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How do small business owners actually make their financial decisions? Understanding SME financial behaviour using a case-based approach

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Abstract

Conventional approaches to the study of SMEs finance tend to focus on the changing financing options and preferences as small businesses move through different stages. However, one of the limitations of such approaches is that they do not explain *how* small businesses make decisions that lead to their financial structures. This paper suggests that small business owners deliberately choose how they manage their firms' finance as a direct consequence of their personal objectives for owning a business. This paper summarises the findings of a qualitative study with eleven small business owners using a novel qualitative model developed by Holmes and Gupta (2015). The results uncover a series of underlying factors, such as personal perspectives, life events and future outlook, which shape small business owners' goal and perceptions, and influence their financial decision, actions and future funding options reinforcing the view that small firms are an extension of their personal objectives.

Key words: SMEs, financing preferences, qualitative model, financial structure, satisfying, working capital management

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1. Introduction

How do small business operators make their financial decisions? To what extent are personal goals, views, experiences and situations important to the final financing outcomes in a micro or small-sized enterprise?

We seek to answer these questions by using a novel approach to examine qualitative factors in relation to SME financial decision-making. The paper is based heavily on previous work that has identified the so-called "five-tribe model" developed by Holmes and Gupta (2015) and expanded by Holmes and Schaper (2018), a dynamic approach which sees financial decisions of small firms as a result of the interaction between a wide range of push and pull factors arising from both internal and external of the business Within this framework, small businesses are grouped according their owners' goals, perceptions and actions into five tribes in the economy known as *Seekers, Whatnows, Drifters, Satisficers* and *Digitals*.

The conceptual basis of this "five-tribe model" is very different from most conventional studies of small business finance, which tend to focus on the impact of the quantitative parameters of a small firm, such as firm size, business age, and access to finance (Abdulsaleh & Worthington, 2013). Their typical assumption is that as a firm grows, its financial needs will increase, thus necessitating more diverse funding sources and sophisticated financial management practices. Whilst seemingly a plausible theory, numerous attempts to quantitatively validate this assumption have provided limited insight into the underlying factors that make up these decisions. Almost all of these studies have examined the issue from a positivist framework, relying heavily on empirical measures to try and determine what is actually a highly personalised decision for most small firm owners. Further we seek to counter the view put

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squarely by Jensen and Meckling in their seminal 1976 paper on agency theory, where they state: *"The firm is not an individual … but we often make this error by thinking about organisations as if they were persons with motivations and intentions"* (Jensen & Meckling, 1976, p. 311). We argue this is exactly what they are and to truly understand small firms this is the assumption that should underpin empirical research.

This paper draws on the insights generated from eleven semi-structured interviews which were carried out in 2016 with questions guided by the five-tribe model. The findings of this study revealed that small business owners deliberately choose how they manage the finance of their firms and their decisions are shaped/influenced by a wide range of underlying factors. The paper argues against a simplistic and generalised view of small business finance, instead painting a more realistic picture of how SMEs make the choices that they do.

2. Previous studies of small business finance

Within the literature concerning small business finance, the quantitative parameters of a firm, especially its size and age, are seen to be critical. For instance, the pecking order theory (Myer, 1984) argues that small businesses are likely to face problems associated with their size when accessing external finance, such as information asymmetry and higher agency costs. As a result, small firms prefer to use internal financing first, followed by accessing credit, and would issue equity as a last resort. However, other studies have shown mixed results in validating the theory. While research by Holmes and Kent (1991) found evidence supporting the notion, other studies show that pecking order sequences are "truncated" due to business owners' preferences and funding supply conditions (Howorth, 2001). Moreover, Atherton's (2009) study shows that

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small businesses' funding modes are largely decided upon on the basis of their business owners' previous experiences and perceptions of ease of access to funding.

Another related body of research, business life cycle theory (Greiner, 1972; Kroeger, 1974; Churchill & Lewis, 1983; Scott & Bruce, 1987), argues that the financial needs of a firm are correlated significantly with its age. For instance, Hutchinson and Ray (1986) identify a number of "financial stress factors" when a firm proceeds into different stages of its life cycle. They explain that when a firm is young, it is under-capitalised and relies heavily on their owner's resources for financing. As a firm becomes older and proceeds to a growth stage, the existence of the finance equity gap will drive them to turn to bank debt for support. At the mature stage, the owner will lose some control over the firm in exchange for new equity (e.g. partners, venture capitalists, shareholders).

