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Towards an Understanding of Marketing Planning Practices in Indigenous Small Firms in the Electronics Sector in the Republic of Ireland

(2 parts)

by

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Part 1 of 2

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I hereby certify that this material, which I now submit for assessment on the programmes of study leading to the award of PhD is entirely my own work and has not been taken from the work of others save and to the extent that such work has been cited and acknowledged within the text of my work

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Acknowledgements and Dedication

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Abstract

This thesis examines the role which marketing plays in the planning process of small indigenous companies in the electronics sector in the Republic of Ireland. In particular it attempts to identify the main influencing factors which shape the particular approach adopted by such firms.

The research involved a comprehensive review of the literature on small business policy in Ireland, entrepreneurship, growth and the small firm, and also strategy and planning. A pluralistic approach to the design of the research programme was adopted. This involved three phases; consisting of in - depth interviews, telephone interviews and final seven detailed case studies of electronics firms.

The quantitative phase showed that there was a strong relationship between the size of the customer base and the tendency to adopt an informal, intuitive approach to planning. Likewise there was evidence to suggest that the size of the company (defined as the number of employees) also influences the approach to planning. There was no evidence to suggest that the length of time a company was established, the propensity to export, or the category of product manufactured, had any significant impact on the approach to planning.

The case studies identified a number of critical variables and influencing factors on the approach to planning. The most salient issues were the approach to customer management, the way in which relationships are managed, the ability to manage critical events effectively, the dichotomy between strategic decision - making and operational decision - making and the ability to delegate the latter decisions to other personnel in the company. The cases revealed that there is a strong tendency to formalise the annual plan; usually in the form of a budgetary exercise.

The thesis concludes by noting that these issues need to be more fully understood before adopting a prescriptive approach to planning; as is the case in much of the extant literature.

CHAPTER ONE

INTRODUCTION

CHAPTER 1. INTRODUCTION

1.1. Rationale for the Research

The question of how businesses plan their development has exercised the minds of many academics and practitioners over the years. While there has been a veritable plethora of articles and textbooks advising companies as to how they might best address this issue; comparatively little of any merit has been directed at the small firm sector, given the complexity and heterogeneity to be found there. Much of what has been written has adopted a prescriptive, normative approach, i.e. a sequential, rational structure for planning that can be adopted by the company. It is debatable whether or not companies, particularly those in the small firm sector would agree with such a viewpoint. It is from this initial prejudice that the topic for this thesis emerged.

A brief perusal of the literature, before the commencement of this thesis supports the suspicion that there is a tendency to assume that what is deemed to be appropriate for the large corporation also will work for the small, evolving firm. However the commonly cited lack of resources, skills and competencies and specialist expertise surely means that this is a dangerous presumption, without supporting evidence. Authors such as Piercy and Giles (1989), McDonald (1984) and Greenley (1982) have produced worthwhile material which outlines the structure and procedure for planning. Again however, the suspicion remains that it is grounded on the basis of a prescriptive, normative philosophy. Does such a step - by - step, rational and sequential approach work for companies, particularly the evolving one, in reality? It is submitted at the outset of this thesis that the smaller enterprise tends to operate in an environment which is embedded in the realms of uncertainty, and sometimes even chaos. If there is such a discrepancy between theory and practice, then there is a need for a greater understanding and insight into the topic. Carson (1985, 1991) has undertaken useful research already, particularly into planning in the context of the marketing and entrepreneurship interface. However further work needs to be carried out: hence the prime motivation for this project.

The electronics sector in the Republic of Ireland was chosen as the focus for the study. This was because of the strategic significance which has been placed on this industry by successive governments since the mid 1960's. Initially foreign - owned companies were targeted for inward investment and since the 1980's, a concerted effort has been made to establish linkages between these firms and local companies in terms of supply and procurement. People have also been actively encouraged to establish their own enterprises. It was felt therefore that this sector would present a good opportunity to research how such start - up enterprise have developed, and in particular, how they have utilised marketing within their planning activities.

1.2. Objectives

Within the broad remit of the project which has been outlined in preceding paragraphs, the overall objectives were as follows:

a) To gain an initial insight into general planning practices and procedures across industries. This phase was designed to enhance the preunderstanding about the topic under investigation and provide a broad framework for designing the next stage.

b). To identify the parameters of planning practice among indigenous companies in the electronics sector. This was designed to provide an assessment of the general principles and procedures of planning within such firms.

c). To isolate specific cases and examine the internal mechanisms and influences affecting the context of planning, thus providing patterns (be they convergent or divergent) for subsequent evaluation. This allows for more closer interaction with the respondent and provides for a "richer" depth of understanding about the subject under investigation.

A more detailed description of the specific objectives is laid out in chapter five.

