

◆ INTERNATIONAL NOTE

## STRATEGIC BEHAVIOR IN SMALL AND MEDIUM-SIZED FIRMS: PRELIMINARY CONSIDERATIONS

Tracing the evolution of management theory over several decades, one can observe a striking change in the direction of a greater concern for holistic understanding.<sup>1</sup> There has been a shift in emphasis from explaining particular aspects of management to understanding the total process or mechanism. Parallel to this development, a remarkable surge of interest in small business has occurred. Figure 1 illustrates some interesting connections between these two developments.

The pattern of relationships shown in figure 1 would seem to suggest that as interest in small business grows, interest in strategic questions declines. A more cautious interpretation is that these two tendencies exert pressure in opposite directions. The planning euphoria of the technocrats with their scientific management and their naive belief in the feasibility and "shapeability" of the future gave impetus to the need for a forward-looking orientation. In scientific management the most important goal is maximization of the economic and technical performance of the enterprise in order to achieve economies of scale. This, in turn, created a strong disposition to behave strategically. These tendencies, however, have been offset to some

extent by the spread of the human (or humanizing) perspective, which emphasizes that goals can be better achieved in communities of small size, with the result that large companies have chosen to perform their operations in smaller, more close-knit units. The holistic approach with its focus on understanding realities and seeing the whole as opposed to only the parts has contributed a similar offsetting effect.

### The Nature of Strategic Management

Strategic management obviously means management in pursuit of and on the basis of a strategy. The strategy is the course by means of which a change is effected, specifically a change in behavior.<sup>2</sup> This course tends to be both *comprehensive* and *long-term*, and involves more than planning, which is, after all, a separate and quite different matter from the implementation of a plan.<sup>3</sup> This is mentioned because, in practice, strategic management is often taken to be an alternative to planning.

Looked at comprehensively, however, strategic management includes planning, as can be seen in figure 2, in which the elements of the St. Gallen Management Model have been com-

<sup>1</sup>Cf. H. Ulrich, "Wandlungen im Unternehmensbild. Konsequenzen für die Unternehmensstrategie und -kultur." St. Gallen, 1985. (Unpublished manuscript.)

<sup>2</sup>H. Hinterhuber, *Strategische Unternehmensführung*, 2nd ed. (Berlin/New York: de Gruyter, 1980), p. 24.

<sup>3</sup>B. F. Wittek, *Strategische Unternehmensführung bei Diversifikation* (Berlin/New York: de Gruyter, 1980), p. 23 f.

**Figure 1  
PERSPECTIVE AND STRATEGIC BEHAVIOR**

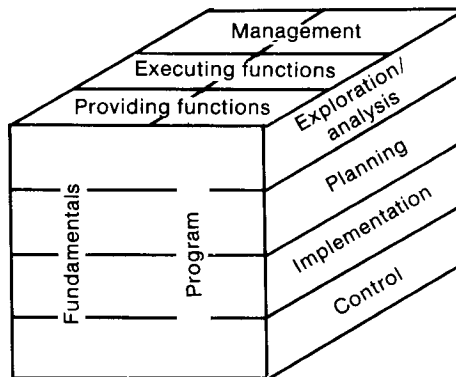
Perspective	Interest in Small Units	Occasion/"Pressure" for Strategic Behavior
technocratic <sup>a</sup>	slight	great
human <sup>b</sup>	growing	declining
holistic <sup>c</sup>	great	comparatively slight

<sup>a</sup>Technocratic: Scientific management. Most important is the maximization of the economic and technical performance of the enterprise. The ideal of this perspective is the "economies of scale." SMBs do not fit in this perspective.

<sup>b</sup>Human: The idea that humanity can be realized much better in groups, i.e., in communities of smaller sizes, than in a mass. Big companies "survive" by the vision in dividing these in many small units.

<sup>c</sup>Holistic: The ideal to show the reality of the big companies in an integrated kind was difficult because of the problem of their extreme complexity. One solution for the researchers therefore is to look at smaller units of these companies which are easier to research.

**Figure 2  
ELEMENTS OF STRATEGIC MANAGEMENT**



bined with the elements of the Kirsch/Trux model.

Strategic management is a complex process in which no element can be looked at separately because many elements are integrated and combined.

<sup>4</sup>W. Kirsch and W. Trux, "Vom Marketing zum Strategischen Management," in W. Kirsch and P. Roventa (eds.), *Bausteine eines Strategischen Managements* (Berlin/New York: de Gruyter, 1983), p. 57.

It is also possible to represent the strategic management process two-dimensionally, as Hinterhuber does:<sup>5</sup>

1. *Analysis of the firm's starting position and prospects* on the basis of a comparison of the opportunities and threats of environmental developments, the company's strengths and weaknesses, and the values and social concerns of management;
2. *Formulation of strategies* by which the desired product/market combinations are to be realized and the long-term profit objectives achieved;
3. *Design of functional policies* that will serve the executives in the different spheres of operation and/or departments of the firm as guidelines for drawing up plans of action in harmony with the strategies;
4. *Moulding of the organization* required to carry out the strate-

<sup>5</sup>H. Hinterhuber, *Strategische Unternehmensführung*, p. 31.

gies and functional policies, including motivating the persons involved and supervising the system.

