

Strategy is personality-driven, strategy is crisis-driven: insights from entrepreneurial firms

Breda McCarthy

Department of Management and Marketing, University College Cork,
Cork, Ireland

Keywords

Entrepreneurialism, Small firms,
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Abstract

The objective of this study was to explore the main factors influencing the development of strategy in small firms. Among its contributions, the study found that strategy was personality-driven and crisis-driven. The study identified two main types of entrepreneurs: the pragmatist and the charismatic entrepreneur, and highlighted how the risk-taking capacities of some entrepreneurs changed over time. The study suggests that the experience of crisis gave rise to a more rational, planned approach to the strategy-making process.

The concept of strategy, research objectives and rationale for study

Numerous perspectives on strategy and numerous definitions of the term "strategy" exist (Mair, 1999). The term "strategy" refers to the direction and scope of an organisation over the long term, and strategic decisions are generally broad, encompassing details about product range, market scope and competitive approach (Wickham, 1998). According to Porter (1996), the essence of strategy is choosing to perform activities differently from rivals, which requires creativity and insight.

Henry Mintzberg has inspired substantial theory development in strategic management. Mintzberg is aligned to the process school of thought, where the focus of interest is on the processes by which actions are decided and implemented (Pettigrew, 1992). Mintzberg and Waters (1985) propose a continuum ranging from "pure deliberate" to "pure emergent" strategies. So, at one extreme, strategies can be devised and implemented according to plan and, at the other extreme, strategies simply emerge without any form of planning. In the planning school of thought (Ansoff, 1965; Chandler, 1962) the term "strategy" is usually defined as a formal plan. It is assumed that an optimal plan can be developed if top management performs a detailed analysis of the company, its product-market, and its environment (Lambin, 1997). In this way, planning can aid thinking and decision making (Johnson, 2002). Writers in the process (or emergent) school of thought have highlighted the emergent nature of strategic actions due to cognitive limitations, learning (Quinn, 1980), cultural biases (Peters and Waterman, 1982) and organizational politics (Pfeffer, 1981). These writers have outlined the difficulties involved in planning a

strategy and then trying to implement it as planned. Critics of the planning perspective (Hamel, 1996) argued that strategic planning became a ritual in most companies, it was inflexible and led planners to over-commit themselves to specific future predictions. Researchers (Hayashi, 2001; Mintzberg and Waters, 1985) have proposed that the strategy formation process was not simply an exercise in rationality but reflected experimentation, exploration, intuition, instinct and learning.

While the study of strategy in large organisations has taken great strides over the decade of the 1990s, a review of the literature highlights the imbalance of theory building with respect to the small organisation. For instance, Brouthers *et al.*, (1998, p. 130) claimed that "surprisingly little research exists that examines strategic decision making in small firms."

The planning model of strategy is the dominant model of strategy in the small business literature (see Berry (1998)). Proponents of planning stress the value of planning; it helps entrepreneurs anticipate change and control their environment. Business plans help managers deal with investors and attract funds (O'Gorman and Cunningham, 1997). However, studies suggest that founders plan in a way that is quite different from the standard textbook model of strategic planning. Research has described planning as informal in the sense that strategies are not written down and reside mainly in the mind of the CEO (Miller and Toulouse, 1986), scanty and perfunctory (Robinson and Pearce, 1984), and short-term in orientation (Gilmore, 1971). In the field of entrepreneurship, scholars (Allinson *et al.*, 2000; Bhide, 1994; Brouthers *et al.*, 1998; Kets de Vries, 1990) have found that entrepreneurs are rarely strategists who focus on the long term and act according to rational principles; instead they act on



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instinct, intuition and impulse. It is becoming apparent that the formal strategic management procedures that apply to the large enterprise may not necessarily be relevant and applicable to the small enterprise (Shrader *et al.*, 1989). Studies that provide a process analysis of the small firm and that seek to reveal how ideas and strategies are legitimated and justified are difficult to find. Some attempts have been made towards understanding the link between strategy and the internal dimensions of the small firm. Unlike large organizations, small firms are inclined to be less political due to their size (Brouthers *et al.*, 1998). A great deal of learning takes place when the founder interacts with customers, suppliers, intermediaries, and founders learn from their mistakes and through experience (Gibb, 1997, 2000). Gibb (2000) proposes that the culture of the small firm can be characterized as follows: informal, trusting, intuitive, flexible, holistic, together with strong feelings of ownership and control.