1.3. Research Approach

The gap between theory and practice suggests that a number of considerations need to be taken into account when designing the research study. Given the questionable validity of previous research which is identified in chapters three and four, it is submitted that a phased approach is required: starting with a general overview of planning practices and moving to an industry specific sector. It is also strongly argued that there is a need for a balanced approach between deductive and inductive research methodologies. A purely positivistic methodological approach would be unduly simplistic, given the need to more fully comprehend the underlying patterns and influences on planning activities. This in turn calls for a pluralistic approach; where a number of different methods of data collection and analysis can be used. A total dependence on one single tool or technique renders the research method - bound and ignores the fact that the strength of each particular method is flawed in some way or other. A pluralistic approach allows the researcher to counterbalance the strengths and weaknesses of each method. The research approach adopted for this study is outlined in figure 1.1.

FIGURE 1 RESEARCH APPROACH

LITERATURE REVIEWS **EXPERIENCE**

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PHASE ONE: UNSTRUCTURED DEPTH INTERVIEWS

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PHASE TWO: HYBRID TELEPHONE INTERVIEWS; COMBINING CATI (COMPUTER AIDED TELEPHONE INTERVIEWING) WITH OPEN - ENDED QUESTIONS

⇓

PHASE THREE: HYBRID - DEPTH INTERVIEWS, OBSERVATION, FORMAL AND INFORMAL INTERVIEWS, INPUT FROM RESEARCH COLLEAGUE, CASE STUDIES

1.4. Structure of Thesis

The structure of the remainder of this thesis is as follows:

Chapter two examines the extent of small firm support in the Republic of Ireland. It adopts a partly historical perspective, tracing the various policy measures and initiatives instigated by successive governments. It also contrasts the developments in Ireland with those in other countries within the EU. The appropriateness of these measures is assessed in the light of the specific characteristics of the small, evolving firm. The reader is urged to review this material in conjunction with the content of appendix one, which assesses overall industrial policy in Ireland since the inception of the state.

Chapter three reviews the literature on entrepreneurship, growth and the small firm. The role of the entrepreneur needs to be assessed in light of any attempt to examine the way in which companies utilise planning in their growth and development. The various schools of thought with regard to entrepreneurship are assessed and focus is also given to the alternative perspectives on how growth within the small firm is achieved.

Chapter four assesses the role of strategy, marketing, planning and the firm. Focus is given to the relationship between marketing planning and overall strategic or business planning. Empirical studies are reviewed and assessed with regard to their relevance to the case of the small firm.

Chapter five reviews the different philosophies of research design; both deductive and inductive and argues strongly for a pluralistic approach to reset design. The methodology employed for this study is laid out in this chapter together with detailed discussion on sample design, the development of hypotheses for the second phase of the study and subsequent administration of the interviews.

Chapter six presents the results of phase one of the study; consisting of depth interviews with a number of companies, with the overall objective of identifying alternative approaches to planning in general terms.

Chapter seven analyses the main findings from phase two of the study: the quantitative telephone survey of indigenous companies from the electronics sector.

Chapter eight sets out the detailed case studies of seven companies which made up phase three of the study. Each case is presented and analysed separately and the reader is directed to assessments which were made after the relevant data from each individual company was analysed. These are to be found in appendix 3.

Chapter nine synthesises the main findings and recommendations from phases two and three of the research project. This chapter also examines some of the possible limitations of the research and highlights potentially fruitful areas for further research in this area. The key learning outcomes are examined and the view is taken that this survey is a continuing journey; not a destination.

CHAPTER TWO

THE SMALL FIRM IN THE IRISH ECONOMY: PERFORMANCE AND APPRAISAL

2.1 INTRODUCTION

The material which presented in appendix A (see part 2, page 358) reviews the development of industrial policy in Ireland since the foundation of the State in 1921. While it is necessary to present such an analysis, it is felt that it is not central to the main focus of this dissertation Because this research study is on the small, indigenous firm within the context of the electronics industry it is argued that this sector of the manufacturing base should be examined in more detail than would otherwise be possible in a general assessment of industrial strategy. This analysis and appraisal will help to gain a clearer insight into the specific problems and issues which ultimately affect the small firms' ability to contribute to the manufacturing sector.

The specific programmes and strategies introduced by the State are evaluated in the first part of the chapter. While the indigenous sector has featured as a key element of industrial policy for many years, appendix A highlighted that more success was achieved in the twin area of encouraging inward investment from overseas companies. That analysis also demonstrated that any initial success deriving from the contribution of the overseas sector is limited and ultimately constrained if there are inefficiencies and weaknesses within the indigenous base. One of the main conclusions arising from the evaluation of industrial policy was that of an imbalance in the allocation of resources between the indigenous and foreign sectors - weighted heavily in favour of the latter. Of course it would be disingenuous to suggest that a series of programmes for boosting the contribution of the indigenous sector did not exist. On the contrary, a number of initiatives were undertaken by successive governments to stimulate growth in this area, and these are appraised in some detail.

