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Strategic Change

Editorial

Strategy and management in the smaller enterprise

Strategic management is a central concept in modern management practice. This editorial examines business strategy from the small firm and enterprise development perspective. The value of a well-considered and well-defined strategy for the venture is advocated for superior business performance and the ways in which entrepreneurs can devise, control and communicate strategy is considered here.

The role of strategic management

Strategic management as a field of study typically deals with large and established businesses and their relationship with their market environment and operating context. However, knowing where the business is going, together with the opportunities and routes available to get it there, is as important to a small enterprise as a large one.

Despite the importance and growing recognition of small firms and entrepreneurial ventures and their contribution to economic vitality, employment generation, innovation and business development, the value and importance of strategic management and thinking to the small firm community has only been recognized and acknowledged comparatively recently.

Despite the contribution and significance of small firms, however, every year tens of thousands of small enterprises fail or cease trading. According to the USA Small Business Administration, some 25% fail within two years and 63% fail within six years. (SBA, 1998). Similar rates of failure occur in the UK, Holland, Ireland, Japan and Hong Kong. Although some studies indicate that the survival rate of new enterprises is higher, small businesses are definitely risky. The causes of small enterprise failure (depending on the study cited) range from inadequate accounting procedures to the inability to manage growth. (See, for example, Carland *et al*., 1984; Jennings and Beaver, 1997.)

The underlying problem appears to be an overall lack of strategic management skills and abilities — beginning with an inability to articulate a strategy to reach the customer(s) and ending with a failure to develop an adequate system of performance measurement and control. According to a much-cited study of small business failures:

> *In nearly all cases, the practice of strategic planning by small firm owners and managers was found to be scanty and perfunctory.* (El-Namacki, 1990)

Contemporary research has shown repeatedly that strategic thinking and planning is strongly related to small business financial performance. This has been confirmed by a recent study of small firms in the UK Midlands by Beaver and Ross (2000) that showed quite conclusively that strategic thinking is an essential ingredient in enterprise survival, performance and growth. (See also Storey, 1998/1999.)

It is important here to again distinguish between a small firm and an entrepreneurial venture as the concepts and operating realities are frequently very different.

- **The small firm** is independently owned and operated, not dominant in its field and does not engage in innovative strategic practices.
- **The entrepreneurial venture**, by contrast, is any business whose primary goals are profitability and growth and that can be characterized by innovative strategic management practices.

The basic difference then between the small business and the entrepreneurial venture as it affects the discussion here therefore, lies not in the type or nature of the products and services provided but in the fundamental perspectives on innovation, growth and business development.

Indeed, many commentators and researchers have noted that strategic management is more likely to be an integral part of an entrepreneurial venture than the 'typical' small firm and that it is the approach to planning that separates the entrepreneur from the small business owner–manager. However, many small enterprise managers and practitioners still refuse to embrace the strategy process, with four reasons usually cited for the apparent lack of strategic management practice in many new and established small firms.

(1) **Not enough time**. Day-to-day operating issues and decisions absorb the time necessary for long-term planning. Avoidance of strategic management is justified on the basis of everyday operational and administrative decisions, which by their nature may be complex and demanding and often leave little time for anything else.
(2) **Unfamiliarity with strategic management techniques and process**. The route into small-business management may make the owner–manager distrust or reject the value of

strategic planning — plus it does not (usually) have a short-term pay-off, which may go against the mind-set of many practitioners, especially if resources are limited.

(3) **Lack of skills**. Many small firm practitioners perceive strategic management as both complex and demanding with limited applicability to the operating context of the enterprise. Small business managers often lack the necessary skills and confidence to begin strategic planning and lack the motivation or resources to commission consultants or outside assistance. The small business support infrastructure may also lack the calibre and experience of suitably qualified individuals to advise on strategic matters. (Banfield *et al*., 1996).

(4) **Lack of trust and openness**. Many small firm owner–managers are very sensitive about business information (especially financial matters) and are unwilling to share strategic planning with employees or other stakeholders. For this reason also, boards of directors (if they exist) are often composed of close friends and relatives of the owner–manager — people unlikely or unwilling to provide an objective viewpoint or effective professional advice (Aram and Cowan, 1990).

Irrespective of the above, **the entrepreneur is a strategic manager** as quite obviously, he or she, at least initially, makes all the strategic and operational decisions. All three levels of strategy — corporate, business and functional — are the concerns of the founder and owner-manager of the enterprise. As one commentator has noted: *Entrepreneurs are strategic planners without realizing it.* (Wickham, 1998).

The nature of corporate strategy

The notion that an organization has a strategy lies at the centre of much contemporary management thinking. A strategy can be defined as the actions an organization takes to pursue its business objectives. Strategy drives performance and an effective strategy should result in a good performance. An organization's strategy is therefore, multi — faceted.

It can be viewed from a number of perspectives depending on which aspects of its actions are of interest. A basic distinction exists between the *content* of a firm's strategy and the strategy *process* that the business adopts to maintain and succeed with that strategy. The strategy content relates to what the business actually *does* while the strategy process relates to the way the business *decides* what it is going to do.

The strategy content has three distinct decision areas:

- The products and services to be offered
- The markets to be targeted
- The approach taken to secure and retain competitive advantage.