To summarise, the process of forming strategies can be deliberate or emergent in nature. While the first approach over-states the value of deliberate thinking and rational planning (Mintzberg, 1994), the second approach underemphasizes the value of rational planning within most companies (Ginsberg, 1994). The purpose of this paper is to explore the strategy formation process in small firms using two lenses: the planned and emergent models of strategy making. An attempt was made to transcend the dichotomy in the literature by exploring the factors that support a planned or emergent mode of strategy making in small firms. This study is important in view of lack of research in this area. A conceptual framework, drawn from the literature, is shown in Figure 1, and the key factors that seem to drive the strategy formation process are discussed in the following section.

Strategy: driven by powerful personalities

Understanding the nature of power is central towards gaining an understanding of how strategies are formed in organisations. This begs the question, what is power? According to Biggart and Hamilton (1984, p. 540), "theorists largely agree that individual power in organizations is the ability to control others, to exercise discretion, to get one's own way."

Traditionally, the formulation of strategy was seen as the preserve of top managers

(Chaffee, 1985) since they possessed the legitimate power to make decisions (Weber, 1961). Decision making was seen as a hierarchical or "top-down" process. Many studies refer to the centralization of power in the entrepreneurial organization (Churchill and Lewis, 1983; Greiner, 1972) and suggest, though, that, as the firm matures, the entrepreneur has to give up some of his/her control and may have to relinquish the job at the head of the organization to someone else.

Entrepreneurial discourse (as set out by Brockhaus, 1982; Gasse, 1977; Kets de Vries, 1977; Mintzberg and Waters, 1985) has emphasized the critical role played by the entrepreneur in the management of the enterprise and various studies list the traits associated with entrepreneurs such as need for autonomy, assertiveness, dominance and so forth. Carland *et al.* (1989, p. 25) highlight that the "the individual responsible for planning in a small firm is the owner-manager. If that individual is not predisposed to planning, this activity will not take place. Personality will play a key role in that predisposition".

Writers who view strategy in terms of an emergent process have demonstrated that strategy making could be a "bottom-up" process and not just a "top-down" process, and thus strategy could emerge over time. Mair (1999), in his review of the Honda case, showed how employees had a role to play in the formulation of strategy. Influence on strategic decision making also comes from other stakeholders, such as suppliers, customers, unions and government agencies. Firms are dependent on the external environment for various resources, for legitimacy, and for the sale of their products (Pfeffer and Salancik, 1978). As a result, external groups have power over the firm (Porter, 1980) and may influence the decisions managers make.

The constraints faced by small firms are well documented in the literature and encompass limited resources, lack of specialist expertise, limited impact on the marketplace (Carson, 1985), importance given to quality of lifestyle (Birley, 1982), dependency on few customers (Venkataraman *et al.*, 1990). Given the small firm's inability to exert much control over the external environment (Cromie, 1990), this raises the question: how much power does the entrepreneur really possess? Does the entrepreneur gain power, over others and over the environment, through planning? An extreme view is that organizations have little ability to create a strategy, given that they are so overwhelmed by external forces.

Writers in the population ecology and resource dependency school of thought (Aldrich, 1979; Carroll, 1993; Child, 1972; Hannan and Freeman, 1989; Pfeffer and Salancik, 1978) suggest that there are deterministic forces at work that make strategic planning and strategy largely redundant (see Morgan (1997), for a summary of population ecology theory). Management theorists, however, adopt a more voluntaristic perspective, and argue that entrepreneurs do have choices and can influence organizational outcomes.

In the context of the small firm, the following issues deserve attention. What role does the entrepreneur play in the strategy formation process? How much power does the entrepreneur possess? To what extent are employees and stakeholders involved in the formation of strategy in the small organization?

Strategy is life cycle- and crisis-driven

Proponents of both the emergent and planning school of thought suggest that planning is contingent upon the firm's stage of development and that this activity will become more formal and sophisticated over time (Robinson and Pearce, 1984). Ansoff (1965) claims that, as organizations grow, they require broader participation of managers, more explicit strategies and plans and guide, co-ordinate and motivate managers. Strategy becomes a more co-operative, formal and analytical process. Child (1984) argues that a large and complex

organization will need to apply bureaucratic principles to a greater extent than small, simple organizations. Firm size is associated with greater available resources (i.e. in terms of planning staffs) and greater specialization, which leads to increased planning (Fredrickson and Mitchell, 1984). A large number of studies (Charon *et al.*, 1980; Gupta and Chin, 1993) indicate that planning is linked to the mature stage of the organizational life cycle. It has been noted that crisis is a powerful factor that triggers change in attitudes, strategies and structures (Greiner, 1972) and it can stimulate the entrepreneur to think and plan strategically (Aram and Cowan, 1990).