However, similar to pecking order theory, business life cycle theory has also received criticism on the ground that it does not represent the trajectory of a small firm in reality. A study by Miller and Friesen (1984) discovered that many firms did not follow linear sequences in the business life cycle—some jumped or moved in and out across stages, while others remained in the same stage for ten years or more. McMahon's (1998, 2001) longitudinal study of manufacturing firms in Australia reveals that an SME owner's growth intention and attitudes largely determine which development pathway to pursue. Similar results have also been obtained by Massey et al. (2006) in that SMEs' development paths are a result of mixed external and internal factors, such as the state of the economy and owners' attitudes to growth. More recently, Dalborg et al. (2012) argue that rather than focussing on the quantitative parameters of SMEs growth, it is more important to look into the qualitative factors that motivate entrepreneurs to grow their businesses.

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Both of these schools of thoughts are largely deterministic: external factors drive, or at least indicate, the final decisions likely to be made by the business owner-operator. Despite the growing recognition of the importance of qualitative factors on small business' financial decisions, few studies have been undertaken seeking understand how small business owners make their financial decisions and what factors influence the financial decisions made by them. In this paper, we take the position that a small business's intended growth trajectory and financial needs are correlated with its owner's goals and perception. In other words, as Carland et al. (1984) argue, "The owner perceives [operates] the business as an extension of his or personality" (Carland et al., 1984, p. 358). We suggest that to usefully understand a small firm's financial decisions, it is not the size or age that explains their financial needs or sources of finance, but rather the personal goals and objectives of the owners.

3. Method

A constraint in the study of small businesses is the lack of a systemic framework to enable detailed analysis of the qualitative factors that drive financial decisions. To overcome this limitation, we adopt a novel approach by utilising the qualitative "five-tribe" model and measurement criterion developed by Holmes and Gupta (2015) based on their large-scale survey of over 1000 SMEs in Australia.

In contrast to most previous studies of small businesses, which tend to focus on a single issue, this survey was designed to examine business issues in a holistic manner and covered twelve

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major business impact factors[1]. Drawing on the results of this survey, a statistical based segmentation analysis (K-means cluster analysis) was performed to re-classify the small business sector into five categories (henceforth referred as the "five tribes"). A detailed analysis of these five tribes can be found in Holmes and Schaper (2018).

These five tribes represent the 2.2 million small firms[2] in the Australian economy. The major characteristics of each tribe, and their proportional representation in the economy, are summarised as below:

- Seekers—financially constrained growth aspirers (14%)
- Whatnows—externally impacted growth seekers (23%)
- Drifters—broadly impacted stability seekers (17%)
- Satisficers—stress free stability-seekers (26%)
- Digitals—technology oriented growth achievers (20%)

Seekers strive for growth but less than half achieve it. They are concentrated in retail trade. They seek to build a business. The main issues impacting this objective are maintaining and growing revenues, managing cashflows, costs and overheads, and access to finance.

Whatnows want to grow their business, but the majority of them are not achieving growth objectives. In terms of industry profile, they are slightly skewed towards finance and insurance,

[1]The twelve business impact factors identified in the survey are competition, access to finance, managing cash flow, costs and overheads, maintaining and growing revenue, economic uncertainty, red tape, taxation and compliance, technology and system change, finding and retaining skilled staff, access to professional advisory service, access to timely information, research and development and owner and management succession planning (Holmes & Gupta, 2015). Due to limit of space, this paper will only focus on the discussion of financial issues. For comprehensive analysis of these twelve impact factors, see (Holmes & Gupta, 2015).

[2] According to the Australian Bureau of Statistics (ABS), a small business is defined as one with less than 20 employees (ABS, 2001).

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health care and social assistance. The major factors impacting upon these businesses are economic uncertainty and competition.

Drifters seek to stabilise operations and contain growth, but struggle to keep their business going. While these businesses are viable in some sense, they are often just "drifting along". This group is slightly skewed towards agriculture, construction, education and training. The main factors impacting these businesses are red tape, taxation, and managing cashflows, costs and overheads.

Satisficers are well-established firms. The majority of their owners aim for performance stability, and many more achieve this than the Drifters. These businesses are comfortable with themselves, and their owners are often more satisfied than other "tribes" of business operators. They have dealt with the typical range of issues along the way, and have either resolved these issues or accept them as a fact of life.

Digitals seek to leverage the digital platforms and opportunities created by technology. They aim to grow and often achieve growth objectives. They tend to be larger and have more revenue than the rest of the groups. The major factors impacting their business are: technology changes, competition, research and development, and access to timely information.

