPs conducive to performance in some firms may not enhance performance in other firms, which boosts the number of potential combinations or configurations. Weaknesses in certain areas may not necessarily impede performance because SMPs in multiple other areas may neutralize such weaknesses, providing an alternative pathway for success (Fiss, 2011).

Therefore, we suggest that (1) there are several possible configurations of SMPs that may result in strong small firm performance; (2) configurations that achieve strong small firm performance, related to the combination of SMPs, differ across firms; and (3) SMPs form configurations, which coalesce to affect performance. Therefore, in this research we seek to address these questions: Do multiple configurations of SMPs exists that relate to high small business high performance? And if so, what are they? To formalize this effort, we put forth the following hypothesis:

Firm performance is related to configurations of strategic planning, goal setting, financial ratio analysis, TQM, social capital, and entrepreneurial orientation, such that these elements within the firm context configure in multiple, equifinal ways to foster higher performance.
3. Methods

3.1. Sample and measures applied

The sample for this study consists of data obtained from members of a national trade association, Printing Industries of American (PIA). Printing companies are a very suitable sample for this study for three reasons. First, most printing firms are small businesses. Second, due to recent advances in technology, printing companies offer a wide range of products and services, most of which are unique to each firm; thus, printing companies are quite diverse. Third, there is wide variation in performance among PIA member firms; 25% of PIA member firms earn a net profit of 10% of revenue or greater, with the remaining 75% operating at or just below breakeven.1. We surveyed 3,238 company executives, at or above the vice-president level. We received 231 usable responses, a 7.13% response rate. The firms in our sample averaged 44 full-time employees and sales of $9,347,189.

Validated survey items were adapted from earlier research to assess strategic planning (Eddleston, Kellermanns, & Sarathy, 2008; Kellermanns & Eddleston, 2006), goal setting (Powell, 1992; Robinson & Pearce, 1983), the use of financial ratio analysis (McMahon & Davies, 1994; Thomas & Evanson, 1987), TQM (Douglas & Judge, 2001), social capital (Zahra, 2010), and EO (Covin & Wales, 2012; Hughes & Morgan, 2007; Lumpkin & Dess, 1996). We also included a measure for firm size that combined both sales and employment levels.

For firm performance, the outcome, we used subjective self-reported measures, which are typically highly correlated with objective archival data (Honig & Samuelsson, 2012; Shepherd & Wiklund, 2009). Respondents used a 7-point Likert scale to assess their firms’ performance relative to their competitors in eight areas: growth in sales, profitability, market share, and number of employees, as well as ROE, ROA, net profit, and their ability to fund growth. Cronbach’s Alpha for firm performance was 0.933.

3.2. Fuzzy-Set analysis

Recently, management scholars have expressed reservations over dependency on linear approaches (e.g., Fiss, 2007, 2011; Grandori & Furnari, 2008; Pierce & Aguinis, 2013). Such dependency can lead to inappropriate net-effect approaches to theory-building, sometimes making another approach (e.g., set-theoretic methods) more suitable (Delbridge & Fiss, 2013). Linear approaches have the advantage of revealing which variables influence a given outcome, on average, but in situations where several variables operate in concert or there are multiple solutions to achieving a given firm outcome, this can produce an incomplete story. Such situations are often the case in organizational settings (Siggelkow & Rivkin, 2005). By observing configurations of variables rather than variables in isolation, Fuzzy set Qualitative Comparative Analysis (fsQCA) allows for the examination of cases in more intricate detail (Fiss, 2011). Researchers have fsQCA in strategy-related research (e.g., Felicio, Rodrigues, & Samagaio, 2016; Gonzalez, Rodriguez, & Sossa, 2017). Given the potentially complex relationships between SMPs (King & Zeithaml, 2001), fsQCA is appropriate for this
study. Furthermore, fsQCA allows for multiple solutions, which is consistent with the premise of this study: multiple combinations of SMPs are related to strong small firm performance. The logic here is that more than one combination of the causal conditions are likely to create pathways to high levels of performance.

We adhere to the fsQCA methodological practices laid out in prior research (e.g., Fiss, 2011; Ragin, 2008). Before running fsQCA, we calibrated the raw data into membership scores between 0 and 1, where 0 indicates complete non-membership, and 1 indicates complete membership in a set. A calibration of 0.5 specifies a crossover point between the presence or the absence of a condition. We use the “direct method” (Ragin, 2008) to calibrate the data, applying three anchors: a threshold for complete membership, one for complete non-membership, and one for the crossover point. In line with Fiss (2011), we use the 75th percentile, 25th percentile, and the mean as the full membership, full non-membership, and crossover points, respectively.