The middle section considers the policy of the European Community with regard to the smaller firm and examines the comparative approaches of countries within the EU This is deemed to a useful exercise to undertake because it helps to provide an overall framework for examining Irelands' approach to industrial policy with regard to the smaller firm and allows for some subsequent bench - marking at the end of the chapter.

This chapter concludes by identifying the inherent weaknesses of present policy with regard to the small firm and examines alternative approaches, drawing on the experiences of other EU member states. It is submitted that the chapter complements the theoretical issues concerning small firm growth and development which are discussed in chapter three.

2.2. SMALL FIRM POLICY IN IRELAND: DEFINITIONAL ISSUES

While a fuller discussion on the difficulties of defining what actually constitutes a " small " firm takes place in the next chapter, it is necessary at this early juncture to clarify the operational framework which will be utilised within this chapter. The standard definition of a small firm as used by the Industrial Development Authority is one which employs up to *fifty* people with fixed assets of not more than £0.8million (1). This differs from the Small Firms Association - a group established within the Confederation of Irish Industry to look after the interests of small firms. They cater for firms employing upwards of *one hundred* people. By contrast the Bolton Report (2) categorises as small, companies in the United Kingdom, employing less than *two hundred* people. In Japan small industry is classified as companies engaging less than *three hundred* people (3). Beckler (4) identifies variations in many European countries; Austria, Sweden and Switzerland - less than fifty, Germany and Italy - less than one hundred. This contrasts with the standards employed within the European Community. In this case, the European SME sector (excluding agriculture, hunting, forestry and fishing) is classified under the following categories :

- micro - enterprises 0 - 9 employees
- small enterprises 10 - 99 employees
- medium enterprises 100 - 499 employees (5)

There are clear limitations arising from a reliance on the "numbers employed" criterion. Kennedy and Healy (6) use the example of the anomalies which can occur where two companies each employ one hundred people: one may employ highly skilled technologists, while the other may be relying on a large pool of untrained workers. As a consequence it can be reasoned that "persons" does not constitute homogeneous units of labour.

The discrepancies arising from the above definitions demonstrate that there is no universally accepted definition. It can also pose problems when interpreting data from different countries within the EU In addition it creates a "grey area" between the small and medium sized firm. In Ireland the demarcation line is drawn at fifty employees. By contrast the EU identifies one hundred employees as the separation point. The reader is advised to refrain from adopting a rigid approach to defining small firms purely on the basis of the number of people employed. That said, caution must be exercised when undertaking comparative analysis. Kennedy and Healy (7) argue that it is not necessary to establish a single dividing line when separating small from medium and large companies. Instead they put forward the view that gradations of size should be adopted.. For their analysis (which shall be examined in this chapter), they accord with the IDA category (less than fifty people employed) but express interest in other rages of size and they use the following classification format ;-

(1)	Small -	less than fifty persons engaged
(2)	Small - medium	50 - 199
(3)	Medium - large	200 - 499
(4)	Large	500 and over

In the subsequent analysis which will be presented in this chapter it is worth pointing out that much of the available data leaves a lot to be desired when it referring to the small firm sector. In the case of companies employing one or two people, they can be hard to locate and indeed much of the statistical returns which they make are unsatisfactory. Therefore the Irish Central Statistics Office ignores establishments with less than three people employed.

2.3. THE SIGNIFICANCE OF SMALL INDUSTRY - THE PARAMETERS

Much of the available data pertaining to the size and structure of the Irish manufacturing sectors derives from the *Census of Industrial Production* (produced by the Central Statistics Office and the *Annual Employment Survey* (generated by the IDA).

Table 2.1 provides a summary of the available data on the number of establishments and employment in various categories within the manufacturing sector for selected years from 1929 - 1975. They show that the total number of companies was fifty two per cent higher in 1975 than in 1929. The small firm sector (defined as less than fifty) as of 1975, makes up almost three quarters of the total number of firms, but in terms of employment levels, it accounts for just over twenty per cent. This latter figure represents a decline from thirty four per cent in 1929. As might be anticipated, the firms employing more than five hundred people, although accounting for less than two per cent of the total number of companies, account for almost a quarter of total employment as of 1975.