Research design

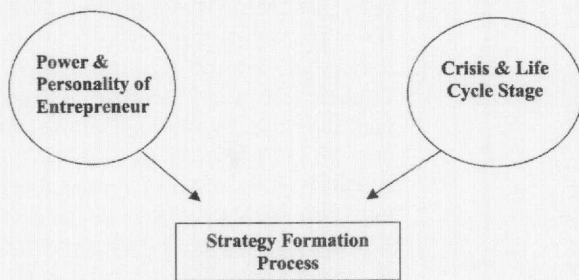
Informants and the research setting

Given that existing theory does not fully explain how strategies are formed in small firms, the research design was qualitative and exploratory in nature. According to Lee (1999), qualitative research is often taken to mean inductive, theory-generating (it also lends itself to theory testing), subjective and non-positivist processes. It can be descriptive, exploratory and explanatory in nature. Qualitative researchers encourage substantial flexibility, or improvisation, in research procedures. Researchers have the freedom to make adjustments, alter research objectives and add questions during the data collection process. The research process is iterative rather than linear, requiring a steady movement between the literature, interview data and analysis.

A unique characteristic of qualitative research is that it is field-based (Lee, 1999). With regard to this study, 33 semi-structured interviews were held with founders, investors, employees and distributors. Multiple informants were used to generate different perspectives and to ensure that the findings were objective. The author had a clear agenda and the following topics: history of company, start-up strategy, growth, role of founder, and key turning-points were explored through the use of open-ended questions with respondents.

Case study research can be described as the study of one or a few entities in substantial depth (Lee, 1999). In this study, in-depth interviews, company reports and newspaper articles were used. The cases were longitudinal, in view of the need to understand how strategy evolved in the organizations over time. With longitudinal

Figure 1
 The strategy formation process



Deliberate ----- Emergent

Key Characteristics	Strategy as a plan	Strategy as a process
Power	Top-down	Top-down and bottom-up
Focuses of research	Exogenous forces	Endogenous forces
Formality	Formal/explicit A long-term, written plan is used to guide organization and benchmark performance	Informal/implicit Short-term planning
Decision-making Process	Logic, data, detailed analysis	Intuition, instinct, learning, experimentation
Outcomes	One "magical" plan	Many possible strategies

research, there is normally a long period of contact with those being researched; informants may need time to reflect on organizational events and this approach allows for change in interpretations over time. In general, the data were collected over 36 months. The firms conformed with the following definition of an entrepreneurial firm: an independent enterprise, managed in a personalized way (Berry, 1998), characterized by innovation, risk-taking, creativity and growth (Hills and Laforge, 1992).

Data analysis and the write-up

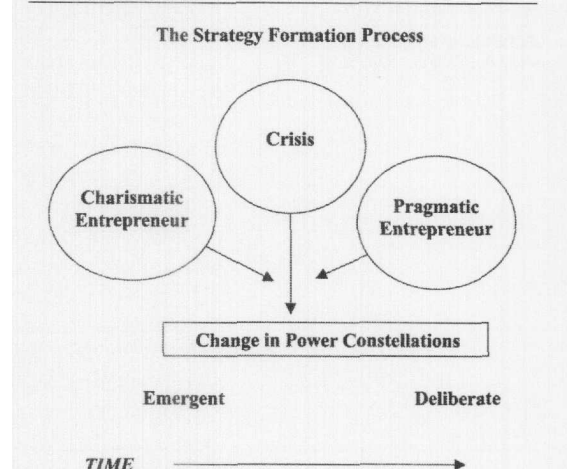
Data analysis was conducted using simple content analysis. Qualitative researchers often describe findings as “themes” and a “theme” captures central ideas in an interview or recurrent topics of discussion (Bjorkegren, 1989). Comparing groups, in terms of their similarities and differences, is necessary to explain or generate theory. Creative insight often results from the juxtaposition of contradictory or paradoxical evidence (Cameron and Quinn, 1988). Eisenhardt (1989) recommends the use of several tactics in order to analyse case study data: forced comparisons involves selecting pairs of cases and then listing similarities and differences between each pair. Another tactic is to select a theme, category or dimension, and look for within-group similarities coupled with differences. The “write-up” involves (Golden-Biddle and Locke, 1997) developing theoretical points that are contextually grounded in the field data and researchers generally choose the most expressive comments to bring theoretical points to life.

Research findings

The study suggests that the strategy formation process is driven by the personalities of the entrepreneurs and by the experience of crises. A summary of the findings is shown in Figure 2. A profile of the sample is provided in Table I. The sample included software firms, manufacturing and service firms. The study suggests that there are two main types of entrepreneurs: the charismatic and the pragmatic. These types of entrepreneurs were distinguished according to decision-making style, goals, attitude to risk, degree of commitment to venture and business background. Example quotations are shown in Tables II and III.