After calibration, we selected an appropriate consistency threshold, the minimum degree of membership for an outcome’s inclusion in a configuration solution. We used 0.80 as the raw consistency threshold (e.g., Bell, Filatotchev, & Aguilera, 2014), and 0.70 as the PRI consistency threshold, meaning that a configuration must meet both criteria.² For inclusion in the analysis, we also specified the minimum number of cases that a configuration should represent. We stipulated a minimum frequency of two, allowing only cases with at least two representative firms included in the analysis. This prevents one-time occurrences reflecting idiosyncratic characteristics from being identified as normative, a path not actually based on a combination of the six SMPs. This helps eliminate any outliers.

4. Results

Before proceeding to Sufficiency Analyses, when using fsQCA it is important to conduct a Necessity Analysis to examine whether any of the causal conditions are necessary for high relative performance. This test measures the extent to which the outcome is a subset of the seven causal conditions – that is, if a given strategic practice or particular firm size must be in place to produce high relative performance (Ragin, 2006). If the consistency value exceeds 0.90, a causal condition is said to be “almost always necessary” for a given outcome, (Schneider & Wagemann, 2012). Results indicate that neither the presence nor the absence of any of the seven causal conditions is necessary for achieving high relative performance.

We then performed a Sufficiency Analysis (Ragin, 2008) to identify the combinations of SMPs that lead to high relative performance. Results are presented in Figure 1 below. We use the intermediate solution because it is most applicable when theory suggests directionality in the relationship(s) between the causal conditions and outcome. We specify the presence of the six SMPs as “should be” associated with high relative performance. For firm size, no relationship is specified. We also utilize the parsimonious solution to distinguish core from peripheral conditions. For core conditions, there is a strong set relationship between these conditions and the outcome that is highly unlikely to be reduced in the face of additional information.
Results yield four primary configurations that are sufficient for the presence of high-born global formation rates, an overall 0.48 level of coverage and a 0.82 level of consistency. These fit statistics indicate that the configurations account for, or “cover,” 48% of membership in the outcome and lead to the outcome 82% of the time they are in place.

The three variations of Configuration 1 constitute the most common combination of SMPs for achieving high performance. Configurations C1a, C1b and C1c are very closely related to one another and contain the same core SMPs: goal setting, TQM practices, and financial ratios. These three SMPs form the heart of the solutions; however, an additional SMP is needed to supplement them. In C1a, which consists of larger firms, that SMP is strategic planning. In C1b, which consists of smaller firms, that SMP is social capital, and in C1c, also consisting of small firms, that SMP is EO. These nuanced variations of Configuration 1 are important for two reasons. First, within Configuration 1, there are alternative channels for large and small firms to achieve high performance. Second, for small firms, there are degrees of freedom; firms have two pathways for achieving high relative performance. They do not have to stick with one.

Configuration 2, for smaller firms, has many similarities with Configuration 1. Again, goal setting and the use of financial ratios are core conditions. This time, however, EO substitutes for TQM practices. Configuration 3 has some substantial differences. Here, the presence of social capital and EO combined with the absence of TQM practices in smaller firms leads to high performance. Finally, Configuration 4 specifies the presence of goal setting, strategic planning, TQM practices, and EO

<table>
<thead>
<tr>
<th>Causal Conditions</th>
<th>C1a</th>
<th>C1b</th>
<th>C1c</th>
<th>C2</th>
<th>C3</th>
<th>C4</th>
</tr>
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<tbody>
<tr>
<td>Goal Setting</td>
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<tr>
<td>Strategic Planning</td>
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<tr>
<td>TQM Practices</td>
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<tr>
<td>Financial Ratios</td>
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<td>●</td>
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<tr>
<td>Social Capital</td>
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<tr>
<td>Entrepreneurial Orientation</td>
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<td>●</td>
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</tr>
</tbody>
</table>

**Firm Size**

| Raw Coverage | 0.18 | 0.18 | 0.18 | 0.19 | 0.17 | 0.13 |
| Unique Coverage | 0.12 | 0.02 | 0.01 | 0.02 | 0.09 | 0.03 |
| Consistency | 0.81 | 0.81 | 0.86 | 0.85 | 0.89 | 0.95 |

**Solution Coverage** | 0.48
**Solution Consistency** | 0.82

**Note:** We indicate the presence of a causal condition with a bold circle (“●”) and the absence of a causal condition with a crossed circle (“×”). A blank space indicates that a condition is either present or absent (i.e., “doesn’t matter”). Larger circles denote core conditions. Results should be read vertically. That is, firms that share characteristics are grouped by column. The causal conditions they share are indicated by the symbols in the appropriate rows.