TABLE 2.1 SIZE DISTRIBUTION OF IRISH MANUFACTURING INDUSTRY 1929 - 1975

ESTAB. SIZE	1929	1938	1946	1958	1968	1975
	NO. OF ESTABLISHMENTS					
SMALL	1912	2716	2376	2511	2305	2464
SMALL - MEDIUM	263	425	384	452	576	661
MEDIUM - LARGE			83	112	142	143
LARGE	11	15	21	31	51	52
TOTAL	2186	3156	2864	3106	3074	3320
	EMPLOYMENT NUMBERS ('000)					
SMALL	22.2	32.8	32.5	37.5	38.2	39.8
SMALL - MEDIUM	32.0	53.4	34.7	42.3	56.5	63.8
MEDIUM - LARGE			23.9	32.4	42.1	43.1
LARGE	11.8	14.2	18.9	29.6	47.2	48.1
TOTAL	66.1	100.2	110.0	141.8	183.9	194.8
	EMPLOYMENT SHARES (%)					
SMALL	33.6	32.7	29.5	26.4	20.8	20.4
SMALL - MEDIUM	48.5	53.2	31.5	29.8	30.7	32.8
MEDIUM - LARGE			21.7	22.8	22.9	22.1
LARGE	17.9	14.2	17.2	20.9	25.7	24.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: *Kennedy and Healy, p52.*

Kennedy and Healy (8) also present alternative data generated by the Industrial Development Authority for the comparative years 1973 and 1980. These are outlined in Table 2.2.

TABLE 2.2 SIZE DISTRIBUTION OF IRISH MANUFACTURING 1973 AND 1980 (IDA DATA)

ESTABLISHMENT SIZE	NO. OF ESTABL.		EMPLOYMENT (000'S)		EMPLOYMENT SHARES (%)	
	1973	1980	1973	1980	1973	1980
SMALL	3913	4451	50.7	57.4	23.3	23.7
SMALL - MEDIUM	686	836	66.2	81.6	30.4	33.6
MEDIUM - LARGE	170	180	51.1	54.0	23.5	22.2
LARGE	60	61	49.7	49.5	22.8	20.4
TOTAL	4929	5528	217.8	242.5	100.0	100.0

The data generated by the IDA includes many more companies than that of the Census of Industrial Production. This discrepancy is explained by the fact that many of the very small firms did not appear to have returned information in the case of the latter survey. The IDA statistics however do indicate a significant increase in the number of small firms over the seven year period. There has been a negligible increase in employment levels in this sector.

These figures send some conflicting signals. The vast bulk of companies in Ireland as of the mid - 1970's (seventy five per cent) is accounted for by small companies. Their overall contribution to employment however is not as significant.

More up to date information on the parameters of the small firm sector is contained in the *Review of Industrial Performance, 1990* (9). As of 1989, it was estimated that there were approximately 6,500 firms in this sector, employing 60,000 people and accounting for eighty per cent of total industrial establishments, representing twenty five per cent of industrial employment. Small industries' contribution to industrial output is calculated at fifteen per cent. Sixty per cent of these firms depend exclusively on the domestic market for their survival. The review also estimates that the average employment of each enterprise in this sector is less than ten, with a wide geographic dispersal and a large concentration in rural areas - where employment opportunities are scarce.

Table 2.3 presents data on the levels of employment within the small firm sector for the period 1983 - 1989.

TABLE 2.3

EMPLOYMENT IN SMALL INDUSTRY 1983 - 1989

Year	Gross Gains	Losses	Net Change
1983	8,520	8,039	481
1984	7411	6858	553
1985	8421	7264	1157
1986	8655	8960	-305
1987	9429	7859	1570
1988	9247	7156	2091
1989	9903	6216	3687

Source: Review of Industrial Employment, 1990, p80. (The data was compiled from IDA, SFADCo, and Udaras na Gaeltachta employment surveys)

Overall there is a positive net change in employment over these years. A superficial glance at table three reveals small net increases in the first three to four years (apart from 1986) with a steady increase in the positive net changes in the latter years. Two reasons can be put forward at this stage of the analysis for these changes. The contributions of the "modern" cohort of manufacturing industries (such as electronics, chemicals, metals and engineering) began to outweigh the contributions of the traditional sectors (such as food, drink and tobacco, textiles and clothing, timber and furniture and printing), in line with the emphasis being placed by successive governments on the former sectors. The Review of Industrial Performance 1986 (10) identifies this trend and the main findings are summarised in table 2.4. While the data contained in this table refers to output from both overseas and indigenous companies and does not identify the small sector explicitly, it still reflects the contributions of the new start ups in these "modern" sectors. Secondly, the small firms sector will clearly exhibit a high level of births and deaths. The review estimates for example that almost twenty five per cent of new start - ups during the period 1980 - 1983, closed within the same period. Likewise it is reasonable to assume that companies which survive the hazards associated with the initial phase will gradually (and then more quickly) be in a position to seek extra employees. Thus companies which commenced operations in the early part of the 1980's would be more prone to recruiting extra staff towards the end of the decade.