While each tribe is unique, the five tribe taxonomy can be further reduced to an opposition between those tribes that seek growth and those tribes that seek stability. We describe these groups as growth aspirers/achievers and stability seekers, and their shared characteristics are summarised in Table 1.

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Table 1 Taxonomy of growth aspirers/achievers versus stability seekers

	Growth Aspirers /Achievers	**Stability Seekers**
Internal factors	• Purposefully pursues a high growth pathway within limits • Satisfied with business performance but sees further development potentials • Dissatisfied with business performance but proactively seeks solutions some of the time • Willing to take risks • Has a clear business goal to achieve substantial growth, but will not trade off control	• Pursues a capped growth pathway • Satisfied with business performance and seeks to maintain status quo • Unwilling to take risks • Values personal/family goals more than economic goals • Does not have business plans to achieve growth
External factors	• Negative outlook towards economic situation and industry trends • Aware of new opportunities in the industry • Actively makes plans to tap into new growth opportunity • Willing to bring in external resources, but only to a point. Still wishes to retain control • Use of new technology	• Positive outlook towards economic situation or industry trends • Aware of new opportunity but takes no action • Unwilling to bring in external resources, does not want to lose control

This paper reports the findings of a follow-up qualitative study of the survey based on the five-tribes model. The aims of this study are to unpack further the factors perceived by the survey respondents as affecting their financing decisions and to untangle the real issues hidden in metric driven data. In 2016, we conducted eleven semi-structured interviews with small business owners from a wide range of industries in Australia. About half of them were drawn from Victoria, while the rest were from New South Wales. Despite the business age difference (ranging from 5 years to 48 years), most of them remained very small. Of the eleven case study firms, seven of them had less than five employees. The annual turnover of the sample firms

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ranged from A$500,000 to A$8,000,000, although not every interviewee disclosed their gross turnover.

The selection of these eleven small businesses was based on how their key features compared to the "quintessential" business characteristics of each of the five tribes in the model. Screening for "typical" cases for each tribe was achieved by using a self-completed recruitment survey. After the so-called quintessential cases had been identified, the researchers conducted a 45-minute interview with the business owner based on a question guide. In regard to financial issues, the interviewees were asked about their financial goals, financial stress (if any) and financial management practices. Besides, interviewees were asked about their future expansion plans, including their financial aspirations and funding sources for their future plans. Despite the relatively small number of case studies, the cases were carefully chosen to represent the five tribes, and that the interviews had the 'depth' requested to provide useful insights to improve our understanding of small business financial decisions

4. Findings and discussion

The findings from our qualitative studies of eleven sample firms have confirmed that, when it comes to financial decision making, no small business is the same. All business owners have their own financial goals, concerns, perceptions and funding sources. We summarise the financial issues of the respondents, and their background characteristics, in Table 2.

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Table 2. Background characteristics, goals, perceptions and actions of interviewees

Tribe	***Seekers***		***Whatnows***		***Drifters***		***Satisficers***		***Digitals***		
Businesses	Training school	Cafe	Chiropractic clinic	Manufacturing of power parer (for sheep)	Kitchens and cabinets production	Interior design, kitchen/bathroom renovations	Architectural services	Computer services	Residential construction	Selling of chemicals for waste water treatment	Advertising agency
Number of years trading	5	28	26	20	10	33	27	25	48	18	24
Number of employees	3+1 pt	4+3 pt	1	1	3	1	2	7	2 + apprentices and contractors	2	60
Annual turnover ($AUD)	$500,000-$600,000	Not disclosed	Not disclosed	Not disclosed	$1,000,000	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed
Owners' goals, perceptions and business performance											
Goals	Substantial business growth	Substantial business growth	Moderate business growth	Minimise business decline	Remain stable	Moderate growth (up 5%)	Remain stable	Remain stable	Substantial growth (up 100%)	Substantial growth (up 12%)	Substantial growth (up 20%)
Perceptions	Not satisfied (due to owner's health issue)	Not satisfied (due to predatory competition from big player)	Not satisfied (due to lower than expected turnover)	Not satisfied (due to overseas competition)	Very satisfied	Moderately satisfied	Very satisfied	Very satisfied	Very satisfied	Very satisfied	Very satisfied
Business Performance	Not up to expectation (business dropped due to owner's health issue)	Not up to expectation (up and down, due to economic cycle and competition)	Turnover can be improved, but current performance can meet owner's personality and lifestyle	Turnover can be improved by conducting direct sales, but owner doesn't want to do it	Meets expectation, reluctant to expand as owner does not want stress	Meets expectation, happy to live with different business cycles	Meets expectation, has system in place to resolve various issues	Meets expectation, values personal goals more than financial goals	Meets expectation, use new technology to improve business	Meets expectation, but financial goal is not most important	Exceeds expectation, turnover doubled after acquisition
Financial decisions and actions											
Goal of financial management	Maintain cash flow	Maintain cash flow	Maintain cash flow, low overheads	Maintain cash flow	Maintain cash flow, account payable (to	Maintain cash flow (cash management account)	Maintain low overheads	Maintain cash flow	Maintain cash flow & cost control,	Maintain margin	Expansion, willing to take risk and