**Figure 1.** Sufficiency analysis results for perceived performance: intermediate solution.
combined with low levels of social capital to produce high relative performance in small firms. The low levels of TQM practices in Configuration 3 and low levels of social capital in Configuration 4 were perhaps a bit surprising.

Observing the results horizontally, goal setting, TQM practices, financial ratios, and EO are associated with substantially more pathways towards high relative performance than are strategic planning and social capital. Additionally, it is notable that the vast majority of the configurations identified are associated with smaller firms. However, C1a, associated with larger firms, is quite substantial, and actually covers 48% (11 of 23) of the successful larger firms in the sample.

5. Discussion

The configurational lens analyzes and interprets how SMPs combine to enhance small business performance, which provides a primary contribution to understanding SMPs and leads to related future research. We proposed that SMPs (1) work in complementary combination in (2) multiple, equifinal ways to foster higher performance. Both aspects of our core proposition were confirmed by the fsQCA analysis. Thus, the approach highlights potential key interactions among complementary SMPs, which produce alternative pathways for achieving high performance. Below we discuss the four configurations that surfaced from our study: C1, C2, C3, and C4.

**C1 - Goal setting, financial ratio analysis, and TQM**

C1, and its three variants (goal setting, TQM, financial ratio analysis), is the most prominent combination of SMPs to emerge. This interplay seems to account for a large proportion of firm success in our sample. This primary pathway suggests that efficiency in process implementation to achieve goals plays a pivotal role for a significant number of firms in our sample. Both larger and smaller SMEs in this configuration seem to use goal setting to cultivate their internal processes. They implement TQM practices, seeking continuous improvement in their processes, constantly measuring results, and potentially updating their goals. Finally, they then measure whether they are achieving their goals using industry benchmarks to compare measures of risk, liquidity, profitability, etc. (financial ratio analysis). The interplay between these three SMPs (goal setting, TQM, financial ratio analysis) is a somewhat causally complex reason for their success (Peteraf, 1993). However, the ability to constantly improve routines in an efficient manner – through goal setting, TQM, and financial ratio analysis – positions small firms to compete effectively on price and secure customers. Goal setting and financial ratios, in particular, form a very coherent complementarity, in which goals are set and checked against industry standards. We also see this in C2.

**C2 - Goal setting, financial ratio analysis, and EO**

Small businesses in C2 substitute EO for TQM practices, while retaining goal setting and financial ratio analysis as core practices. In this scenario, organizations are more
exploratory than efficiency driven (March, 1991; Seo, Kim, & Choi, 2015). These companies have goals and assess their achievement using financial ratios. However, by applying EO they likely take a more exploratory approach in seeking new ways to achieve above average performance outcomes rather than simply attempting to continuously improve existing processes, the focus of TQM. They take risks, are proactive, and are innovative in order to reach their goals and work on meeting their financial targets. Most likely, as these small firms employ EO, they take initiative to update their offering of products and services seeking adaptation to a turbulent, technology-driven environment, thus staying ahead of their competition and making sure that they are not on the wrong end of the product life cycle curve. Indeed, many of the small firms in this configuration likely have the strategic goal of offering new products or achieving a certain percentage of revenue from relatively new products and services. Alternatively, when financial ratios provide negative or lukewarm feedback, these organizations are likely to pursue new opportunities and revise their goals.

**C3 – social Capital and EO**

C3 organizations are far less systematic in their use of EO. Rather than relying on a formalized goal setting process that utilizes financial ratios as signposts for success, companies in C3 attempt to entrepreneurially capitalize on social networks to pursue opportunities. Thus, firms in C3 possess, establish, and cultivate relationships with key actors. Research indicates selling is one of the key skills for entrepreneurially-oriented companies (Baker & Sinkula, 2009). These firms successfully exploit social connections to gather referrals, pursue leads, and gain introductions with prominent potential customers. It makes sense that entrepreneurially-oriented firms with existing social capital would exploit that resource, using entrepreneurial proactiveness and aggressiveness to drive sales success and propel financial performance to above average levels. Interestingly, these firms do not engage in TQM. Perhaps their position in a munificent network provides a buffer, or even a disincentive, for using funds, time, and effort to pursue greater efficiency. Instead, these smaller SMEs allocate more effort and means toward the marketing function.

