

# STRATQUAL: MEASURING THE DENSITY OF THE STRATEGIC MANAGEMENT DELIBERATE PROCESS IN MICRO AND SMALL COMPANIES PERFORMANCE

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## Abstract

This paper aims to contribute to the study of the impact of strategic management concepts in micro and small company performance using the StratQual measuring. Micro and small companies are, in the Brazilian economic scenario, responsible for a considerable amount of jobs created, GDP's formation, income generation and the capacity of adapting to the market's necessities with agility and flexibility. Studies that were carried out by SEBRAE - "Serviço Brasileiro de Apoio às Micro e Pequenas Empresas" showing that micro and small companies formulate their strategies according to the perception that the entrepreneurs have of possible markets reactions. The StratQual index is presented as a measuring instrument that aims to allow a company to verify the intensity of its strategic management's process, its evolution, permitting comparisons between different economic sectors, and enabling benchmarking about strategic management processes. One the main results indicates that micro and small companies that perform the activities of each one (Analysis, Planning, Implementation, Control, Feedback) in the Strategic Management process' stages with higher intensity have a superior performance.

**Keywords:** StratQual, Strategic Management Process, Strategic Performance, Micro and Small Company, Strategic Impacts

**JEL Classification:** G32, J50

**DOI:** 10.22495/cocv14i2art3

## 1. INTRODUCTION

In the Brazilian economic scenario, micro and small companies account for much of what is produced. Micro and small companies stand out, especially due to jobs creation and their impact in GDP's development, as well as the generation of income. Despite being more apt to attend the changes in the Market and to adjust themselves in uncertain environments these companies present types of behaviour that distinguish them from bigger organizations, under other aspects. Types of behavior such as risk aversion and low capacity to raise funds that would enable them to reach specific objectives, according "Serviço Brasileiro de Apoio às Micro e Pequenas Empresas" - SEBRAE (2009). The SEBRAE is a public - private organization in Brazil that aims to develop, give training and support to small and medium enterprises to make them sustainable and promote their growth.

A study that was elaborated by the National Bank of Economic Development (BNDES, 2004) shows that part of the increase small enterprises is a result of globalization, due to the necessity of outsourcing of secondary activities by larger companies in their movement to concentrate on their core business. The small companies assume, in this manner, the peripheral parts of the big companies.

The growth of the size of these organizations normally implies in the increase of their structural complexity. These elements associated to the accelerated rate of environmental changes, as the result of several factors, such as technological development, integration of markets, international competition, demographic profile and consumption behaviour (Meirelles, 1995) drive companies permanently review their strategies to reach their objectives.

Independent of the size or type of business, the relevance of strategy has been ever more object of recognition among companies. Thereby, business strategy emerges as a group of concepts and models with the objective of giving the company tools to answer the business environment demands. The perception of the importance of strategy and of the environment for the business' success increases as management starts to been seen under a systemic and organic point of view, countering technical, closed and predictable models, that do not fit in an environment of global competition (Mintzberg, 2003).

Rumelt, Schendel and Teece (1991) state that "Strategic management as a field of inquiry is firmly grounded in practice and exists because of the importance of its subject. The strategic direction of business organizations is at the heart of wealth creation in modern industrial society"(p.6). As

Hoskisson et al. (1999) teach that the development of the field of strategic management has been dramatic in the last 20 years of the 20<sup>th</sup> century. Early strategy researchers focused their research on identifying practices that contributed to firm success, mainly in big companies. In the 1960s, the seminal work of Chandler Jr. (1962) in his book *Strategy and Structure* focused on how the economic growth of four big companies changed their organizational structures. Later, in the end of the 1970s the field shifted to the industrial organization (IO) perspective, influenced by the work of Porter (1979, 1986, 1998). As Barney (2002) argues, Michael Porter was the most important scholar of the strategic management field in the last 39 years. In the 1980s the Transactions Cost Analysis and Agency Theory emerged, both inspired in the work of Ronald Coase. Also in the 1980s the Resource Based View of the Firm (Wernerfelt, 1984) emerged but only really gained traction in the field in the 1990s. Most of the work predating the late 1980s focus or is exclusively focused on big companies and multinationals.

According to Wright, Kroll and Parnell (2000), strategic management is a continuous process that takes into consideration the variations that happen when strategy is being formulated, throughout its implementation and, as the environmental or organizational conditions change.

Since the beginning of the 90s, concerns with the strategy formulation and implementation process are indicated as competitive differentials, decurrent of the adapting conditions that the organizations will have to be able to carry out, but, in most cases, cannot do it with the necessary speed, rhythm and cadence. The term Strategic Management is historically considered as a great competitive obstructor of the micro and small companies, given the issue that they have in giving continuity to their pre-established plans and planning. For Schendel (1992), the link between strategy and performance is the problem's critical point. In Mintzberg's (2003) definition, strategy is switched because something fundamental has been changed in the environment. The fact of switching a strategy creates its own discontinuity, not only in the organization but also in the business environment.

The strategic management process involves environmental analyses, establishing organizational guidelines, strategy formulation, implementing strategy and strategy control. Furthermore, it is fundamental the integration to the main business' functions within the company - production, finances and marketing - to the development process. Thus, the strategic decisions are those that allow the company to develop itself and pursue its objectives within its environment in the best possible manner (Certo and Peter, 2005).

Studies that were carried out by SEBRAE (2009) show that micro and small companies formulate their strategy according to the entrepreneur's perception of a market's evolution. However, Porter (1986) states that the smaller the company, the more important strategy is, because the smaller companies, unlike the bigger ones, are more sensitive to market's variations and, therefore, need to have knowledge of the competitive environment in a faster way to respond, guaranteeing survival in businesses.

If on one side the entrepreneurs have difficulties in implementing the strategic management process in their companies, on the other side this process, when well-managed, can produce a better performance and survival chance in the market that these organizations work. It is possible to observe, in this context, a gap in the studies about strategy in micro and small companies, which relate to the strategic management process's constructs related to the performance of these firms. In this sense, it is important to ask the following question: which are the impacts of the strategic management process's stages as antecedents of the micro and small companies' performance?

Thereby, the objective of this article is to verify the impact of the strategic management process' stages as antecedents of the micro and small companies' performance. Starting from validating the scales that measure the intensity of the strategic management process' stages; the test of a theoretical structural model that can identify the relations and impacts of these stages as antecedents of performance of the micro and small companies' performance, as well as possible bilateral relations.