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					suppliers) and receivable (from customers)				maintain margin		external equity
Sources of funding	Bank loan, bank draft, supplier's loan (HP), family (son), personal saving, credit card	Bank loan, personal saving, landlord's loan,	Personal saving, family money	Personal saving	Bank overdraft	Bank overdraft (cancelled), company retained profit (in cash management account)	Personal saving	Personal saving	Family money, bank guarantee, retained profit	Personal saving	Personal saving, family money, bank loan, external equity (buy back later)
Finance preference	Avoid bank loan (do not trust bank & do not wish to use own house as collateral)	Avoid bank loan (due to past negative repayment experience)	Avoid bank loan, do not trust bank	Avoid bank loan ad debt	Avoid bank loan	Simple cash flow, avoid bank loan and interest	Low overhead and no debt	Do not want bank loan	Do not want debt, use bank guarantee but concerned about the cost	Consider bringing in external shareholders	Buy back equity (want to be in control)
Future investment and funding sources											
Future investment	Develop new training course (childcare & aged care)	Develop franchise, get consultant & try out new ideas	Try re-branding and improve marketing	No plan for expansion	No plan for expansion	No plan for expansion (wish to maintain small size)	No plan for expansion (wish to maintain small size)	No plan for expansion	Have idea of setting up a subsidiary for unit maintenance business	Consider all aspects of company development	Further diversification (new media, new market)
Funding for new investment	External equity (new business partner)	No plan for getting new loan (do not trust bank)	No funding need	No funding need	No funding need	No funding need	No funding need	No funding need	No funding need yet	No funding need	No immediate funding need, will consolidate business first

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4.1. Goals of business owners

One of the findings emerging from our study is that all interviewees had very different goals for their businesses, and these were generally aligned with the characteristics of the tribe they affiliated with.

The small businesses we classified as *Seekers* and *Digitals* tended to have higher growth aspirations. For instance, within our *Seekers* tribe, respondents were willing to source external equity, even if it required them to surrender part of their ownership control. As one respondent stated:

> "I've introduced some partners who are gradually moving in, they are going to bring with them some additional courses; we need growth in our industry, it's not a growth industry yet." (*Seeker*—David, owner of a training school)

The *Digitals* were another tribe whose members were keen to bring further growth to their businesses, as demonstrated in the cases of Guy and Lisa:

> "We expect to double our turnover in the next 12 months and we've got projects lined up to do that now." (*Digitals*—Guy, owner of a building company)

> "I want the company to growth another 20% over the next two years." (*Digitals*—Lisa, owner of an advertising firm)

In contrast, owners from two other tribes, the *Whatnows* and *Drifters,* explicitly stated that they did not wish to grow their businesses:

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> “The drive for increasing wealth has never been there.” (*Whatnows*—Sharna, owner of a chiropractic clinic)

> “I don’t want to grow bigger, I’ve plenty of work to keep us all going and that’s all I want.” (*Drifters*—Eric, owner of a kitchen and cabinet company)

As for the *Satisficers,* Interviewee A (who requested to remain anonymous) did not want to grow her business, as she was largely content with its current performance and financial returns:

> “We’ve never really wanted to get sort of get big and expand. We just like to keep going.” (*Satisficers*—Interviewee A, owner of an architectural service)

4.2 Perceptions and actions towards business performance

In this section, we focus on business owners’ level of satisfaction with respect to the financial performance of their businesses. The five-tribe model assists us to broadly divide the owners into satisfied and dissatisfied groups, and enables us to examine how owners’ attitudes are related to the actions taken in their businesses.