**C4 - Goal setting, strategic planning, TQM, and EO**

In contrast with firms in C3, firms in C4 do not focus on social capital. The firms in C4 apply the widest gamut (four) of the SMPs included in our study: goal setting, strategic planning, TQM practices, and EO. These organizations attempt to be ambidextrous, focusing on both exploratory and exploitative processes (Raisch & Birkinshaw, 2008). In the C4 organizations, we can speculate that two pairs of SMPs operate in parallel to achieve high performance. First, we again see the goal setting and financial ratios aimed to keep the organization’s efficiency on track. At the same time, an entrepreneurial orientation catalyzes the strategic planning process. Therefore, C4 organizations analyze their environment in an entrepreneurial manner to decide which strategic alternatives present the most potential. Further, as these
small firms execute their entrepreneurial strategic plan and set goals reflecting aspirations, they employ the TQM mindset of continuous improvement. Interestingly, while this is the smallest identified configuration, it is the one most consistent with high financial performance, producing high performance 95% of the time when these four SMPs are place. Thus, C4 is likely the most reliable configuration of SMPs for maximizing performance.

**General thoughts**

A second important theoretical implication related to our core proposition is that the drivers of SME performance often come from a variety of strategic alternatives. There is not simply one efficient way to achieve higher performance, but there are several paths to satisfactorily configure contextual features. This nuance reveals a central benefit of the configurational approach, equifinality, which is especially useful given scholars examining SMPs have not always formulated a consistent theory (Ellis, 2006; Rosenbusch, Brinckmann, & Bausch, 2011; Sidik, 2012). Our study helps remedy this issue by presenting a more comprehensive, yet flexible, theory that allows for multiple strategic paths for SMEs to achieve above average performance.

Further, our findings imply managers have latitude in establishing a viable strategic ecosystem within their organizations. Strengths in all six of the SMPs are not required to achieve an attractive outcome. In fact, none of the six SMPs are absolutely essential. This is a key insight for managers that observe SMP findings in the literature and, perhaps disappointedly, observe that developing a given practice would be expensive, time consuming, or otherwise unfeasible for their firm. Though theory does suggest that each of these SMPs may have an important role to play, they are not all always necessary. Even firms with weaknesses in some of the SMPs can utilize their other strengths to substitute for those weaknesses.

**5.1. Limitations and future research**

We recognize certain limitations to our study and provide suggestions for future research. First, it is possible, as with many studies of organizational strategy, that endogeneity is an issue. For instance, superior performance can certainly enhance firms’ social capital or allow the organizational slack resources to adopt expensive and time-consuming TQM practices. Readers should therefore interpret inferences related to causality and the temporal stability of the results with caution. Second, the measure for perceived firm performance is subjective and may not capture the full richness of potential performance outcomes. Archival objective performance measures, like ROI or net profit margin, may provide additional and even richer insights, but small business financial data is often not available. Furthermore, due to inconsistent accounting procedures applied in SMEs, objective financial data often does not always accurately reflect performance. Third, our sample consists of primarily small printing companies. As a result, the generalizability of the results is somewhat limited. Future research should examine the degree to which our findings apply in other contexts. Fourth, this study is static in nature. Benefits from strategic planning may not occur immediately, requiring longitudinal approach (Ensley et al., 2003; Schwenk &
Shrader, 1993). Finally, researchers typically assume all strategic plans are good plans (Pearce et al., 1987), but some executives are inherently better at strategic planning than others, or better at the implementation process once the plan is in place. A longitudinal design may capture some of the nuances regarding the quality of the plan or of its implementation.

6. Concluding remarks

The purpose of this research is to examine the various combinations of strategic management practices that affect small business performance. While there are numerous studies which examine small firm performance, our approach using fsQCA has allowed us to offer a more intricate level of analysis by examining these SMPs together rather than in isolation. If various combinations of SMPs affect small business performance, what are they? Our research finds multiple SMP configurations relate to strong small business performance. Specifically, we found four SMP combinations connected to strong small firm performance, including: C1 – Goal Setting, Financial Ratio Analysis, and TQM; C2 – Goal Setting, Financial Ratio Analysis, and EO; C3 – Social Capital, and EO; C4 – Goal Setting, Strategic Planning, TQM, and, EO. A greater understanding of these practices and the unique combinations in which they occur will benefit small businesses as well as the communities and economies in which they operate. Further, we open the research door to exploration of other effective SMPs, their configurations, and how those SMPs are best used executed in combination.

Notes

1. From Dr. Ron Davis, Senior Vice President and Chief Economist, PIA,
2. The PRI consistency calculation is more stringent than the raw fsQCA calibration because it removes cases in which the membership value in the outcome is below the crossover point and does not allow them to artificially inflate the consistency score (see Pahl-Wostl and Knieper, 2014 for the PRI consistency formula). Using the PRI consistency resulted in the removal of three marginal configurations such that they do not contribute to the solution.

References