Figure 2

The strategy formation process in small entrepreneurial firms



Theme 1: strategy is personality-driven

Strategic decision-making style

The charismatic entrepreneurs were visionary in the sense that they were able to predict market trends and visualize new product opportunities. Employees saw the entrepreneurs as the creative force behind the venture. The entrepreneurs' belief that a market existed for the new products tended to be based on their feelings and informal research. Most of the entrepreneurs gathered information by talking to customers, by subscribing to trade magazines, by going to conferences, and attending trade shows. This enabled them to keep up to date with customer needs, with technological developments and to develop ideas for new products. One individual set up a technologically-based firm in the 1970s and remarked that "the market wasn't right for it then, that's for sure", and claimed that he was a "gut feeling type of person". The founder's product ideas were mainly based on "his hunches, his experiences of talking to people, his experiences of using the products himself". It was claimed that he was always a year, if not more, ahead of the competition. Another entrepreneur who set up a software firm was described as very dynamic and imaginative, someone who could predict the needs of clients very well. Another entrepreneur was described as an individual with a love of ideas, a very active mind, quick to adopt new trends and prepared to take risks. He decided to target the unstable Eastern European market, even though the Irish Trade Board was discouraging entrepreneurs from entering those markets at that time. Another entrepreneur was

Table I
 Profile of sample

Respondent letter/code	Nature of business	Size	Founded	Turnover (million)
R	Software, peripheral devices	13	1988	0.5
Q	Software product, for financial services	80	1985	6.5
M	Software service: for accountancy sector	120	1976	7.4
F	Manufacturer of toothpaste	25	1983	3
I	Manufacturer of soap	2	1984	2
B	Manufacturer of biscuits	28	1989	1.5
C	Manufacturer of plastics	Ceased trading at time of study	1987	Nil
G	Service firm: graphic design	20	1989	Not disclosed
K	Software, electronic security	30	1986	Not disclosed

Table II
 Characteristics of the charismatic entrepreneur

Strategy-related variables	The charismatic entrepreneur	Example quotations
Decision-making style	Visionary Intuitive Creative	R: I am a gut feeling type of person. We were specialists in that area. We were in it pre the personal computer! We were doing programmable device drivers for POS before anyone else R: What is a five year plan in this business?! F: It was his idea, his drive, his initiative that got it off the ground Q: He had the vision and foresight to come up with an idea and base a product around that idea and start up a company Q: It was 70 percent vision of Gerry and 30 percent planning. Gerry's vision would have played a key part in the growth of the company M: He is very dynamic. His ideas, his concepts of what the clients will want are right. He is quite imaginative, he is indispensable, totally
Goals	Ambitious Idealistic	F: He was a driving force in the business ... he was hell-bent on keeping the order book full. Much more hell-bent, let's go for that, let's try to run 100 yards in ten seconds as opposed to 15 seconds, which will take longer R: I believe that the Irish people can be world-beaters R: He has put a lot of enthusiasm into the company, he is keen to push on pushing it forward, it has developed over the years, he has many contacts with the industry in Ireland and abroad and he has used those to generate sales Q: We developed a top class product Q: We were trying to be IBM while still in the garage-style mode of operation M: We tried to cover too much ground, we bid for nearly everything that moved, we would grab it M: The danger with software development is that expansion can be rapid until one day the bubble bursts. A company can become too big too quickly
Attitude to risk Degree of commitment to venture	"Bullish" Risk-prone Abiding commitment Obsessive Success against the odds	F: He had money to invest, although he was not wealthy. It was a case of either all or nothing F: It required a total degree of commitment. I do not know if I would have done it. He had family commitments R: He dug deep into his own pockets. If you are supporting an organization like this out of your own pocket, the costs are mighty, very high cost, high risk stuff R: People work and work and work, they really kill themselves in an effort to achieve success ... Q: I am an optimistic risk-taker ... the essence of the entrepreneur is to take a gamble
Business background	Non-business	F: His background struck me as a bit strange, but sometimes they make the best entrepreneurs. They do not see problems, only solutions. We need a bull-headed attitude. They do not realise the implications of things. I think he went into the venture without realizing the commercial risks involved

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described as an individual who had the vision and foresight to come up with an idea and base a product around that idea.