As the findings show, the *Seekers* and *Whatnows* generally showed dissatisfaction with business performance, due mainly to their failure to achieve their growth objectives. However, this failure stemmed from a wide range of reasons, including non-business events or events

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that were outside the owner's control. For instance, in the case of David, his business profitability had been affected by personal health problems:

> "It was non-alcoholic cirrhosis… for about twelve months, I was brain-dead, I wasn't able to cope or concentrate on anything, the girls [his staff] kept it going for me, but without my input… they found it difficult." (*Seekers*—David, owner of a training school)

The *Whatnows* also displayed dissatisfaction with business performance. However, in contrast to the *Seekers,* who proactively sought solutions to help turnaround their businesses, *Whatnows* tended to blame the external environment and adopt a 'wait and see' attitude. As one said:

> "I am dissatisfied. Because it is not busy enough, I want it to be busier… I've spoken to other chiropractors and they say the same thing, that's downturn in business… I have noticed a few other people I've spoken to it's a little bit more penny pinching…" (*Whatnows*—Sharna, owner of a chiropractic clinic)

However, Sharna did not take any proactive steps to improve her turnover. She understood that she might have to boost her marketing efforts, but admitted that this was not what she wanted to do. In her own words, she preferred to "be enjoying life, not just working all the time."

In comparison to the *Seekers* and *Whatnows*, owners belonging to the *Drifters, Satisficers* and *Digitals* tribes showed higher levels of satisfaction towards their business performance. In spite of this, small discrepancies could still be identified among these three cohorts.

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For example, those in the *Drifters*' group tended to be affected by a wide range of issues, such as cash flow, economic cycles, competition with products from overseas, and staffing, to name a few. However, unlike the *Whatnows,* they did not seem to worry too much but just 'go with the flow.' As Alan explained:

> "Our industry, the kitchen industry is cyclical to a degree, you get rushes and spurts, it's always up and down roller coaster… you just keep working away at it and you know it's going to get better, you know it's going to pick up." (*Drifters*—Alan, owner of an interior design and renovation company)

Another tribe, *Satisficers*, included owners such as Ralf, who was already highly satisfied with his business, because he saw it as essentially a hobby which also fulfilled the personal goal of financially supporting his family. Other monetary returns were not a priority. In his words:

> "I want to go to work every day with a smile. I want to be happy with what I'm doing, and I want to be able to feed the family and have a decent lifestyle. These are actually the goals." (*Satisficers*—Ralf, owner of an IT company)

The *Digitals* were the tribe with the highest levels of growth aspiration and satisfaction at the same time. They usually had more ambitious goals, acted more pro-actively and were constantly trying out new technologies and innovative ideas in order to achieve their growth objectives. An example was that of Guy, who was attempting to further improve his business with new technologies. As he put it:

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> "[Technology] it's an opportunity for us to be more functional and professional. We can send out all the drawings a lot quicker… The same thing happens when we're pricing work… we get online a lot of introductions to new materials and new ideas of doing things." (*Digitals*—Guy, owner of a building company)

4.3. Financial management decisions and actions

The findings of our qualitative study also demonstrate how owners' goals and perceptions influence financial management decisions and actions, since their own deliberate choices and strategies tend to dominate over external influences.

For instance, David from the *Seekers* tribe talked about sources of finance for his business. While he had plans to expand his business, he was reluctant to borrow the money from the banks, and instead had asked his two sons for help. He linked the problem of getting a bank loan to his health issue:

> "I used some of my own money and I used my sons' money to chuck into the business. I was just too unwell to be bothered, because of my health. You can imagine going to the bank and saying 'I'm about to die, would you lend me a hundred thousand?' I just couldn't be bothered with all that." (S*eekers*—David, owner of a training school)

The results of our interviews also showed that the owners' financial practices were affected by their individual personality and foibles. For example, Sharna from the *Whatnows* tribe deliberately chose to maintain low overheads for her practice, because it suited her at a personal level. As she said:

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> "The overheads were really low which I liked… there wasn't a big investment in terms of I sort of thought that I couldn't screw it up too much…because there were no staff, no wages to pay… just easier, it works for me." (*Whatnows*—Sharna, owner of a chiropractic clinic)

On the other hand, the *Drifters* tended to stress the importance of cash flow management, in particular maintaining their accounts payable and accounts receivable. For many members of this cohort, their main goal was to maintain stability and ensure the smooth operation of their businesses. For example, respondents Eric and Alan both stressed that it was important to pay their suppliers and receive payment from their customers on time. As they explained:

> "It makes it more stressful, because if you can't pay a certain supplier at a certain time and you need stuff from them that could screw your jobs up, because they're not going out on time or not complete or things like that and you don't want that to happen." (*Drifters*—Eric, owner of a kitchen and cabinet manufacturing company)

> "Usually because we're dealing one on one with consumers, I don't have a lot of bad debt… I don't use any underwriters, or finance options, or debt collectors. I do that myself. Usually because when we're dealing with a consumer one on one, they're dealing with me as the owner of the business and they feel comfortable with that, so there's never really an argument about payment." (*Drifters*—Alan, owner of an interior design and renovation company*)*