This study is justified for the possibility to observe that an adequate management of this process can imply in a superior performance of these companies. Furthermore, when a strategy is implemented, it may need organizational modifications as the environment or internal conditions also suffer modifications (Wright, Kroll and Parnell, 2000). As consequence of these modifications, the strategic elements also suffer alterations. These changes are always difficult or even impossible to predict. Consequently, a deliberated strategy can be carried out in its original form, in a modified form or even in a completely different form but all of them will affect the company's performance. In addition, in the researches presented in Brazilian conferences and in journals, none of correlated studies was found.

In the literature, it is possible to say that strategic management has been presented as a sequence of stages, whose denomination varies among the authors but that follow the same line in conceptual terms. It is observed that they converge to a sequence of stages, many times having similar denominations or dismemberments, which involve essentially five steps: analysis, planning, implementation, strategic control and feedback. These are considered the stages of the strategic management process and are correlated with the organizational performance in this study.

## 2. THEORETICAL PATHS

Strategy has several definitions that vary according to the organizations' interests. One just has to look at the number of authors that conceptualize the term. However, a consensus among all the strategic definitions is the inseparability between the organization and the external environment that, if on one hand represents a condition for its activity, on the other hand, offers business opportunities. The relation between organization and the environment is the focus of the strategy concept.

According to Hitt, Ireland and Hoskisson (2008), a strategy is an integrated and coordinated set of actions defined to explore essential

competencies and obtain competitive advantage. When they define a strategy, companies choose competitive alternatives. In this sense, the strategy indicates what the company pretends to do and what it does not. Being important to the company's success, strategy consists in choosing between two or more alternatives.

A big part of what has been written about strategy presupposes its conceptualization as a set of guidelines that were consciously deliberated and define organizational decisions. This concept, called intentioned strategy by Mintzberg (2003) is representative of the prescriptive schools of strategic thinking. Thus, for a leader of the so called planning school, strategy is seen as a controlled, conscious and formal process of interaction between a company and its environment, accompanied by alterations of the internal dynamic aspects of the company (Ansoff and McDonell, 1997).

However, a company's strategic position may or may not result in the total fulfilment of the plans established beforehand. To explore this relation, Mintzberg and Waters (1985) propose a rating of performed strategies into deliberate and emergent. Deliberate Strategies are the ones that are carried out as they were explicitly planned, through a controlled process; Emergent Strategies are consistent strategies' standards that were performed in spite of (or in the absence of) intentions. Whilst the first definition focuses on the company's management and control, the second is linked to the notion of apprenticeship - starting from a triggered action, it is possible to obtain feedback effects that are considered as sequent actions, and the process will continue in a form that the performed convergences' actions will configure a strategy.

Yet, the reality is more complex. Pure deliberate strategies and purely emergent are extreme situations, among which are the strategies currently carried out. Porter (2000) explores these concepts when ensuring that the intentions performed can be deliberate strategies. The ones not carried out are considered unfulfilled strategies.

Thereby, few (or none) strategies can be purely deliberate, as also few are totally emergent. In any strategy, there is space for preparing and other moments in which apprenticeship is the consequence of a strategy. In other words, strategies should have good information of how they should be. Thus, there is no definition for good or bad strategies; good strategists mix them up in a manner that they reflect the existing conditions, specially, the capacity of foresee and the necessity of reacting over unpredictable events (Mintzberg and Waters, 1985).

According to Mintzberg (2003), an emergent strategy is the one that emerges from the organization as answer to an opportunity in the environment. It arises from the difficulty in predicting, more accurately, the behaviour and interrelationships of the environment's agents and the consequent response to this change.

The emergent strategy has a fundamental role for organizations, since it corrects the company's route starting from the difficulty of predicting changes in the environment, recognizing its limitation and not getting attached to an outdated plan that could be detrimental to the company. The importance of the environment, therefore, is foremost considering it as the evolution of the

organizations as the result of the relation with the environment and the constant challenges that it imposes. Strategy is, under this approach, the use of imagination and logic to respond to the environment in such a manner that it will generate, as a result, a competitive advantage to the company (Henderson, 1989).

According to Borges and Luce (2000) an emergent strategy becomes deliberate if the standard is recognized and if this standard is legitimized by the organisation's top management. When elaborating a strategy, managers usually do not spend time reading the several types of reports, they usually try to learn about their organizations and industrial sectors, for they are also sensitive to experience and mental models.

## 2.1. Strategic Management: concepts and processes

The Strategic Management (SM) began as a hybrid discipline, under the influence of sociology and economy, being essentially an evolution of the organizational theories (Vasconcelos, 2001). Certo and Peter (2005) consider that the SM had its origin in the course of business policies in the 50s, sponsored by the Ford Foundation and by the Carnegie Corporation, which encouraged schools to introduce in their curriculums a more ample discipline, called Business Policies. At the same time that this was happening, there are many classifications and visions about the SM's origin, influences, formation and evolution defended by several authors. For Mintzberg, Ahsstrand and Lampel (2000), the evolution of the SM starting from the schools appeared in different stages - some of which have already reached their highest point and have already declined, and others that are still in management. Despite its late formation, the SM presented a rapid development, theoretical as well as practical models, especially when considering the great quantity of market analyses models that appeared from the 60s onwards, as also several concepts such as the economic analyses of structure, conduct and performance, distinctive competency, essential competencies and the so called strategic planning management (Vasconcelos, 2001).

Cabral (1998) sees the SM's evolution starting from the prevailing strategic styles during the last 20 years: planning style (70s), in which the analyses of the probable fundamental the future's predictability; vision style (80s), in which the future's unpredictability was based on the possible imagination; apprentice style (90s), in which understanding the present moment enabled mapping and facing the future.

The term strategic management process refers to the dynamism that today's organizations have. Because it is a cycle, it is orientated to give a notion of continuity. Wright, Kroll and Parnell (2000) sustain that once implemented, the planned strategy will frequently require adjustments as environmental and organisational conditions modify. As consequence, the strategic elements will also suffer modifications. These modifications are always difficult or even impossible to predict. Consequently, an intended strategy can be carried in its original form or in any other, as it's possible management implementing a strategy that was not planned due to the environmental elements constant mutation.

In Certo and Peter's (2005) understanding, the current strategic management process is a continuous and interactive activity that aims maintaining the organization as a group appropriately integrated with its environment. For the authors, the correct application of a strategic management implies in encouraging the organization's members compromise to take part in the definition of strategies in order to reach their goals.