TABLE 2.4

GROWTH IN OUTPUT (%)

YEAR	ELECTRONICS	CHEMICALS	ALL MANUFACT.
1983	41.8	16.0	7.6
1984	54.2	23.8	12.5
1985	3.6	2.5	2.7
1986 (EST)	23.5	-1.6	2.0

Soure
e : CSO : Volume of Production Indices

One aspect of the 1990 Review of Industrial Performance (11) alluded to earlier is the reliance of over sixty per cent of the 6,500 companies on the domestic market for their business survival. While this appears at first glance, to be a major weakness, it does point up a problem which has to be acknowledged when examining the small indigenous sector in the Republic of Ireland; namely the *smallness of the home market.* While more specific causes of restriction to growth will be examined in next chapter, it is submitted that small firms seeking growth are prevented from reaching a position where they can cultivate a competitive advantage because of the size of the domestic market. Kennedy and Healy (12) further develop this point by noting that ;-

"In larger economies, small firms are able to attain a position of viability by supplying an extensive or domestic market, whereas Irish small firms are often hampered by the limited home market opportunities". (p66)

As a consequence of this observation, it is argued that it is unrealistic to expect short to medium term success in terms of employment generation from the small firm sector. The initial start - up phase is typically characterised by problems relating to establishing the business on a relatively sound footing. This may include issues relating to working capital, developing a customer base, gaining extra finance to invest in additional plant and / or equipment and cultivating a reputation in the industry. The need to address these considerations, often in a reactionary, unplanned mode of operation, can mean that inevitably, the thought of recruiting extra personnel is often placed down the list in the order of priorities.

2.4. DEVELOPMENT OF SMALL FIRM POLICY

The 1990 Review of Industrial Performance (13) identifies the objective of the programme for small industry development as one of encouraging :-

> *"employment growth and wealth creation in the regions in a cost - effective manner by fostering the growth of sound, commercially viable enterprises capable of competing successfully in internationally traded markets"*

This view of what is expected from the small industry sector once again explicitly reiterates the primacy of employment generation alongside the implicit development of what might be loosely called, a culture which encourages the concept of entrepreneurship and innovation. Added to this is the expectation that over time, the firms which survive the early phase of development, will seek out opportunities in the international arena and ultimately trade successfully there. It also recognises the social need to develop enterprises throughout the regions (some of which are economically disadvantaged) rather than concentrate them solely in areas of high density population.

This suggests that any examination and appraisal of policies and strategies should be measured against three criteria: the ability to generate extra employment, the ability to trade internationally and the ability of the State to foster a climate which positively encourages entrepreneurship and enterprise development. The social objective is more difficult to measure and can only be gauged from an appraisal of location and dispersal of grants / incentives. Each criterion in turn must be evaluated against the costs involved - e.g. in creating one new job from this sector. These factors will be used to appraise the small firm policies and strategies which have been introduced over the past number of years.

Kennedy et al (14) suggest that although no formal measures were instigated by the State to stimulate development within the small firm sector before 1967, it was clear that the protectionist policy favoured by governments prior to 1959 explicitly favoured the local, indigenous manufacturers. The analysis presented in the previous chapter however reveals that this policy encouraged complacency at best, and inefficiencies at worst, which meant that this sector was singularly ill - equipped to tackle any potential export opportunities which may have existed in Europe, or further afield. Many of these inefficiencies related to basic inadequacies in areas such as marketing, quality standards and manufacturing equipment.

In line with the range of financial incentives which were provided for the overseas sector, the Industrial Development Authority (IDA) was given responsibility for processing and accessing proposals received from Irish sources in 1966. This was formalised in 1967 with the establishment of a Small Industries Division within the IDA. They were charged with the task of launching the *Small Industry (SI) Programme* which was designed to provide aid and assistance to existing indigenous enterprises and with the development of new ones.

Initially this programme was addressed to designated areas in the country such as the West, Mid - West and South - West and North - East. These were regions which were deemed to be under - developed and as a consequence in need of investment to stimulate employment opportunities. However the SI programme was gradually extended to all regions, excluding Dublin, by 1969. The IDA administers the programme for all regions except the Mid - West, which is handled by the Shannon Free Airport Development Company (SFADCo) and for Gaeltacht areas which are dealt with under separate programmes by Udaras na Gaeltachta. Following a rapid decline in manufacturing levels in inner city areas during the mid 1970's, (mainly caused by the economic fall - out from the 1974 - 1975 oil crisis), the programme was eventually extended to the Dublin area in 1977.

A differentiation in the level of grants was a feature of the programme, with grants negotiable up to a limit of sixty per cent of fixed asset investment being available in the designated areas, and forty five per cent elsewhere. In addition the programme provided for the option of rent subsidies and leasing grants for machinery and plant. The IDA also has developed a broad range of advance factories and units for start - up entrepreneurs. Grants are also available for the training of workers and for feasibility studies and for product and process development.

