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STRATEGY-MAKING PROCESSES OF SMALL AND MEDIUM ENTERPRISES IN NEW ZEALAND

**A thesis presented in partial fulfilment of the requirements
for the degree of**

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ABSTRACT

The concept of strategy-making in small and medium enterprises (SMEs) has been the source of much debate. Received wisdom suggests that strategy-making does not take place in SMEs, or is at best limited, often only for the purpose of attaining finance. Moreover, there is mixed evidence regarding the relationship between strategy-making in SMEs and firm performance. This thesis empirically addresses these hotly contested issues by asking:

What are the strategy-making processes of SMEs in New Zealand and how are these related to firm performance?

In order to answer this question the thesis uses the general literature on strategy-making processes and builds a framework tailored for SMEs drawing from the literature on strategic planning by SME scholars. Propositions derived from the framework are then empirically tested in a cross-industry sample of 477 SMEs in New Zealand.

Several important conclusions are drawn in this study. First, through confirmatory factor analysis, four modes of strategy-making process emerge as relevant to SMEs, namely the simplistic, adaptive, participative, and intrapreneurial modes. Second, these modes are related to firm performance. Causal modelling indicates that adaptive and participative strategy-making contribute to firm performance, while simplistic strategy-making results from firm performance. The intrapreneurial mode shows little relation with firm performance, unless it is used in combination with a differentiation strategy. Third, firms with capabilities in several modes of strategy-making outperform firms that are only good at one or no modes of strategy-making. Fourth, the relationships between firm performance and the modes of strategy-making employed are influenced by a variety of context factors such as the firm's structure and competitive environment as well as the business strategies used. Fifth, and most fundamentally, the study demonstrates that SMEs do make strategy.

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