According to Hitt, Ireland and Hoskinsson (2008), the strategic management process is a group of commitments, decisions and necessary actions so that the company may obtain competitive advantage and above average returns. The first step of a company in the process is to analyse its external and internal environments to determine its resources, capacities, and essential competences - its strategic information source ("inputs"). With this information the company will develop its vision and mission as also formulates its strategy. To implement this strategy, the company takes actions in order to obtain competitive advantage and above average returns.

The strategic management, in general, has been presented in the literature, as a sequence of stages, whose denomination varies among the authors, but have a certain uniformity in conceptual terms. The strategic management process is a series of basic stages (Certo and Peter, 2005), or can be described as composed of steps that when put together form a model (Wright, Kroll and Parnell, 2000), or as a set of commitments (Hitt, Ireland and Hoskinsson (2008), as a progression of activities (Harrison, 2005), or as a set of processes (Saloner, Shepard and Podolny, 2001).

According to Certo and Peter (2005), the strategic management process is continuous, starting outside the organization and unfolding within it. Since it is a continuous process, it means that it progresses through stages, then to return to the first stage. This sequence qualifies the process' cyclical character. After the conclusion of these stages, the process may receive a feedback, returning to the first step (environment's analysis), if necessary.

After reviewing the literature it is concluded that the Strategic Management Process proposals converge to a sequence of stages, many times with similar denominations or dismemberments, that essentially involve five steps: Environment Analysis, Planning, Implementation, Strategic Control and Feedback (Certo and Peter, 2005; Harrison, 2005; Hitt, Ireland and Hoskinsson, 2008; Porter, 2000; Saloner, Shepard and Podolny, 2001; Wright, Kroll and Parnell, 2000).

The environment's analysis stage refers to acquiring knowledge about the external environment, as well as to the company's internal adaptations, due to the external demands. The planning stage is associated to strategic formulations. It is in this phase that managers use information from the external and internal environments in order to define their scope of goals and actions to achieve their objectives. Furthermore, it is necessary to establish the organization's business guideline. The implementation is a fundamental element for the practical success of the companies' strategies. Wright, Kroll and Parnell (2000), point out that during the implementation of

strategies, the strategic control process will start. The strategic control consists in determining the extent that the objectives of the organization are being reached. At last, the authors of this field defend that among the strategic management processes there should be a feedback; in other words, information about the results and the implementation of deliberate strategies should be returned to the decision makers for analysis and planning or correction of the actions' course.

## 2.2. Micro and small companies in Brazil and the strategic management process

Micro and small companies contribute in a significant manner in the generation of wealth in the Brazilian economy. They are relevant in absorbing employees, playing a complementary role to the bigger enterprises, a strategic role in foreign trade, which makes possible to diversify the exports and turns the economy less susceptible to the variations that occur in the world trade while directly impacting the local economy (SEBRAE, 2009).

Cher (1990) observes that, regardless of the degree of industrialization or of development of a nation, small companies have a fundamental role in the society, contributing not only to economy, but also politically. Small companies have a better performance in activities that demand abilities or specialized services, developing more personalized and specific works, notably in the service sector. Another relevant aspect is its capacity to react quickly to conditions that the environment offers, due to a smaller operational complexity and also because of a more effective flow of communication.

The official criterion that defines the size of the companies in Brazil is Complimentary Law 123 of December 14, 2006. By this law, the microenterprises are those that receive, in each calendar year, the gross revenue equal or under R\$ 360,000 (three hundred and sixty thousand reais). Companies of small size are those that gained, in each calendar year, a gross revenue superior to R\$ 360,000 (three hundred and sixty thousand reais) and equal or inferior to R\$ 3,600,000 (three million, six hundred thousand reais). It is noteworthy, however, that it is common to use number of employees to determine a company's size, a criterion used by SEBRAE that used in another countries. As noted, companies that have up to 19 employees are classified as micro and those that have between 20 and 99 employees as small (SEBRAE, 2009).

It is possible to observe that the elementary management tools are many times unknown or underused in the management of micro and small companies. The elaborations of the cash flow, the organization chart with main responsibilities, market's segmentation, among others are concepts that do not permeate the management, or if they do, normally it is in an empirical or rudimental manner. The strategic management, in small size organizations, follows an almost natural rhythm, but with deficiencies in several questions that are fundamental to improve competitiveness (SEBRAE, 2009).

The classical approaches in strategies of small companies have had basically their origin in economic approaches of strategy and aggregate

the scholars that examine small companies using adapted models based on the studies of big companies (Morris, Schindehutte and Allen, 2005; Olson and Bokor, 1995; Robinson, Pearce, Vozikis and Mescon, 1984). It is possible to consider also authors that try to explain the growth of companies as an evolution that follow a coherent structure, more or less predictable of organizational development. Alternatively, Child (1972) argues that studies related to big and small companies' strategic management have in general adopted one of two paradigms predominant in the area. The first one are the contingency approaches to management, which explain the relation between organizational structure and strategy or between environment and strategy, defining the so-called paradigm of strategic choice. The second relates to the focus on environmental determinism, minimizing the consideration of the role of strategic manager denominated the organizational ecology paradigm.

Other constructs, present in the literature about strategy in small companies, suffer the influence of two big approaches: one of economical nature and the other of entrepreneurial nature. The economic approach, used up to the middle of the 80s and the more recent approach, the entrepreneurial, that suggests the influence of the individual's behaviour over the formation and implementation of the strategic process. This new approach studies the association between the personal characteristics of the leader and small companies' strategic management process (Bamberger, 1983; Miller and Toulouse, 1986; Rice Jr. and Lindcamp, 1989).

Moore (1959) was the pioneer in the desire to create models for organizational growth. For this author, as the companies grow, they become to detach themselves more and more from the entrepreneur's influence. According to this author, the company starts highly dependent on the entrepreneur and his personal intentions. While growing, the company's strategy rationalizes when specialists are hired and management becomes more professionalized, less centralized and less personalized. In the third and last phase, the company is organized, with more bureaucracy and starts to present specializations in fundamental areas such as marketing, production and finances, configuring in a more traditional and bureaucratic management.

Research efforts in the small companies' strategic management field have proved to be somewhat less conclusive in many aspects. Among a few noteworthy studies of strategic management issues in small companies are the studies of Kellermanns et al. (2016) that investigated how the established Resource Based View of the Firm can be applied to entrepreneurship theory. The sample of their study consisted of individuals formerly enrolled in an entrepreneurship-teaching program, which ran small companies. Kraus, Rigtering, Hughes and Hosman (2011) studied entrepreneurial orientation as an antecedent of growth, competitive advantage and performance on 164 Dutch SMEs. Pérez-Luño, Saporito and Gopalakrishnan (2016) studied the process to create tacit knowledge and its importance to competitive advantage of SMEs in a survey that involved 374 companies. One of the few points in which there seems to be a convergence

with the studies is in respect with the nature of the strategic planning process in small companies, that has been described as incomplete, not structured, irregular, sporadic, reactive, informal and not very sophisticated (Shuman, 1975; Sexton and Van Auken, 1982).