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In order to maintain the liquidity of the firms, our interviewees from the *Drifters* tribe sometimes required short-term credit from banks in the form of bank drafts. However, they tended to use this option as a backup plan, as they were aware of the costs associated with it. As Eric explained:

> "I have a bank draft, which is good. It gets you out of trouble, but you don't want to use it all the time." (*Drifters*—Eric, owner of a kitchen and cabinet manufacturing company)

Whilst the *Satisficers* tribe also faced problems such as maintaining cash flow and the fluctuation of business income during various economic cycles, they also tended to have resolved more of their problems than the other cohorts. For example, Interviewee A had developed a system to carefully monitor her company's cash flow and sought to solve the cash problem at a very early stage, such as by issuing statements to speed up payment of their accounts receivable:

> "We never had issues with unpaid invoices, but definitely we send out statements occasionally. That's certainly an issue in small business, but for us if we have trouble with payments, we find out fairly early and that's the end of it… yeah, it's a simple management sort of system." (*Satisficers*—Interviewee A, owner of an architectural practice)

Compared to the rest of the tribes, *Digitals* tended to have a greater demand for finance, especially when they were experiencing a rapid growing phase. Sometimes they chose to "bundle up" an array of different financial instruments to meet their needs. For example, in

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Lisa's case, apart from her personal savings and borrowing from her family, she also used bank loans and external equity:

> "We got a bank loan. That's when we bought Admac. We went from owing nothing to borrowing $1 million… and we acquired Admac, which we were advised not do by our accountant, but it actually doubled us… When Peach came with the STW group, we did an equity to equity deal; they had 20% of my company." (Digitals—Lisa, owner of an advertising company)

Many *Digitals*' also employed higher leverage/debt levels, which in turn exposed them to higher capital risks. As a result, many found that, more sophisticated systems were required to manage their working capital and ensure the liquidity of their companies, as our interviewee Guy described:

> "We have a thing called retention which means that while we build, the client hangs onto five percent of our turnover on that project until the project's finished and then they hang onto two and half percent for up to 12 months. That's in cash. We can convert that into a bank guarantee." (*Digitals*—Guy, owner of a building company)

Many *Digitals* carefully managed their budgets to ensure their costs were calculated into their pricing strategies, all ongoing operating costs were carefully monitored, and the desired profit margin and rate of return could be maintained:

> "It's a constant, making sure that we're not overspending on labour, on material… toll bills, they're all costs that come into but when we're working out our own costs, they

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come into it… we like to maintain our margins but we can't necessary raise [our budget]… we've got to get a bit more creative with sub-contractors, suppliers… I suppose it is working itself down the chain… it's constantly got to be monitored." (*Digitals*—Guy, owner of a building company)

4.4 Future investment and funding sources

As discussed previously, it has often been argued by various researchers that most small businesses value stability more than growth. Respondent comments in this study appeared to support this contention. We noticed that several of the cohorts, such as the *Whatnows*, *Drifters* and *Satisficers* did not seem to have a motivation to grow their businesses once they reach the point of accepted viability.

Our interviews revealed that one of the reasons behind this was that small business owners usually associated business growth with higher risk, and their personal aversion to risk prevented them from expanding their businesses. In our interviewees' words:

> "I don't want to have five showrooms across Melbourne or fifty people working for me, because that's when you lose control of what you're doing…" (*Drifters*—Alan, owner of an interior design and renovation company)

> "I don't want to grow bigger…the bigger you are the harder you fall, and the more headache you've got and I don't need more headache…" (*Drifters*—Eric, owner of a kitchen and cabinet manufacturing company)

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> "We haven't run up big debts and taken on lots of staff or anything like that. It's always been a case of working within our means and assuming things can go wrong." (*Satisficers*—Interviewee A, owner of an architecture practice)

By the same token, when asking the interviewees whether they would seek external finance for their business expansion, most of the interviewees answered that they preferred to operate their business without debt. As Andrew and Interviewee A explained:

> "I'm debt free. I've been debt free for a long time. It's a principle thing, I don't believe you should run a business on debt." (*Whatnows*—Andrew, owner an electrical machinery manufacturing company)

> "It just the way I've been bought up. It's sort of inherent and so it's helped us a lot to not to have big overheads and not get big debt." (*Satisficers*—Interviewee A, owner of an architectural practice)

Interviewees generally showed an attitude of distrust towards banks. In some cases, this was caused by interviewees' negative experiences of dealing with established financial institutions. In David's words:

> "There is no risk finance in this country of any consequence. You hear the banks says they're friendly to small businesses; they are friendly if you give them a mortgage on your house or if you don't really need any money." (*Seekers*—David, owner of a training school)

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Lisa from the *Digitals* tribe also shared her negative experience of dealing with a bank when she first started her business:

> "Bank wouldn't lend a thing to us. Wouldn't touch us with a forty foot pole, so we had the first loan of $5,000 from Glenn's [her partner] parents." (*Digitals*—Lisa, owner of an advertising company)

Among our interviewees, only owners from the *Seekers* and *Digitals* tribes had plans to obtain additional funding. They were more willing to take risks and proactively face up to their business challenges. As one respondent, Steve, stated:

> "I'd pretty much consider any aspect of development that was good for the business… I don't feel that it's been any sort of significant obstacle. It's a matter of getting on with it… If you can't meet any challenge than perhaps you shouldn't be in business." (*Digitals*—Steven, owner of a water treatment chemical sale company)

5. Conclusion and implications

This paper seeks to start a process to address a significant gap in the existing literature by focusing on small business as being primarily about people, not business itself. We used the five-tribe classification method (Holmes & Gupta, 2015) to analyse qualitative factors relating

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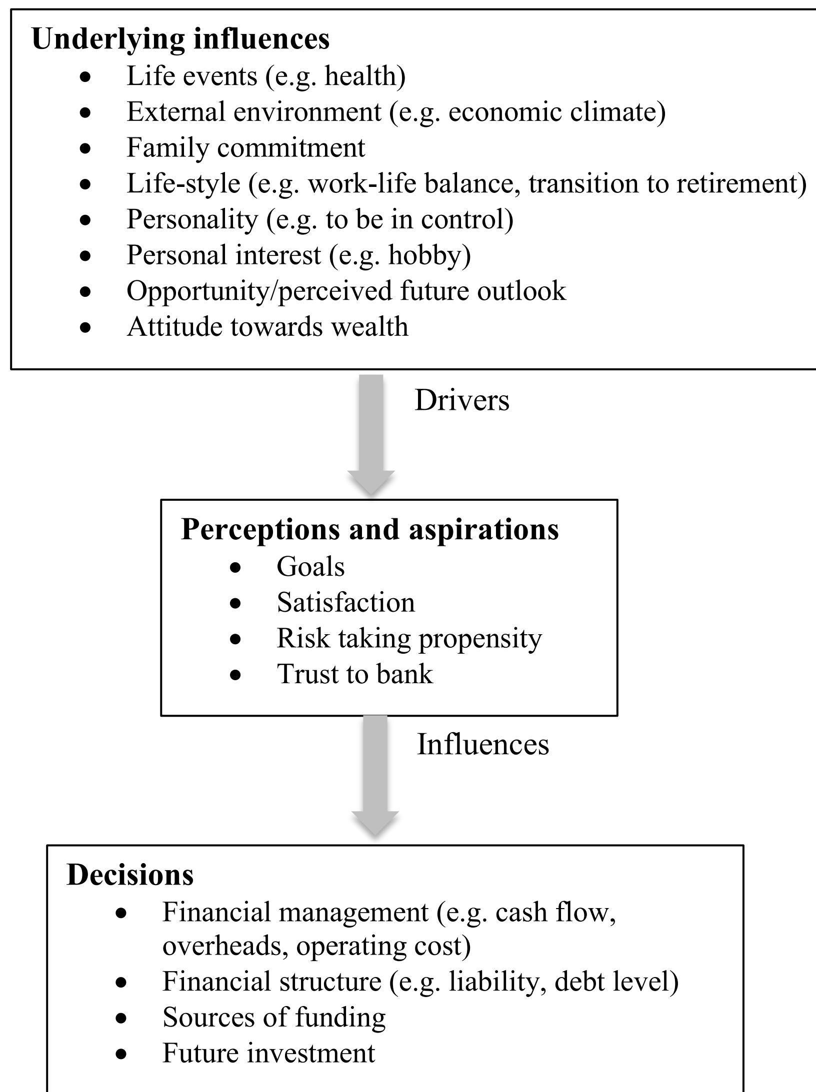
to business owners' goals and perceptions and their relations to financial management decision and actions. These factors are exhibited in Figure 1[3].