In contrast with the charismatic entrepreneurs, the approach of the pragmatic entrepreneurs to strategy formation was underpinned by a more conservative, "common-sense, down-to-earth" and rational approach. At around the same time, two founders formed very similar firms (import substitution), and shared the same distributor, but adopted very different strategies. The distributor commented that: "her approach was very different ... there was no real financial involvement in the company"; he remarked that she did not see the business as her livelihood. In contrast

with the other founder, she undertook a feasibility study, carried out market research, and eventually selected the sub-contracting option rather than the high-cost manufacturing option. With regard to market expansion, she focused on the domestic market rather than the Eastern European market. Eventually she was faced with a key decision: to target the US market or sell the firm and she made a pragmatic decision to sell the venture. The founder of a graphic design firm also adopted a planned and rational approach to decision making. They employed a consultant and spent several months preparing a business plan. They claimed that decisions were made "very, very

Table III
 Characteristics of the pragmatic entrepreneur

Strategy-related variables	The pragmatic entrepreneur	Example quotations
Decision-making style	Planned Rational Reactive	G: We go through decisions, like employing a single person, very very carefully G: We like to think of ourselves as being proactive, but we are reactive, I feel. We put many things on the agenda which we have never completed. Possibly, if the company was run by one person, rather than by four people, we could be more proactive. That one person could make decisions quicker B: We need to go out and be active and aggressively go after business, push the company. Instead we are manufacturing to an order book, which thankfully is full. But we are becoming more proactive. It is a question of changing K: I still believe that we are a little too cautious, still a little too slow. Someone else may say that we need to be cautious because we have to recuperate from a costly R&D program. I would advocate that we be a little bit quicker in making decisions, that we be a bit bolder
Goals	Achievable conservative Down-to-earth Common-sense Slow-growth Consolidation	G: You have to decide what you want to achieve, how you are going to achieve it and go for those goals in a controlled way. There is no point in taking off like a rocket and getting nowhere G: Our aim is to stick to our knitting until we have achieved a much firmer foundation B: The whole issue of growth, how it is planned and controlled, can bury a company. A company has to very careful in its expansion plans. Managing cash flow, how much money is spent, how much is got back in, seeing that credit terms are adhered to, are all crucial ... A company has to start off small and stabilize the market before they try to expand B: I would never wish to become huge. We will always remain relatively small in a niche market if we are to succeed K: Growth has been quite slow really. We are now looking at niche markets, taking away small, profitable business from large companies. We are steering away from anything large. We just could not afford it or be able to finance it
Attitude to risk Degree of commitment to venture	"Bearish" Risk-averse Calculated commitment Pragmatic. Success within reach	I: Her approach was very different from X. One person got involved in manufacturing, the other sub-contracted. There was no real financial involvement in the company, she was doing this as an outside interest, it was not her livelihood B: The company is still conservative. We are prepared to take a risk if the opportunity comes up. It is a conservative risk
Business background	Combination	G: We are not simply designers, designers tend to be very fickle, temperamental people. Many of them do not know how to run a business or would not have any interest in running a business. Clients see them as difficult people with whom to work G: Projecting the professionalism ... instilling that into everyone here is important B: The most important functions in the company are cash flow, credit control, marketing and production

carefully" in order to reduce the risk of business failure.

Goals

The charismatic entrepreneurs had ambitious goals. When the entrepreneurs described their objectives, there was also a touch of idealism in their accounts. One entrepreneur had a vision of bringing the power of the PC to the masses. He remarked that many people did not have any experience of using computers and were marginalized by the computer industry. He hoped to target that market and make it easier for uneducated people to use PCs through simple keystrokes. Another entrepreneur remarked that he wanted to be a world-class software developer and his aim was to target the world market rather than just the domestic market. Another entrepreneur had similar goals and it was commented that he was "driven by this search for excellence" and he tried to ensure that the Irish product was as good as, if not better than, the product produced by multinational companies. Simple phrases used by stakeholders in interviews revealed a great deal. This founder was described as being "hell-bent" on growth and his attitude was "let's go for it, let's try and run 100 yards in ten seconds as opposed to 15 seconds, which will take longer." He was also driven by the desire to make money. The comments of one stakeholder suggested that his profit goals were unrealistic: "whether his goals were attainable in his time frame, or ever, is debatable!" Another entrepreneur realized, in hindsight, that his plans at start-up were unrealistic. He commented that "there is no point in trying to be IBM when you are in the garage-style operation." In another company, the phrase "gung-ho" was used to describe the early attitude of the firm.

In contrast with the charismatic entrepreneur, the pragmatic entrepreneur seemed to make a more realistic assessment of the marketplace; the goal was to set up a business that would have a good chance of succeeding. For instance, one founder claimed that he would never wish to become huge and that the company would have to remain "relatively small in a niche market" if it was to succeed. His goal was to build a profitable company and either sell the business or pass it on to his family. Unlike the charismatic entrepreneurs who tended to be emotionally attached to the venture, the pragmatic entrepreneurs were not as tied to their ventures and ceding control of the venture, or even selling it, did not seem to be a major problem for them. The founders of a graphic design firm decided to concentrate

on the home market, consolidate the business and avoid diversifying and growing it too quickly. Safeguarding what they had already achieved was more important than rapid expansion, as the following comment shows: "the policy has been to stick to our knitting until we have achieved a much firmer foundation."