For Harrison (2005) strategies are not "planned" in the literal sense in small companies. According to the author, managers take advantage of market's opportunities, however with some orientation based on the organization's mission. Thus, strategies reflect the business owner's ideas and, as time goes by, they are transformed into a model, followed by successive decisions. Davig (1986) studied the strategies that were adopted by small companies in mature industries, using the taxonomy proposed by Miles and Snow (1978). The data obtained, with a sample of 60 companies, indicated that firms with prospective and defensive strategies reached a better performance in terms of profit growth, while the reactive ones presented a worse performance result. The performance of the analytic companies was between the results of the reactive and the other two types. Differences in the sales' growth were not statistically significant, albeit being in the same direction. Opposite to Smith, Guthrie and Chen's (1986) conclusions, the size of the companies do not seem to be associated with performance, but the bigger companies tended to be analytical or prospective.

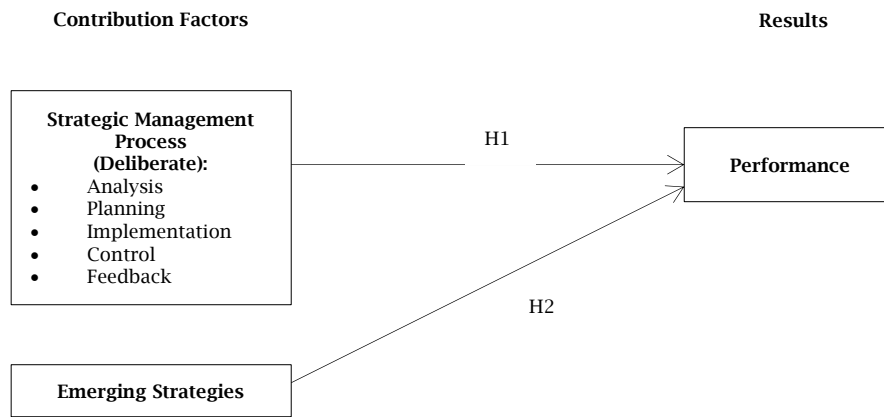
### 3. METHODS ADOPTED

This research was planned in two phases. The first phase, of a qualitative and exploratory character, aimed studying the phenomenon in order to identify the variables. It was accomplished by a literature review and semi structured interviews with specialists, being these eight PhD Professors in the Strategy Field.

The second phase, of a quantitative nature, had as its objective to validate the instruments and test the structural model (Figure 01), by means of a research of the survey type. The structured questionnaire was applied by the employees of the Brazilian Service of Support for Small and Medium Businesses (SEBRAE), Minas Gerais stated division, on 57 microregions spreaded all across the State of Minas Gerais. The sample had 378 respondents, partners or managers, mostly of micro and small companies, defined according to SEBRAE's classification by the number of employees. The businesspersons that were in training, or taking part in working groups, or were seeking for support and advice at SEBRAE, were asked to fill in the questionnaires.

With respect to the business sector, it is possible to verify that the biggest part is concentrated in the commercial sector (40.7%) and in the service sector (34.1%). The other 8.7% stated that they worked in the industrial sector and the rest in mixed sectors. As to the corporate governance, it was possible to identify that family members manage nearly 50% of them. Companies that are managed by professionals, correspond to 20.1% and of mixed management (professional + family members) correspond to 20.9%.

Figure 1. Hypothetical Model



The proposed hypothetical model is centered in the theoretical framework about Strategic Management Process suggested by Certo and Peter (2005), Geus (1997), Harrison (2005), Hitt, Ireland and Hoskinsson (2008), Kaplan and Norton (1997), McGee and Prusak (1994), Saloner, Shepard and Podolny (2001) and Wright, Kroll and Parnell (2000). A theoretical construct is elaborated and a hypothesis proposed that an increased intensity of the Strategic Management Process produces a positive impact on the performance of micro and small companies. On the other hand, it also sought to, as suggested by Mintzberg (2003), to verify the impact of emergent strategies on the performance, in a hypothetical manner, which led to the proposition of a second hypothesis. The following hypothetical research model can be viewed in figure 01.

The measuring scales of the execution's intensity for each of the stages of the Strategic Management Process (Analysis, Planning, Implementation, Control and Feedback) were developed through a literature revision observing the activities that, according to the authors, should be applied in each one of the stages. For example, in the analysis phase, it is consensus in the literature that the organizations should promote internal and external information analysis. Thereby, a set of questions were elaborated to verify if the company carries out this activity and with what intensity. The preliminary scale was submitted to eight PhD lecturers of the Strategy Field, in order to verify gaps and correct any possible issues, in a test of face validity of the questionnaire.

*Hypothesis 1:* There is a positive impact of the Strategic Management process's stages on the micro and small companies' performance.

*Hypothesis 2:* There is a positive impact of the emergent strategies on the micro and small companies' performance.

In the descriptive analysis of the variables that were created beforehand to measure the model's constructs, which are eight altogether, it was possible to verify that the average found for the variables were situated towards the middle of the scale and the standard deviations were high, above 2.00.

The analysis of missing values comprised the individuals that formed the sample. Individuals with missing data superior to 5% were to be excluded from the sample, for this would affect the validation of the answers. For this reason, 32 of the 378 questionnaires received were excluded. After the exclusion, the missing data accounted for 139, which represent 0.62% of the total of answers. None of the variables presented more than 2% of missing data, a value considered low.

To verify the existence of univariate normality observations, it was adopted the standardization of results in a manner that the variable's average is 0 and the standard deviation 1. For the bigger samples, the suggestion is that for observations with standardized scores superior to 3 or 4, should be considered atypical observations (Hair et al., 2005). In the present analysis, it was used a score criteria inferior/superior to |3.24| as atypical observations. Based on these criteria, no outlier univariates were found.

The Kosmogorov-Smirnov test that calculates the significant level for the differences of the normal distribution was also used. Significances inferior to 5%, for the Kosmogorov-Smirnov test, for Asymmetry and Kurtosis attest that the data does not follow a normal distribution.