The steps in the strategic management process, as perceived by Hinterhuber and by Kirsch/Trux, are compared graphically in figure 3.

All in all, strategic management involves an attempt to cope more effectively with the great and rising demands emanating from both outside and inside the firm by:

- Giving the development of the firm a long-range direction;
- Formulating and applying an overall concept of the firm;
- Generating, implementing, and controlling basic strategies and substrategies;
- Utilizing such special "strategic" tools as strengths/weaknesses analysis and opportunity/risk analysis, among others.

A forward-looking orientation is intended to place the firm in a position to measure up more effectively to the demands made upon it. This calls for imagination and flexibility, and it is precisely these qualities that ought to be, if not actually furnished, at least deliberately fostered by strategic management.

#### **Strategic Management in the Small Firm**

Many small-business entrepreneurs are successful even without explicitly practicing the kind of management usually described as strategic. Ought we then attempt to convert to strategic management even those individuals who, up until now, have held their own with the aid of improvisation and intuition? Would it not be wrong to make a successful entrepreneur unsure of him or herself and thereby undo his or her success?

The necessity for working toward strategic behavior, even in the small or

medium-sized firm, appears to depend on two criteria—size of firm and type of entrepreneur. By the time a firm has grown too big for one person to manage, management by instinct alone will no longer be enough. Differences may exist among firms as to when that point will come, but it will probably be reached while the firm is still relatively small. As it is widely believed that the head of the small or medium-sized firm is the most important factor in its success or failure, a great deal of thought has been devoted in recent years to the small-business entrepreneur. The result has been a number of more or less elaborate typologies, such as those of Smith,<sup>6</sup> Miles and Snow,<sup>7</sup> and Vesper.<sup>8</sup> We adopt a much simpler approach, as shown in figure 4.<sup>9</sup>

This approach differentiates between a "narrow perspective" and "broad perspective," as follows: a narrow perspective is one which is quite simple, straight-forward, and without much differentiation. A position is either right or wrong and not the subject of discussion. An example of someone with a narrow perspective is the typical autocratic manager with his black-and-white outlook. In contrast to the narrow perspective, the broad perspective is differentiated and more open minded. An example is the entrepreneur who is open for any kind of new idea and

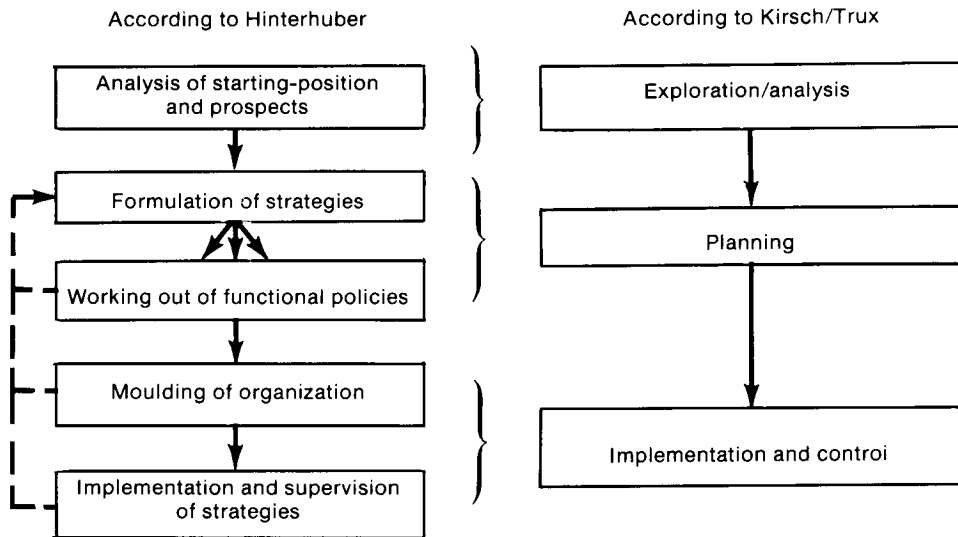
<sup>6</sup>Smith distinguishes between "craftsman entrepreneurs" and "opportunity entrepreneurs." See N. R. Smith, "The Entrepreneur and His Firm: The Relationship between Type of Man and Type of Company" (East Lansing, Mich.: Bureau of Business and Economic Research, Michigan State University, Occasional Paper, 1967).

<sup>7</sup>They distinguish four types: reactor, defender, analyst, and prospector. See R. E. Miles, and C. C. Snow, *Organizational Strategy, Structure and Process* (New York: McGraw-Hill, 1978).

<sup>8</sup>Vesper talks about ten types: self-employed individuals, team builders, independent pattern multipliers, economy-of-scale exploiters, capital aggregators, acquirers, buy-sell artists, conglomerators, speculators, and apparent value manipulators. See K. H. Vesper, *New Venture Strategies* (Englewood Cliffs, N. J.: Prentice-Hall, 1980).