Attitude to risk and degree of commitment to venture

While both types of entrepreneurs had to assume risk, the risk borne by the charismatic entrepreneurs was perceived to be very high in the eyes of stakeholders. The founders had a strong belief in the venture and as a result they were prepared to leave secure jobs, set up and grow the ventures using their own funds, placing both themselves and their families at risk. The entrepreneur's degree of commitment to the venture is shown by the following comment: "It was a speculative venture. He had to make it work . . . He had money to invest, although he was not wealthy. It was a case of either all or nothing."

The charismatic entrepreneurs seemed to be driven by the strength of their convictions and such was their confidence in their ventures that they assumed extraordinary risks. One founder claimed that state agencies thought he was crazy and it was difficult to obtain grant-aid. In the growth stage, he made a major decision to invest £0.5m of his own funds in order to increase production capacity; however, sales contracts were not in place and he was unable to persuade state agencies to give him capital grant. The actions of the founder resulted in a crisis shortly afterwards. An employee in another firm commented that the company could not rely on cash reserves and suggested that managing cash-flow on a monthly basis was very difficult. He remarked that the art of the entrepreneur was to take a gamble and that the founder was adept at "leveraging" resources. The charismatic entrepreneurs had a passion, if not an obsession, for their businesses which was clearly recognised by their employees; the following words and phrases were used to describe the founders: "driving force", "indispensable", a "one-man company", "gave over 100 percent of himself", "total degree of commitment".

In contrast with the charismatic entrepreneurs, the pragmatic entrepreneurs were not willing to assume extraordinary risks. The pragmatic entrepreneurs tended to minimize risk; therefore they were not prepared to sacrifice resources to the venture. Their vision for the ventures

seemed to be based on straightforward commercial values rather than the more emotion-rich, idealistic values espoused by the charismatic entrepreneurs.

Business background

The professions of the charismatic entrepreneurs prior to business start-up were as follows: engineering, technician, computer programming. Having a non-business background may explain the entrepreneur's intuitive approach to decision making. For instance, one stakeholder remarked that the entrepreneur was an engineer by profession and not a business person. He slowly developed a commercial awareness and learned to read a balance-sheet. In the early years, he was not aware of the commercial risks involved in the venture, and where others would see problems he only saw solutions to those problems. Another entrepreneur echoed this comment by remarking that he always looked at things from a positive side rather than a negative side. Furthermore, he suggested that a careful, controlled approach to the venture development was not always a desirable quality in an entrepreneur. He remarked that: "a manager has to be a very disciplined, analytical type of person, who can look at things and weigh them up very carefully. Managers are more careful people. An entrepreneur is not a careful person. Careful people write the history, they do not create it ... Entrepreneurship is an enthusiasm. I can get very enthusiastic about something and bring people along with me, even customers. When I am in full flight even customers get excited about it as well. That's part of being an entrepreneur."

The professions of the pragmatic entrepreneur prior to business start-up were as follows: accountancy, advertising, sales, teaching, graphic design, management. One pragmatic entrepreneur who did not have a business background saw that as a weakness; he claimed that many designers who set up firms lacked a business ethos and he was keen to avoid the mistakes made by others. They appointed a chairman in order to benefit from his business experience.

Theme 2: strategy is crisis-driven

One of the most striking themes to emerge from the research was the widespread occurrence of crisis. It featured in eight out of the nine companies profiled. The term "crisis" or "defining moment" was used to describe a critical event. This event threatened company survival and seemed to

usher in a more rational, planned approach to strategy making. This section starts by outlining the factors that caused crises (see Table IV), the ramifications of crisis are then described (see Table V) and it concludes with a conceptual framework (see Figure 2).

Causes of crisis and its ramifications for the firm

Deficiencies in three key areas: money, marketing, and management, led to crisis. Although changes in the external environment contributed to crises, notably a currency crisis, change in customer tastes, increased competition, the entrepreneur was also a contributory factor. In their urgency to expand, the charismatic entrepreneurs did not seem to place a priority on financial planning, and did not anticipate, or plan for, adverse trends and unexpected events. The following section describes the changes that took place in the companies as a result of crises.

Greater attention to financial planning

Crisis had financial ramifications for the business and founders were forced to think carefully in terms of allocating scarce resources. One individual remarked that, after the crisis, there were more planning and more research into prospective customers. Another founder remarked that keeping control of finances was "the most important thing". A founder of a different firm suggested that in the early days their approach to financial planning was lax and that needed to change: "we were a little bit shaky on the financial side. It was a little bit fingers crossed as well." The comment of the following employee highlights the positive aspects of the crisis episode: "even though it was a bad period for the company, positive aspects emerged. The company has become far more contemplative. It has become far more prudent about how money is spent. R&D expenditure is now planned a year in advance. Now we can ride it (the product life cycle) out much better because a secure financial base is there".