The linearity, also, consists of a presupposition for multivariate techniques and is based on correlated measures of linear association between variables. One of the means of verifying the data's linearity is by checking the correlation of the variables pair by pair. If the correlation presents a significant coefficient, this indicated that the data are linear (Hair et al., 2005). The most commonly coefficient that is used to verify the linear relations between variables is Pearson's (Malhotra, 2006) and it was used in this form in the present research. It is noteworthy to say that at a level of 5%, 245 not significant relations were identified starting from the correlation matrix's analysis, which represents 11.8% of the possible correlations. When the scatterplot was analysed, these deviations did not alter the data's linearity.

The data's analysis continued, as it was considered that the nonlinear effects that were found, represents only a small part of this type of association among the indicators, not implying,

therefore, in a lack of linearity (Hair et al., 2005) or the loss of substantial information contained in the data's matrix.

In order to verify the scales in this study's dimensionality, factorial analyses were carried out and, as an extraction method, the principal axis was used. This method is the most indicated when the main objective is to verify the existence of latent dimensions (Malhotra, 2006). For the rotation method, this study used the Oblimin, for this method starts from the presupposition that there is a relationship between the factors (Hair et al., 2005). The criteria that were adopted to find the best factorial solution and their parameters was: 1) Kaiser-Meyer-Olkin (KMO) -  $> 0.500$  (for 2 variables) and  $> 0.600$  (for 3 variables or more); 2) Bartlett's Sphericity Test (BST) - Significant value inferior to 1%; 3) Explained Variance (EV) -  $> 60\%$ ; 4) Communalities ( $h^2$ ) -  $> 0.400$ ; 5) Factorial Load (FL) -  $> 0.400$ . Five of the models constructs presented explained variance inferior to 60%. Thus, the variables with the smallest communalities were removed.

Among the model's 08 existing constructs (Analysis (C1), Planning (C2), Implementation (C3), Control (C4), Feedback (C5), non-planned Strategies (C6.1), Emergent Strategies (C6.2), Quality in the Decision Process (C7) and Performance (C8), it was observed that 03 of them met the necessary presuppositions to be considered the valid factor solution, without needing to remove none of the original variables. However, the constructs' variables C1, C3, C5, C6.2 and C7 were removed, with the objective of improving the factorial solution according to the established parameters. Also, it was verified that the C6 construct (emergent strategies) was dismembered in two dimensions.

To verify if the scale is free of random errors, a reliability analysis of the scale was made (Malhotra, 2006). The measurement usually used to verify the scale's reliability is the Cronbach's Alpha. The data shows that all of the constructs present Cronbach's Alpha superior to the limit suggested by the literature of 0.700, defined for scales that have already been validated (Malhotra, 2006). It was not necessary to remove none of the variables of the constructs in order to increase their reliability. An evaluation of the measurements' convergent validity was also conducted, seeking to identify if the indicators of a construct are really adequate to measure the latent dimensions of interest and the discriminant validity that evaluates if the constructs do effectively measure the different aspects of the phenomenon of interest (Hair et al., 2005). These tests were carried out using Confirmatory Factorial Analysis (CFA). When running the analysis, it was verified that the variables Q31 (Has reports and systems to control...) and Q32 (Compares the results that were obtained with the goals...) do not present a convergent validity. For this reason, these variables were removed from the model.

To evaluate the constructs' discriminant validity, Fornell and Larcker (1981) method was adopted. Discriminant validity is assessed by comparing the shared variance (squared correlation) between each pair of constructs against the average of the AVEs between the pairs of constructs. The

results show that it is possible to certify the discriminant validity in almost all the constructs pairs.

The Method of Structural Equations Modelling (SEM) was chosen to test the proposed model. According to Mackenzie (2001), this method has usually been the approach to evaluate causality relations, because it takes into consideration the measuring mistake, it increases the control of the effect of experimental manipulation, it is capable of testing complex theoretical structures, it can conjugate macro and micro approaches and it offers robust evidences of validity and trustworthiness. Although the term Structural Equation Method refers to several algorithms for the solution of simultaneous equations' systems, it can also be understood as a technique which aims to understand the relation between the variables that are being observed, denominated as indicators, their respective latent variables and measuring mistakes; and the several latent variables, namely the relation between several theoretical constructs. In short, it is assumed that the measured indicators are a reflex of the interest latent construct added to a measuring mistake.

As the research's data did not meet the normality presupposition, the method of estimating parameters was the generalized least squares' method. According to Mingoti (2005), estimators of this function do not have as an assumption the multivariate normality of data. The software that was used was AMOS 4.0 and, in figure 02, one can see the measuring model that was tested.

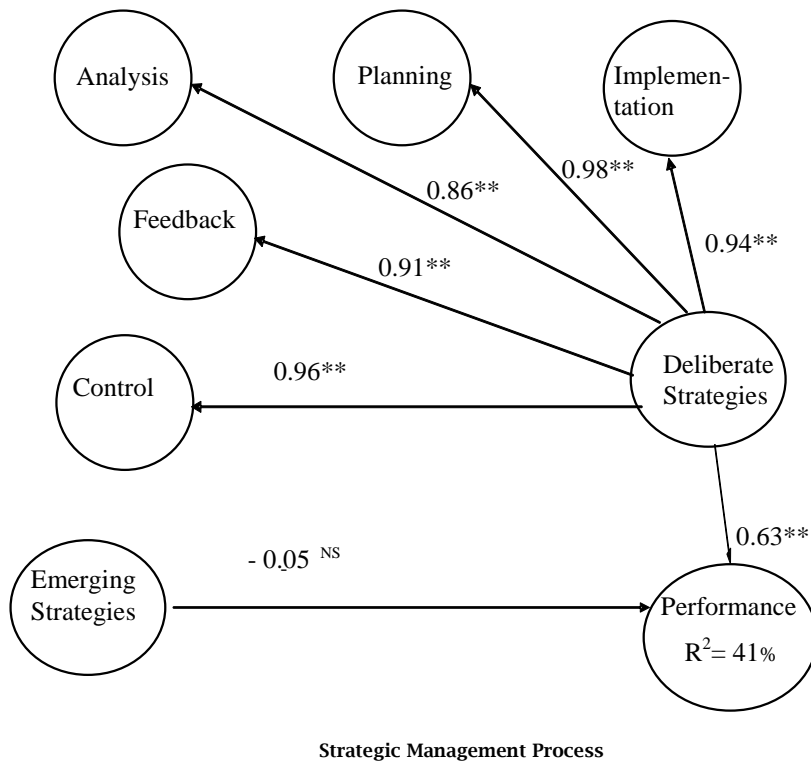
#### 4. TEST AND ANALYSIS OF THE HYPOTHETICAL MODEL: DELIBERATE STRATEGIES AS A CONSTRUCT OF SECOND ORDER

When a model is tested, it is not only to evaluate the reliability of the measurements that were checked, but, mainly, to know if the measurements, defined beforehand as adequate, effectively support the relation between hypotheses and the measured variables. It is essential therefore to evaluate if the associations supposedly causal suggested by a theory are, indeed, supported by the data that was collected. Ultimately, it is expected to test a series of casual relationships using a homological chain (Hunt, 2002).