In addition to the basic diet of grants and incentives, the programme developed a number of "add - ons" to the basic package. For instance in 1981, SFADCo instigated *Matchmaker Programmes*, designed to promote the sale of products from local firms in the mid- west to the rest of the country. An *innovation centre* was also established in the (then) National Institute for Higher Education in Limerick to help local firms design and test new product concepts. In 1975, the IDA set up a *Project Identification Unit* to identify import substitution opportunities and also to promote potential linkages with established overseas branches located in Ireland. In 1978, the *Enterprise Development Programme (EDP)* was launched. This scheme was designed to encourage professional managers already working in semi - state, private or overseas enterprises, to make the transition to entrepreneurship. In addition to the normal package of grants and incentives, guaranteed loans for working capital purposes were also made available.

These initiatives took place prior to the influential Telesis Report (15) which is examined in appendix one. While that report and the subsequent White Paper on Industrial Policy affirmed the need to concentrate more fully than had been the case heretofore, on the small indigenous firm, views are mixed as to their success in adequately recognising the differences and unique characteristics of such companies.

O'Farrell (16) is explicit in his reservations about the contribution of the Telesis Report to the future success of the small firm arguing that ;-

> *" (its) approach is inadequate to overcome the wide range of biases and problems confronting the small firm sector, many of which derive from their small size and require explicit recognition in policy formulation" (O'Farrell p 251)*

This is further supported by Conniffe and Kennedy (17) who point to the need for the range of advisory support activities in the areas of marketing and management training to reflect the inevitable differences which exist, when compared to the those required by the medium to large firms.

This reluctance to explicitly separate the approach to the small firm sector from the medium to large indigenous companies in the Telesis Report is also identified by Keenan(18) who argues that it clearly favours the development of small industry "as part of an integrated indigenous development charter" rather than dealing with them through a specific agency or division.

In similar vein, Kennedy and Healy (19) express the view that as of the early part of the 1980's, there existed a large "critical mass" of small firms which need to seek improvements in efficiencies in order for them to grow any further. The onus in their view should be on developing specific programmes which take into account the differences (once again) between small and larger companies.

The subsequent White Paper on Industrial Policy (20) as noted in appendix one, was reluctant to veer away radically from the emphasis on the overseas sector of industry.

Perhaps the most severe criticism of the proposed policies was levelled by Ruane (21) who argues that the White Paper only considered direct policies which fell under the direct responsibility of the Minister for Industry and Commerce. Therefore important issues such as training, fiscal incentives, labour legislation, pay related social insurance (PRSI) are not featured in any aspect of policy change. In short an overly narrow perspective was applied, which ignored fundamental issues which could have direct relevance for the small firm sector and as in the case of fiscal policy, act as a negative influence in terms of recruiting extra personnel.

O'Farrell criticises the White Paper proposals and the subsequent Economic and Social Plan - *Building on Reality 1985 - 1987* (22) on the basis that neither outlines an overall industry budget which would "enable the allocation of resources to reflect the new strategic shift of manufacturing policy as between .....indigenous and foreign firms and between capital grants and other types of aid, to be evaluated and monitored". This is instanced in the White Paper which suggested that expenditure on marketing was projected to increase from four per cent in 1983 to 9 per cent by 1988 and expenditure on research and development to rise from five per cent to ten per cent over the same period. However no absolute values are provided to indicate the level of State expenditure under the different categories (small, medium, large indigenous firms). The National Economic and Social Council (NESC) (23) state that :

> *" the projected changes in the patterns of State aid to industry............amount to a framework for resource allocation which is loose, flexible and lacking in rigour".*

The prevailing consensus would appear to unite around the view that the policies were lacking in specificity and preciseness. However the White Paper did contain a number of specific programmes which were designed to address some of the perceived problems or weaknesses associated with the smaller firm. A Sectoral Development Committee Report (24) highlighted many significant weaknesses in the area of marketing within the indigenous sector. In response, the White Paper proposed a number of initiatives designed to address those areas.

This included grants of up to fifty per cent of the cost of acquiring technology from abroad. Likewise a market entry and development scheme was introduced to help offset costs associated with travel expenses, promotion and warehousing facilities overseas. The Irish Export Board (Coras Trachtala) also designed a market research programme to help the small firm contemplating entry to foreign markets. The same agency also was charged with the responsibility for setting up group marketing programmes to help small firms access markets exporting complementary but non - competing products. Lennon (25) identifies such an approach as being beneficial for smaller companies because it helps reduce marketing costs, identifies new market outlets for products, establishes closer market contacts with end users and middlemen, provides more accurate and frequent market feedback and lead ultimately to increased efficiency and proficiency in exporting ; an area clearly identified as weak in the small firm sector. Another scheme involved Coras Trachtala covering fifty per cent of the cost of a full - time graduate with a proficiency in export marketing and languages who would spend a year working in the company to help with the development of sales and marketing for the export market. Other initiatives included the establishing of incubator factories in association with third level colleges.