Figure 1 Possible drivers of small business owners' financial choice (source: Holmes & Schaper, 2018)



As Figure 1 shows, life events (personal issues) and the personality of business owners are crucial in affecting their financial decisions. These included life style choices, personal interests, family commitment, perception on external environment, opportunity / future

[3] Figure 1 shows the 'possible explanation' of the drivers of financial choices. It is only a graphical interpretation of the factors that we found from the study and is not intended to be quantitatively exact.

outlook, and wealth objectives. While we acknowledge that the growth pathway of each small business is unique, we found that many of our respondents were generally risk averse, and they valued stability more than "taking risk" to grow their businesses. This is quite a contrast to the classical business life cycle theory (Greiner, 1972; Kroeger, 1974; Churchill & Lewis, 1983), which assumes that most businesses will seek growth continuously and move into different stages of development in a linear sequence.

Our study also shows that business owners have different goals and perceptions of their businesses, and their "level of satisfaction" largely determines whether they choose to pursue a high growth or capped growth pathway. For instance, the tribes who are discontent with their business performance tend to have more motivation to seek change, whereas the tribes who are satisfied and comfortable with their present businesses largely wish to maintain stability and the status quo. This is in direct contrast to the traditional 'profit maximisation' view of businesses (Simon, 1957), which considers increasing wealth as the ultimate goal of all businesses.

In terms of sources of finance, this study also presents a more complicated picture than the assumption made by the pecking order theory (Myer, 1984). Many of our interviewees had avoided bank borrowing due to their experiences and personal principles, rather than because of their growth options. Moreover, they generally perceived bank debt, or external funding as bringing higher risk to their businesses. The risk-averse attitude was also reflected in their financial management: almost all of our interviewees valued a more conservative financial strategy, such as focusing on maintaining sufficient cash flow, monitoring accounts receivables / payables, adopting cost control options and being cautious with their budgeting. This finding is in line with most literature that effective cash flow and working capital management is

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crucial for the survival and growth of small businesses (Mazzarol, 2014). They have implemented conservative strategies in preference to a more aggressive financial management strategy (would typically have involved using bank borrowing, obtaining external equity, and investing in business expansion, new business or additional employees).

One of the possible explanations for their conservative financial behavior is that being in control is viewed as an important issue in running small businesses. Control means not only the management of the company, but also ensuring the quality of their work or maintaining their financial independence. Some interviewees refused bank loans or bringing in external partners, or even to employ additional staff, because they did not want to lose their controlling power to an external party. As a result, these owners would have rather their companies remain small than to take the risk of losing control.

Finally, one of the interesting findings that emerged from this study concerns small business owners' perceptions of 'risk' and how they value stability over revenues and business growth. Traditional entrepreneurship studies usually see small business owners/founders a 'risk takers.' The contradictory findings presented here may relate to the 'conservative' culture in Australia or the lack of a supporting system for small businesses. It may be worth conducting a comparative international study to further investigate this matter.

Small businesses are often portrayed as a generic group and labeled under a general quantitative definition, such as a business with less than 20 employees (in Australia). However, our five-tribe model clearly demonstrates that each tribe has their own characteristics and impact factors, and tends to deal with finance issues in a different way.. This finding can help government or industrial bodies to tailor their supporting services to address the different needs

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of each tribe. For example, for the *Seekers*, the assistance would best focus on the provision of funding support, such as seed or proof of concept grant/loans, or educating businesses about loan applications and assessment process. For the *Whatnows* and *Drifters*, they may need support for training and education in financial management skills, including cash flow management, budget planning, cost control, preparing and interpreting financial statements. In contrast, when dealing with *Satisficers*, external professional advisory services may be needed to help business owners to see a bigger picture or future prospect for the business beyond their current operations. For the *Digitals*, services may focus on providing timely information about various technologies, funding options and channels, and arranging networking opportunities with business angels, venture capitalists or equity partners.

Besides, our findings highlight the importance of small business owners' goals, perceptions and actions, to the growth of their businesses. This can help business owners understand that business growth is unlikely to happen if they do not have a mindset to favour company development. To prepare for this mindset, small business owners need to enhance their awareness of potential growth opportunities, pay attention to wider economic and technology trends and government's supporting polices, and align their strategies and actions to the goals of their businesses.

While the five-tribe model provides a framework to analyse the qualitative factors impacting small businesses' financial decisions and actions, this approach is not without limitations. In reality, it is difficult to find a single company that can fits into a particular tribe perfectly. Also, as the goals and perception of the business owner may change over time depending on different circumstances, we may see companies evolve and cross the boundary of another tribe. As a result, it might prove useful to conduct longitudinal analysis of small businesses using the same

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model, and track the changes (if any) of the goals and perceptions of business owners and their impact on the business's performance and its financial management strategies over time.

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