So to run the model the factors that compose the Deliberate Strategies macro construct were transformed into variables through a simple average based on the variables that were left after a convergent validity (Hair et al., 2005).

The quality of the adjustment of a model measures the correlation of the data's matrix of real entrances or observed (covariance or correlation) with that one predicted by the proposed model (Hair et al., 2005). These authors emphasize the need to take precautions against the model's "super adjustment" to the data. In other words, a certain proportion must be maintained between the estimated coefficients number and the number of respondents to be able to obtain parsimony, being that the achievement of a better or bigger adjustment for each estimated coefficient.

Figure 2. Tested Theoretical Model



**Note:** \*\*Weight is significant at a level of 0.1% ( $p < 0.001$ ); NS - Weight is not significant at a level of 5% ( $p > 0.05$ ); Adjusting Measures: Chi-square=1599.988,  $df = 852$ , Chi-square/ $df = 1.878$ , GFI = 0.784, AGFI = 0.760, RMSEA = 0.050

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Table 1. Measuring estimates of the proposed model

Independent	Dependent	Reg. <sup>a</sup>	Error <sup>b</sup>	Value T <sup>c</sup>	Standard <sup>d</sup>	Conf. <sup>e</sup>
Emerging strategies	Performance	-0.02	0.03	-0.65	-0.03	-
Deliberate strategies	Performance	0.52	0.06	9.28	0.64	0.41
Performance	Q62	1.00	-	-	0.77	0.76
Performance	Q63	1.30	0.08	16.68	0.87	0.82
Performance	Q64	1.38	0.10	13.40	0.88	0.79
Performance	Q65	1.43	0.11	13.65	0.89	0.83
Performance	Q66	1.61	0.11	14.66	0.90	0.65
Performance	Q67	1.53	0.10	15.77	0.93	0.55
Performance	Q68	1.48	0.10	14.67	0.90	0.76
Performance	Q69	1.47	0.11	14.06	0.84	0.70
Emerging strategies	Q47	1.00	-	-	0.80	0.63
Emerging strategies	Q48	1.05	0.07	15.68	0.84	0.71
Emerging strategies	Q49	1.07	0.07	16.15	0.87	0.80
Emerging strategies	Q51	0.88	0.06	14.09	0.74	0.86
Deliberate strategies	Analysis	1.00	-	-	0.81	0.82
Deliberate strategies	Planning	1.37	0.07	18.84	0.91	0.79
Deliberate strategies	Implementation	1.05	0.06	19.16	0.89	0.77
Deliberate strategies	Control	1.36	0.08	16.54	0.91	0.75
Deliberate strategies	Feedback	1.31	0.08	16.67	0.87	0.60

Note: a) the regression weight: corresponds to the value of the non standardized statistics. b) standard error: error of the non standardized estimate. c) value t: is the ratio between the non standardized weight by its standard error and, if superior to 2,236, it indicates the convergent validity at the level of 1%. d) standardized weight: indicates the correlation between the indicator and the latent construct. e) the indicator' reliability: values above 0.4 indicate a percentage of variance explained in the limit of 40%, this being considered ideal (Bollen, 1989).



These authors emphasize the need to take precautions against the model's "super adjustment" to the data. In other words, a certain proportion must be maintained between the estimated coefficients number and the number of respondents to be able to obtain parsimony, being that the achievement of a better or bigger adjustment for each estimated coefficient.

The Table 1 presents the regression loads and their significance, besides the standardized load and of the multiple correlations of the model's variables.

To verify the fit of the structural model, measures of absolute fit and parsimonious were used. The measures of absolute fit evaluate only the model's general adjustment, not taking into account the "super adjustment". Now the parsimonious adjustment evaluates the proposed model's parsimony by the adjustment analysis versus the number of estimated coefficients that are necessary to reach the adjustment level. In the table 02, the values that we found and the desired values for the adjustment measures are presented.

**Table 2.** Adjustment indexes of the proposed model

Adjustment	Index	Found Value	Desired Value
Absolute	Chi-square	350.006	N.A
	RMSEA	0.076	Inferior than 0.080
	GFI	0.881	Superior than 0.900
Parsimonious	AGFI	0.884	Superior than 0.900
	$\chi^2/df$	2.992	Between 1.000 and 3.000

Finally, the adequacy of the obtained structural solution was evaluated. It is important to point out that offensive estimates did not occur, such as non-significant variance errors, which indicates a relative stability of the solution (Hair et al., 2005).

To evaluate the model's absolute adjustment, the RMSEA and the GFI were used. According with the established parameters in the literature (Hair et al., 2005), it is possible to verify in the table 02, that the GFI was a just below the established limit and that the RMSEA was within the limit. Thus, even that the model does not present an adjustment that is strictly within the limits that were suggested by the literature, considering the significance of the chi-square statistic; its adjustment is moderate, which allows that inferences about the estimated casual relationships to be weaved.

In the analysis of the hypothetical model that was tested, it can be observed that 41% of the performance variation are explained, based on the elements in the figure 01. The impact load of the Deliberate Strategies construct is of 0.62, which is significant at the level of 1% and of the Emergent Strategies is of -0.05, which is not significant at the level of 5%. This reveals that these performance variables are of responsibility mainly of the Deliberate Strategies independent variable.

All of the strategic stages presented significant weights as elements that explain the performance of micro and small companies. It is possible to verify, however, that Planning and Control are the stages that have the highest weights in performance between the Deliberate Strategies' processes. The Analysis' Stage is the construct with the smallest weight; however, its weight is also high - Standardized Beta of 0.86.

**5. THE STRATQUAL'S INDEX: PROPOSAL AND METHODOLOGY**

In the first stage of the paper, it was presented through two models, two significant impacts of the Strategic Management Process on micro and small companies' performance. In this sense, the processes explained 41% in the hypothetical model and 43% in the alternative model, suggesting its relevance.

However, there still is a challenge: how to diagnose and compare the intensity and quality of

these processes in a company, indicating if a company is applying processes and practices competitively when comparing itself and others of its sector? What levels of the processes' indicators produce a superior performance?