Change in founder's mentality: more risk-averse

The optimistic, risk-taking mentality of the charismatic entrepreneur gave way to a more cautious outlook on life. Learning from crisis emerged as a strong theme in all cases. For instance, one founder claimed that he was a "total optimist" but that quality had been "battered out of him" as a result of crises. The following quotation shows how the climate for risk-taking changed in the firm: "we are prepared to take a risk if the opportunity

Table IV
 Causes of crisis

Factor	Explanation
Money	Under-capitalisation at start-up Loss of key financial broker Failure to monitor costs and budget for extra marketing expenditure Poor credit control leading to bad debts Adverse currency movements
Marketing	Delays in bringing a new product to the market Over-dependence on a key customer, distributor or market Change in customer tastes Increased competition
Management	Business inexperience and poor credit control procedures Failure to protect technology in licensing deal and failure to understand motives of partner firm leading to hostile take-over bid

Table V
 Crisis and its ramifications for the firm

Pre-crisis	Post-crisis
Casual approach to financial planning	Greater attention to financial planning
More risk-prone:	More risk-averse:
Focus on growth and on new opportunities	Focus on survival
Mentality of founder:	Mentality of founder:
Why not? Is this desirable?	Why? Is this feasible?
Experimentation: what might happen?	Experience: what happened in the past?
Strategy driven mainly by personal views and values of founders	Increasing role for stakeholders in formation of strategy

comes up. It is a conservative risk. The negative aspect of going through a critical period is that you hesitate to bring in new products unless you are 100 percent sure".

The study suggests that entrepreneurs became more aware of the implications of their actions and more likely to draw on past experience of crisis (Why? Is this feasible? what happened in the past?). One entrepreneur claimed that: "we are very sharpened now as to the effort needed. We are not taking anything for granted anymore. We are constantly aware, we try to second-guess what is happening. All in all, it has taken any complacency we might have out of us."

All the firms, save one, survived the crisis. The focus on survival rather than on growth was clearly evident from the conversations with the entrepreneurs. One founder claimed that a shortage of finance blocked growth and he talked about the "broken spirits" of entrepreneurs who had to struggle to keep the business going. He remarked that: "in most entrepreneurial companies, the struggle for survival cramps the opportunities to be innovative. You need comfort and resources."

Although the experience of crisis was traumatic for those involved, and in some cases led to redundancies, it had a functional role to play in the development of the enterprise.

One individual remarked: "the company would not have grown to the position it is in today with the potential it has without having gone through that period." Another manager claimed that: "it was very risky, but without that decision we would not be here today. We would not be able to produce a product as efficiently as we do now. We would not be able to offer to produce for people and do it on time, had we not taken the risk, had we not spent the money."

Role of stakeholders

In the aftermath of crisis, entrepreneurs had to spend more time communicating with, explaining and justifying their actions to, key stakeholders. This is illustrated by the following comment from a key stakeholder: "basically it is a filling plant. He (the entrepreneur) could make cosmetic products tomorrow, for example. We have to think: do we want to get into that market? He has come to us with all these ideas our ideas; is to bring his ideas forward, look at which are best financially for him and for the strategic development of the company."

One entrepreneur learned an important lesson on the nature of power: "power is the big thing. Power to do what you want is dependent on a single issue, making profit,

and if you are not making profit then everything you do is wrong”.

Crisis resulted in a loss of credibility for the founders since it was linked to mis-management and exposed their weaknesses. For instance, one stakeholder noted that the founder acted imprudently, and that it was a bad idea to extend so much credit, far in excess of normal credit terms. After the crisis, the distributor took a 51 percent share in the business and this gave them control over decision making. They brought new skills into the business and spearheaded change. The following words and phrases illustrate the influence of the majority shareholder: “controlling factor on our risk-taking”, “restraint”, “strategic-based approach”, “more prudent”. Stakeholders began to realize that entrepreneurs had certain strengths (i.e. generating ideas for new products, finding new markets, dealing with customers) but their commercial weaknesses became more apparent after the crisis. One founder claimed that he had a great interest in new technologies and new ideas; however, he realised that attempting to grow the business in several different areas would probably lead to failure. He remarked: “I think I need to be harnessed at times. You need to harness what I am trying to do, to prioritise things and focus on particular products that can be successful, focus on things where there is a market for them, rather than a shotgun approach with many targets”. One employee remarked that, if his actions were not in the best interests of the company, then it was up to the people around him to talk to him and be honest with him.

Discussion and contribution to the literature

In general, the strategy formation process was characterised by a shift from an emergent to a more planned mode over time, and the degree of planning depended on the personality of the entrepreneur and the experience of crisis. The charismatic entrepreneur was forced to prioritize planning and reduce the uncertainty of decision-making in order to satisfy stakeholders and safeguard the future of the company.