To address the weaknesses associated with exporting, Coras Trachtala was given responsibility to develop a *Company Development Programme* which was designed to help selected companies with potential to exploit opportunities to penetrate such markets through various export initiatives. Under this scheme the various State agencies stimulate the companys' management team to come up with well thought out, internationally oriented business plans.

The *National Linkages Programme (1985)* was one of the more significant developments arising from the White Paper because it sought to specifically address weaknesses in the local indigenous sector identified in numerous studies (for example, see McAleese and Foley, 26). These related to product quality, price competitiveness, quality control standards, late delivery, inadequate financial control and all round marketing expertise. This programme had twin objectives. Firstly to seek the active support of overseas companies, given that it would be in their best interests with the move towards just - in - time, to cultivate a strong local supply base, and secondly to bring the indigenous companies "up to speed" in terms of improving their capabilities in the areas of weaknesses identified by the various studies.

By year end 1988, over seventy indigenous companies had established relationships with over two hundred and twenty overseas firm. Kennedy and Healy (27) note that given its short time span it is too early to make a confident judgement about its success. However by 1988, they estimate that over £130 million worth of new sales to overseas companies was generated, of which £27 million was won by firms included in the linkages programme. It would be fallacious however to attribute all of the sales to the results of the programme.

Kennedy and Healy (28) are of the opinion that the Linkages Programme represents " a more hands - on and selective approach to industrial development than was customary in the past" and as such needs to be judged in the longer term. This is encouraging given the criticism levelled in the previous chapter that much of the industrial policies introduced in the past have sacrificed potential long term benefits for political expediencies. This phenomenon is evidenced by numerous pressure groups who in the words of McHugh (29) seek "immediate and highly visible signs of success".

2.4.1. Assessment of Small Firm Policy

The preceding discussion in both this chapter and the last has outlined and examined the range of strategies employed by successive Governments with regard to industrial policy in general and small firm policy in particular. Of necessity, the treatment of this discussion has been largely descriptive in nature. The next section of the chapter makes an assessment of the success or otherwise of such initiatives and makes recommendations as to how future policy with regard to the small firm sector can be improved.

2.5. COSTS OF EMPLOYMENT GENERATION

The statistical information underlying this issue has been considered earlier in the chapter and only a brief summation will be presented here. These figures reveal a positive net change in employment levels from the small firm sector up to 1989. When making an assessment of policies and strategies it is prudent to consider the costs associated with stimulating growth and employment generation among small firms. Table 2.5 presents the cost per job for the period 1980 - 1989. In addition to the actual cost per job, it is necessary to examine the grant payments made to the small industry sector. Table 2.6 provides some details in this regard.

TABLE 2.5

COST PER JOB (CREATED AND SUSTAINED) 1980 - 1989

CONSTANT 1989 PRICES

	1980-86	**1981-87**	**1982-88**	**1983-89**
Cost per Job per Programme	**£**	**£**	**£**	**£**
Irish and Overseas Business	26870	27470	24480	19830
Small Industry and Enterprise Development	11350	12180	10820	9773
International services	10570	9680	9050	8528
Cost per Job per Sector				
International Services, Chemicals & Engineering	20900	24250	23510	19249
Food, Drink and Tobacco	16570	15860	14970	12284
Furniture, Timber,Clothing & Footwear	18020	18020	14090	11405
All Programmes / Sectors (inc. Mid West Region)	20360	21010	n/a	n/a
All Programme Sectors (excl. Mid West Region)	19330	20180	18610	15564

Notes: 1982-88 and 1983 89 data excludes the Mid West Region ; n/a - not available

Source: IDA in Review 1990 p156

TABLE 2.6 GRANT PAYMENTS TO INDUSTRY (IDA AND SFADCo ONLY)

	EFA (1)	TOTAL GRANTS	FIXED ASSET GRANTS	NON - FIXED ASSET GRANTS	CAPITAL % EFA (2)
Payments					
1985	39710	30242	21229	9013	53.5%
1986	28314	26662	17428	9234	61.6%
1987	25305	23828	14038	9790	55.5%
1988	29733	24460	13361	11099	43.6%
1989	26237	24586	10563	14023	39.3%

	CAPITAL % TOT. GRANTS	EMPLOYMENT GRANTS	EMP. GRANTS % OF TOT. GRANT	R&D GRA. (3)
Payments ctd				
1985	70.2%	851	2.8%	323
1986	65.4%	1407	5.3%	325
1987	58.9%	3482	14.6%	551
1988	43.6%	6130	25.1%	516
1989	43.0%	9516	38.7%	481

NOTES : (1) ELIGIBLE FIXED ASSETS (2) EXCLUDING RENT SUBSIDIES (3) INCLUDES TECHNOLOGY ACQUISITION GRANTS

The data contained in these tables raises some interesting issues. Table 2.5. reveals that the cost per job has declined over the period under investigation. Table 2.6. presents a synopsis of the more detailed data in table 2.5. The Review of Industrial Performance (30) attributes the improvements in the grant cost per job to the introduction of more rigorous project analysis and tighter grant criteria - in line with the recommendations set out in the White Paper. The measurement of the cost per job is calculated by relating the cost of all grants paid over a seven year period against the number of jobs created and still in existence at the end of the period. The formula therefore provides a measure of the *average cost* to the Exchequer in constant prices over a long run period of those jobs created and sustained.