In this sense considering the proposed hypothetical model, the StratQual Index is proposed: an index calculated in a 0 to 100 scale, weighing the importance of the process (structural weight) with in intensity exercised by the company.

**5.1. Calculus and Method**

To calculate the Stratqual index, it was necessary to calculate the weights for each one of the dimensions of this construct, namely: C1 - Analysis, C2 - Planning, C3 - Implementation, C4 - Control and C5 - Feedback. To reach the calculus of these indexes, Kline's (1998) suggestions were followed, using values weighed by the non-weighed structural weights in order to calculate the average of the weighed factors (MF) for each one of the constructs. With this objective, the following formula [1] was applied:

$$MF_i = \frac{\sum_{k=1}^k W_k X_{KI}}{\sum_{k=1}^k W_k} \tag{1}$$

where,  $W_k$  is the non-standardized regression weight of k indicator that was obtained in the structural model;

$X_{KI}$  is the observed value of k indicator for the i respondent.

Thus, items that share more variance with their constructs receive a larger weight when the averages are calculated, reflecting their greater importance to measure the proposed construct. An alternative way of expressing the index's calculus is to transform the standardized weights (absolute values) in relative values, only needing to apply [2]:

$$WR_i = \frac{W_k}{\sum_{k=1}^k W_k} \tag{2}$$

where,  $W_k$  is the non-standardized regression weight of  $k^{esimo}$  indicator that was obtained in the structural model.

Therefore, WR becomes a relative weight in which each indicator is expressed as a percentage in the index's composition. In such a form, that the sum of the weight ( $\sum_{i=0}^k W_k$ ) of a construct becomes equal to 1. In other words, this standardized weight represents the relative importance of the indicator i for the index's composition (sum) of the considered index. As in [1] the divisor is now equal to unit (1), so the correct formula to be applied is reduced to [3]:

$$MF_i = \sum_{i=1}^k WR_k X_{ki} \tag{3}$$

The formulations [1] and [3] lead to the same results, but the application of [3] has the advantage of identifying the relative weight (or relative importance) for the factor, being more conveniently applied. As the questionnaires scales are constructed with 11 points (1 to 10), the final index was multiplied by 10 so that its amplitude is of 0 to 100. The following Table 3 expresses the absolute weights (non-standardized regression weights) and relative weights (relative importance) of each indicator in the structural model.

**Table 3.** Absolute and relative weights of each questions for the constructs

QUESTION	DIMENSION	WEIGHT	IMPORTANCE
Q5	C1	1.00	15.6%
Q8	C1	1.13	17.6%
Q9	C1	1.14	17.8%
Q10	C1	1.14	17.8%
Q12	C1	1.06	16.5%
Q13	C1	0.94	14.7%
Q15	C2	1.00	13.3%
Q16	C2	1.00	13.3%
Q17	C2	0.99	13.1%
Q18	C2	1.15	15.3%
Q19	C2	1.19	15.8%
Q20	C2	1.10	14.7%
Q21	C2	1.10	14.6%
Q22	C3	1.00	18.5%
Q23	C3	0.98	18.2%
Q24	C3	0.76	14.1%
Q26	C3	0.79	14.6%
Q28	C3	0.95	17.6%
Q29	C3	0.92	17.0%
Q33	C4	1.00	14.5%
Q34	C4	0.98	14.2%
Q35	C4	0.99	14.4%
Q36	C4	0.94	13.6%
Q37	C4	1.05	15.3%
Q38	C4	1.01	14.7%
Q39	C4	0.92	13.3%
Q41	C5	1.00	19.2%
Q42	C5	1.05	20.2%
Q43	C5	1.02	19.5%
Q44	C5	1.02	19.6%
Q45	C5	1.12	21.5%
Q47	C6.1	1.00	24.7%
Q48	C6.1	1.15	28.4%
Q49	C6.1	1.10	27.2%
Q51	C6.1	0.80	19.7%
Q62	C8	1.00	9.2%
Q63	C8	1.18	10.8%
Q64	C8	1.32	12.1%
Q65	C8	1.41	13.0%
Q66	C8	1.48	13.6%
Q67	C8	1.57	14.4%
Q68	C8	1.39	12.8%
Q69	C8	1.53	14.1%

To proceed to the Straqual calculus, first it is necessary to apply the formulation [1] or [3] and find the factors C1 and C5 averages. Then, the same

procedures are applied considering the averages of the five factors and the weights that were reported in Table 4.

**Table 4.** Absolute and Relative weights for each dimension for the Stratqual

Dimension	Weight	Importance
C1 - Analysis	1.48	15.2%
C2 - Planning	2.18	22.3%
C3 - Implementation	1.80	18.4%
C4 - Control	2.27	23.2%
C5 - Feedback	2.03	20.8%

Considering the averages that were used in the study, the following descriptive values were found for the Stratqual scale and its dimensions, according to Table 5.

**Table 5.** Descriptive Values

	N	MIN	MAX	AVERAGEMEDIA	DEVIATION
C1 - Analysis	346	.32	10.00	6.3018	2.20441
C2 - Planning	346	.00	10.00	5.3683	2.64763
C3 - Implementation	346	.35	10.00	6.4129	2.16561
C4 - Control	346	.00	10.00	5.0613	2.62150
C5 - Feedback	346	.00	10.00	5.2927	2.68431
Stratqual	346	.58	9.97	5.6156	2.25292
C6.1 - Non planned	346	.00	10.00	4.8578	2.48227
C8 - Performance	346	.53	10.00	6.5573	2.09223

Furthermore, the percentage of the sample were calculated, and they can serve as a comparison parameter of relative performance of other studies that use the scale mentioned above, according can be used to compare as a performance comparison parameter, as it is possible to verify in Table 6.

**Table 6.** The Samples Percentiles

PERC.	C1	C2	C3	C4	C5	StratQual	Non Plan.Strat.	Performance
10	3.16	1.41	3.10	1.34	1.21	22.2	1.34	3.63
20	4.31	2.80	4.64	2.59	2.79	34.4	2.49	4.68
30	5.21	4.00	5.46	3.37	3.59	44.2	3.42	5.42
40	6.04	4.64	6.12	4.29	4.59	50.6	4.13	6.34
50	6.63	5.48	6.75	5.25	5.58	58.1	4.91	6.76
60	7.04	6.29	7.25	5.86	6.37	63.4	5.67	7.29
70	7.68	7.15	7.82	6.75	7.01	70.3	6.51	7.89
80	8.29	7.90	8.35	7.59	7.81	77.2	7.17	8.52
90	9.14	8.99	9.01	8.57	9.00	85.7	8.00	9.16

According to Table 6, it is possible to verify significant differences between the several percentages, suggesting that the specific profiles of this segment (of high and low intensity of the strategic management processes and performance), as also as classification and categorization criteria, that allows to know in which group (of percentile) a company belongs.