Applying the above to the operating context of the small business, it is first necessary to understand the motivations of the owner(s) or principal stakeholders of the enterprise, since the two are frequently indistinguishable — certainly in the early days of the firm's start-up.

The pressures and reasons, which determine these objectives, may well embrace personal lifestyle and family considerations as well as commercial ones. Furthermore, the entrepreneur often starts the business with the declared intention of becoming independent and once established, may have a clear intention of maintaining this independence by keeping day-to-day operational control.

To achieve this, *the strategic goal* may become one of *no growth* or indeed of *minimum growth* consistent with survival and an acceptable level of financial reward. Moreover, the choices that are made may well take into account personal lifestyles, interests and family considerations. To the outside observer, this can produce a company with a very strange profile, but one which is in fact pursuing a strategy which is internally consistent.

As the operating environment changes over time and adjustments are made to preserve and enhance competitive vitality, the owner–manager or entrepreneur may well be forced to consider issues of retirement, divestment, succession and family considerations and not surprisingly, personal objectives may well change.

Irrespective of the needs of the business or indeed, the desires and skills of the family members, priority may well be given to continue the family name in the firm and to continue to provide employment for a loyal workforce. The list of possible outcomes and consequences here is considerable but what is clear is that the goals and direction of the business may need to change. Ownership and control of the enterprise, once in the hands of the few, may well become increasingly divorced and fragmented and the complexion of the business, together with the strategic choices being made, bear little resemblance to the original venture.

The formation and development of strategy in the smaller enterprise can be more easily understood if a simple illustration is made comparing the management, ownership and competitive environment of a large organization, as shown below:

The large organization

- The Chairman and Chief Executive Officer are appointed on the basis of their corporate track record and credibility with the 'City' and principal stakeholders and shareholders. Political skills and the ability for holistic thinking are essential attributes.
- There is a requirement to balance the various and often competing requirements of stakeholders. The stakeholder web

of the organization is driven by economic, social and political considerations.

- Strategic choices and actions are invariably driven by managerial motives and ambitions that may be at variance with preferred shareholder choice(s).

The smaller enterprise

- The owner–manager or entrepreneur is the principal stakeholder and ultimate strategic manager. Usually, there is little separation of ownership and control.
- Personal, family and lifestyle considerations dictate strategy, which may be at variance with conventional economic criteria. Managerial competence and independence may deliberately curtail business development. (See, for example, Stanworth and Curran, 1986.) Ambitions may be limited or modest.
- Notions and perceptions of business success are dependent upon the owner-entrepreneur's orientation towards the enterprise and can be expected to change over time.

Entrepreneurs and owner–managers inhabit a very different world from that of their counterparts in large organizations. They frequently have limited resources to draw upon and operate with the knowledge that the difference between success and failure can be their willingness to risk all their personal possessions in a venture and to work extremely hard.

However, a well-defined and well-communicated strategy can help the smaller firm to succeed whatever its principal goals and ambitions happen to be. The following gains can be expected to accrue to the enterprise that has invested in developing a strategy that is both realistic and achievable and in communicating it to stakeholders:

(1) It encourages the entrepreneur to assess and articulate their vision.
(2) A strategy provides the starting point for the setting of objectives.
(3) It acts as a guide to decision making.
(4) A strategy guides the organization and design of the enterprise and relates it to the operating environment.
(5) A strategy illuminates new possibilities for business development.
(6) A strategy acts as a common language for stakeholders.

To conclude this editorial, the following points distilled from contemporary research evidence are worth noting and paying attention to (see, for example, Beaver and Jennings, 2000).

- Entrepreneurial ventures and small enterprises are for the most part managed far less formally than are large, established business organizations. Small firms with designs on rapid expansion and growth tend to follow the entrepreneurial mode of strategy formulation — characterized by bold moves and intuitive decisions.

- Small businesses that engage in contemporary strategic management practices tend to outperform those that do not. However, this does not mean that formal procedures are either necessary or desirable (although some organizational regularity is recommended). The process of strategic thinking and planning, rather than the plan itself, appears to be the key driver of business performance.
- Small-firm practitioners appear to make little distinction between strategy formulation and strategy implementation.
- In many small companies, evaluation and control procedures are usually rather informal and reflect the owner–entrepreneur's preferences. Many small firms are often run on a cash basis and have minimum reporting procedures. For these and other reasons mentioned earlier, attempts to measure the strategic health of such enterprises using standard evaluation methods are often inadequate and frequently misleading (Jarvis *et al.*, 1995, 2000; Beaver, 1997).
- The success of many new ventures is largely determined by the industry structure, the owner–entrepreneur's skill as a strategist and venture manager and the avoidance of direct competitive retaliation, especially in the early days of business formation. A good example to illustrate this point is the early development of the now global and highly successful Hewlett-Packard.
- Successful small firms practise strategic management either consciously and visibly or unconsciously and invisibly! (See Beaver and Jennings, 1996; Jennings and Beaver, 1997.)

Finally, it is worth noting the observation from Michael Porter (1987) offered some fifteen years ago:

> *There are no substitutes for strategic thinking. Improving quality, price or service is meaningless without knowing what kind of adjustment is relevant in competitive terms. Entrepreneurship unguided by strategic perspective is more likely to fail than to succeed.*

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