The entrepreneur

This study contributes to the literature on entrepreneurial traits and typology. In this study, the terms “charismatic” and “pragmatic” were used to describe two different types of entrepreneurs. Although it is widely acknowledged today that there are

several types of entrepreneurs (Hornaday, 1990; Chell and Haworth, 1992), few of these studies attempt to link personality to planning styles. Furthermore, the literature rarely accommodates the notion of the entrepreneur as a pragmatic, careful, and rational individual. Researchers (Bhide, 1994; Kets de Vries, 1990) argue that entrepreneurs are rarely strategists acting according to rational principles. The most common view of the entrepreneur is still the charismatic type, which has its roots in the charismatic model of leadership, first proposed by Weber (1961). For many writers on the entrepreneurial personality (Gasse, 1977; Brockhaus, 1982) traits are fixed and static and little attention is devoted to how entrepreneurs change over time. This study contributes to the minor, but growing literature on learning (Gibb, 1997; Perkins, 1994) and takes issue with the view that entrepreneurial traits are static and fixed. The longitudinal nature of the study helped illustrate that the risk-taking propensity of the charismatic entrepreneur changed over time. Risk-taking is not just a function of personality; but seems to be shaped by the experience of crisis and by key stakeholders.

Crisis and increasing power of stakeholders

This study adds to the growing body of literature on crisis and provides an insight into the impact of crisis on company strategy. Power seems to be transferred from the founding entrepreneur to stakeholders over time, and strategy has become more planned. Apart from life cycle theory (Greiner, 1972; Churchill and Lewis, 1983), the small business literature tends to ignore, or at least understate, the interplay between stakeholders and founders; this oversight is probably due to the overriding focus on powerful entrepreneurial personalities.

In the literature, crisis has been extensively examined, in particular, the sources of crisis and its ramifications for the organization (Hedburg, 1981; Nystrom and Starbuck, 1984; Perry, 1986; Pitt, 1989; Cahill, 1977; Chowdhury and Lang, 1993; Hendry *et al.*, 1995). There is some consensus in the literature on why small firms close and this has been referred to as the “three Ms” (Stokes, 2000): marketing, money, and management of people. Cahill (1977) concluded that the firm’s context and internal circumstances seemed fundamental to understanding the issues. Hendry *et al.* (1995) argued that the root cause of crisis was the entrepreneur, whose dominant personality resulted in a reluctance to cede control and led to errors of judgement.

Areas for further research

Power, as a concept and as an explanatory notion, attracts the attention of many researchers. The consensus seems to be that a centralization of power exists in the entrepreneurial organization since the entrepreneur owns the firm and is close to customers and to the competitive environment. However, as the firm matures, the founding entrepreneur has to give up some of his/her power and even relinquish the job at the head of the organization to someone else (Greiner, 1972; Churchill and Lewis, 1983). This is, perhaps, an oversimplistic view of power. Future researchers would do well to explore the nature of power in small firms and how entrepreneurs interact with key stakeholders. Research on the factors that promote or circumscribe the influence of the entrepreneur would be worthwhile. One framework that could be adopted is Kanter's (1983) framework of power in large organizations. Kanter (1983) proposes that power is derived from access to information, support and resources, among other factors. In the strategic management literature, it has been argued that the strategic development of a company is not much dependent on rational decisions alone, but on how managers structure, rationalize, explain and justify patterns of strategic action as being reasonable to others (Gioia and Chittipetti, 1991).

The methodology used in this study has its limitations and the findings (the typology of entrepreneurs in particular) are not definitive or wholly exhaustive and will need further scrutiny. The study found that crises gave rise to a more planned approach and it would be worthwhile to explore the extent to which crisis is functional or dysfunctional, and the long-term implications of crisis on the firm, in terms of innovation and growth.

Practical implications of study

The study showed that the vision, instinct and imagination of the charismatic entrepreneur drove strategy, rather than purely rational variables such as planning and detailed analysis. This has practical implications for policy advisers who often encourage entrepreneurs to devise, and adhere to, very detailed long-term plans. The study proposed a pragmatic type of entrepreneur and this type might be more responsive than the charismatic types to state incentives and state training schemes. Certainly, trainers and advisers need to stress the importance of financial planning and control as the organization grows. The fact that crises resulted from the failings of the entrepreneur points to the need for a

balanced management team. The entrepreneurs themselves need to be aware of the need to share power, be open-minded and willing to listen to the views of stakeholders. Entrepreneurs need to be made aware of the prevalence of crisis, the need to deal with stress, the need for support, and benefits of learning from the experiences of other founders who have experienced crises.

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