In this sense, the differences between groups of companies were explored, considering variables such as size, type of management, among others. The results are presented as follows.

## 5.2. StratQual Index: Comparison among Groups

With the objective of verifying the differences between groups and verify the capacity of the proposed index to presented cohesion and meaning empirically, an analysis of the companies groups is carried out with the demographic variables present in the research's instrument. Initially, a verification was carried out of the differences between companies of different sizes and values of the StratQual index, according to Table 7.

**Table 7.** StratQual Values by Size of the Company

Company's size	Analysis	Planning	Implementa-tion	Control	Feedback	Perfor-mance	Stratqual
Micro	5.9608	5.1279	6.2201	4.8855	5.1536	6.1884	54,047
Small	6.2844	5.0783	6.3318	4.5638	4.8082	6.6991	53,168
Medium	7.2670	6.7178	7.3094	6.2963	6.6312	7.3509	67,943

Source: data from the research. \* Differences of the significant averages at level of  $p < 0.01$  (1%) - Anova test

According to Table 9, it is possible to observe that bigger the organization, more intense is the strategic management processes and the

performance. To be able to analyse the relation between the StratQual's index and the company's Governance, the Table 8 was elaborated.

**Table 8.** StratQual values for Governance

Governance	Analysis	Planning	Implementation	Control	Feedback	Performance	Stratqual
Family	6.0162	4.7872	6.0202	4.6302	4.8950	6.1416	51,872
Mixed	6.6234	5.9590	6.7682	5.4920	5.7657	7.0522	60,603
Professional	6.8270	6.1895	7.0811	5.6063	5.8075	7.0551	62,356

Source: data from the research \* differences of significant averages at the level of  $p < 0.01$  (1%) - Anova test

With reference to the companies' governance, all the indexes were significant. In a general manner, the family companies present smaller values in all

the Stratqual dimensions. To explore the relation between education and the strategic management process, Table 9 is presented.

**Table 9.** StratQual Values for Entrepreneur's Level of Education

Entrepreneur's level of Education	Analysis	Planning	Implementation	Control	Feedback	Performance	Stratqual
Elementary School	5.7426	4.2353	5.6486	3.6175	4.1040	5.0234	45,539
High school	5.5752	4.6955	6.0195	4.5341	4.6586	6.3402	50,279
Incomplete Undergraduate	6.2129	5.3082	6.2074	4.9617	5.1759	6.2690	55,033
Complete Undergraduate	6.8536	5.9321	6.8001	5.3865	5.8441	7.1948	60,870
Graduate	6.8524	5.8094	6.9107	5.5688	5.6352	6.8592	60,786
Others	6.7592	6.2451	7.4194	6.3138	6.6880	7.4661	66,478

Note: \* differences of significant averages at the level of  $p < 0.05$  (5%) - Anova test

Table 9 shows significant effects of the education among all the Stratqual's indicators. It is possible to notice a certain tendency in which companies with entrepreneurs with higher education present the highest averages in the strategic management processes (higher intensity) and a value higher than the StratQual's index.

## 6. FINAL CONSIDERATIONS

The result of this study, on one side, indicates that micro and small companies that perform the activities of each of the Strategic Management process' stages with higher intensity have a superior performance. This empirical observation indicates that companies' may need to review their management processes if they want to improve their performance. As all the stages present a significant impact and of significant value (all with weight above of 0.86), and there are evidences that if all the stages are executed it will lead them to a superior performance. On the contrary, if they neglect any of these stages, the organizational performance could be affected.

On the other hand, the results from the studied sample indicate that the emergent strategies did not present a significant impact on micro and small companies' performance. This observation corroborates with the arguments that firms should elaborate strategies in a more integrated and systemic manner, involving execution capabilities in all the stages of the process: analysis; planning; implementation; control and feedback.

Another important component is the fact that in the literature about the theme, the constructs about formulating and implementing strategies were pointed out as the ones of primordial interrelation in the strategies management' process. The formulation and implementation processes were the connection between thought and action (Mintzberg and Waters, 1985; Mintzberg, 2003), albeit the success of the strategic management' process depends of the total integration between the formulators and the implementers (Reid, 1989). These stages should be simultaneously integrated if the company wants to use successfully the strategic management process (Hitt, Ireland and Hoskinsson, 2008), but the strategies, however well chosen, will fail if the implementation is not well done (Whittington, 2002). However, the research's result points to highest weights, and importance, found for the planning and control stages in detriment to implementation. Despite not being considered expressive, it is a paradox pointed out by the study vis-a-vis to the literature about the theme.

The feedback is another element that presents interesting behaviour, due to its importance as antecedent of performance. Nevertheless, feedback is primordial in the strategic management process, because it is the only one capable of processing information in all the stages, creating input for the implementation of strategic changes. The capacity of a strategic feedback system should be to test, validate and modify the hypotheses included in the strategy of a business unit.

Lastly, it is worth mentioning that the main contributions of this paper are related to the gaps that exist in the literature that attest empirically the correlations between strategic management and performance. It is possible to observe that the paper tests empirically these relations, can be of great value, not only for the managers, but, also, for the academics, triggering a subsequent series of replication studies, that not only seek to prove the hypotheses in other sectors, companies' sizes and countries, but, yet, to verify empirically the possibility of generalizing its results. Small companies and their particularities have been included in the strategic management theory building effort (Wernerfelt and Karnani, 1987) mainly because in the early efforts focused on the upper echelons of companies (Chandler Jr, 1962; Hoskisson et al., 1999) or on the industrial sector from an economic macro perspective (Porter 1979, 1998). An argument can be made that the strategic research made about SMEs only evolved after the emergence of the studies of entrepreneurship.

Micro and small companies do not plan or that even do not have an organized management, some argue it. However, when observing companies that show greater emphasis in strategic management, and display a better performance, one can take inferences about the relevance of a greater degree of professionalization of their management that can be obtained either through training or developing strategic management skills. This becomes more important when considering the social and economic relevance of the micro and small companies nowadays.

This study has also contributed to the development of scales that measure the intensity with which companies carry out the strategic management process and its stages. As well as the development of a theory about the theme, by either refinement or application of scales in other countries or organization sizes, enabling studies correlated with strategic management possibly with other antecedents and performance theoretical models, that may advance the knowledge of the field.

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