<sup>9</sup>H. J. Pleitner, "Beobachtungen und Ueberlegungen zur Person des mittelständischen Unternehmers," in H. Albach and Th. Held (eds.) *Betriebswirtschaftslehre mittelständischer Unternehmen* (Stuttgart: C. E. Poeschel Verlag, 1984), pp. 514 f.

**Figure 3**  
**THE STRATEGIC MANAGEMENT PROCESS**



**Figure 4**  
**TYPOLGY OF SMALL-BUSINESS ENTREPRENEURS**

Perspective \ Status	Narrow	Broad
Entrepreneur	would-be entrepreneur (Type 1)	true entrepreneur (Type 2)
Self-employed Businessperson	reluctant entrepreneur (Type 3)	input-limiting entrepreneur (Type 4)

always willing to rethink his or her ideas and plans.

At first glance, type 1 might seem to be inherently contradictory. However, lofty ambition and a lack of perspective and/or education are not mutually exclusive characteristics. This type of entrepreneur appears doomed to frustration or failure, unless simply lucky in business.

Type 2 symbolizes the true entrepreneur with ambitious objectives and the personal characteristics needed to achieve them. Some authorities do not believe that such a combination of the rational manager and the intuitive entrepreneur is possible;<sup>10</sup> however,

<sup>10</sup>Y. Gasse, "Elaborations on the Psychology of the Entrepreneur," in C. A. Kent, D. L. Sexton, and K. H. Vesper (eds.), *Encyclopedia of Entrepreneurship* (Englewood Cliffs, N. J.: Prentice Hall, 1982), p. 61.

**Figure 5**  
**STRATEGIC MANAGEMENT (SM) IN SMALL AND MEDIUM-SIZED FIRMS**

Need for SM	Awareness of Need for SM	Prospect of Its Utilization
no	no	no
no	yes	no
yes	yes	yes
yes	no	maybe

the real world provides many examples.

Type 3 represents the opposite of the true entrepreneur. He or she is usually the craft tradesperson who goes into business on his or her own in order to enjoy independence and to achieve a proper standard of living, and to that extent he or she is a "reluctant entrepreneur." However, this individual's role and personal means are in harmony since the "reluctant entrepreneur" has no wish to change the world with his or her products or services.

Finally, type 4 possesses the personal requirements to be a true entrepreneur but avoids that role, consciously and quite deliberately restricting his or her activities to a spectrum that leaves enough time for non-business interests. One might describe this type as an entrepreneur with a contemporary attitude and values, whereas type 3 embodies the traditional small business entrepreneur.

In figure 5, the type of entrepreneur is pictured in relation to the need for strategic management, awareness of this need, and likelihood of its utilization. As this diagram shows, the likelihood of strategic planning is greatest in the case of the type 2 ("true") entrepreneur because of the fortunate com-

bination of a need for such planning and awareness of that need. A smaller possibility of strategic planning exists for type 4 ("input-limiting") entrepreneurs, and little or no possibility for type 1 ("would-be") and 3 ("reluctant") entrepreneurs. The reason is obvious—none of the latter types provide the necessary combination of need and awareness.

Although it relates only tangentially to the subject of this note, the reader may be interested in a brief summary of the findings for Switzerland from the "strategic behavior" section of a 1986 survey of small and medium-sized enterprises (SMEs) in Western Europe.<sup>11</sup> This study showed:

- With regard to *products*, the emphasis of these firms was on (1) developing existing products which made a high-cost-covering contribution, and (2) supplying new products within existing product groups.
- Three-fourths of the firms expected to continue to produce the same products that they were producing at the time of the survey.

<sup>11</sup>European Institute for Advanced Studies in Management (ed.), "Strategic Orientations of Small and Medium-Sized Enterprises," Brussels 1987.

- Genuine innovations constituted the exception. (Fewer than 20 percent of the firms were planning new product groups or new branches.)
- With regard to geographic *markets*, half of the firms wished to expand at home and a third to expand abroad.
- A striking and, at the same time, discordant fact was that in most instances *plans* (for the next three years) lagged behind *achievements* (over the preceding three years). Is this a sign of realism, or does it indicate a waning dynamism or lack of strategic determination? This finding undoubtedly needs to be looked into more closely.
- With regard to specific *success factors*, firms were asked what *principal* factors they emphasized in trying to improve their competitive situation. Three factors were found to receive particularly heavy emphasis. These were quality of product, reliability of delivery, and flexibility of action.

In general, the findings of this survey tended to support the view that strategic planning exists—although often in limited form—among SMEs.

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## INTERNATIONAL NOTES

The *Journal of Small Business Management* initiated the "International Notes" feature in April of 1987 to provide an outlet for research notes and brief discussions relating to small business/entrepreneurship issues and developments outside the U.S. and Canada. (Full-length articles on world-wide business are also welcomed, particularly if they are based on original research.) International Notes submissions should not exceed six to eight double-spaced pages in length. Two copies should be submitted to: The Editors, *JSBM*, West Virginia University, P.O. Box 6025, Morgantown, West Virginia 26506-6025.

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