TABLE 2.7.

AVERAGE COST PER JOB CREATED AND SUSTAINED (1989 PRICES)

1980-86	1981-87	1982-88	1983-89
£19330	£20180	£18610	£15564

Source: IDA

These estimates of costs however do not take into account the promotional costs associated with generating jobs or the tax concessions. This is a serious omission as such costs are extensive. While the 1990 review does acknowledge these omissions - justifying it on the grounds that such costs cannot be directly correlated to jobs, it makes the resulting calculations of the average cost per job in table eee very suspect. Clearly leaving out any allowances for tax relief, such as Section 84 loans, considerably underscores the true cost per job. This latter cost rose from £58 million in 1883 / 1984 to £128 million by 1988 / 1989. The overall estimated net exchequer cost of tax reliefs for an average year in the period 1985 - 1989 was calculated to be £295 million.

The question of whether value for money is being obtained for grant aid is therefore difficult to answer with any confidence, given the suspicion surrounding the direct grant cost per jobs presented above. The Culliton Report (31) is sceptical, given that there was a net loss 2,000 jobs for Irish - owned firms and a net increase of only 9,000 jobs for the foreign - owned sector during the period 1981 - 1990, despite an expenditure of over £1.6 billion (in 1990 prices) on direct grants alone. They also make the valid, but often ignored, point that the direct grant cost per job figures generated by the State assume that such jobs would not have existed without grant aid in the first place. While it is impossible to calculate how many jobs would have been in place, it is equally simplistic to assume that <u>all jobs</u> were generated by grant aid.

O'Malley et al (32) are more sanguine about the contribution of the grant - aided sector to employment generation, noting that "there was a statistically significant positive correlation between grant payments and employment change in all three sectors - foreign - owned, medium / large indigenous and small indigenous.

However Barrett and Purdy (33) are quite scathing about the reliance of industry on grant aid. They point to an ESRI survey of four hundred chief executives conducted by Fitzpatrick in 1986, which concluded that the high proportion of firms in receipt of State aid points to ;-

" a high level of grant mentality among Irish companies with either little investment or initiative occurring without State aid or to grants being available where investments might have occurred anyway. (Business and Finance p18)

These criticisms would appear to be valid as they yet again indicate the reluctance, indeed intransigence, of the State bodies to be more discriminatory and selective in their allocation of support to the indigenous sector. Although table 6 reveals that a shift occurred in the allocation of grants from fixed to "soft" assets such as training, the movement was not dramatic and certainly not to the extent envisaged by the Telesis Report in 1984. It is also noticeable that the level of employment grants given to the small firm sector has risen dramatically from 2.8 per cent of the total grants in 1985 to 38.7 per cent of the total by 1989. It is submitted that this notion of handing out general employment grants is a simplistic and ultimately counterproductive approach, given the characteristics associated with the small, growing firm. Focusing exclusively on employment generation as the mechanism for judging success is overly simplistic when applied to a new start - up company or indeed firms in the early phase of growth and development. Kennedy et al (34) notes that while new firm formation rates are high in Ireland, seventy five per cent of the companies under the Small Industry Programme employ ten persons or less, only four per cent employ over thirty persons and only one per cent grow to eventually employ more than fifty persons. If this is combined with the statistic that sixty per cent of small firms in Ireland are not engaged in export activities, then it is clear that more fundamental issues need to be addressed when providing support activities from the State, than simply focusing on employment generation. Indeed it can be argued with some degree of force, that it is wrong to "fire" general employment grants at small firms that are not in a position at present to generate meaningful employment because of fundamental deficiencies in areas such as marketing, financial management, product development and so on. In essence, employment generation should be viewed as a longer term objective which has a far greater likelihood of happening if small firms are helped <u>in the early stages,</u> to improve their capabilities in the above mentioned areas. As such companies develop and expand their activities, the <u>quality and viability</u> of the extra jobs generated will improve accordingly. Under the present regime of employment grant aid one can seriously question the type of work being generated i.e. in some cases companies will "create" a job in order to qualify for the grant, but have no prospects of sustaining that job over a prolonged period and will let that person go as soon as is practically possible.

2.6. SMALL FIRM POLICY WITH REGARD TO THE "SOFT ASSETS"

It was submitted, in the preceding section, that the policy of giving employment grants and fixed asset capital grants is inappropriate, unless increased support is provided in other fundamental areas. This is particularly relevant for the small firm sector. We now need to consider the specific way in which industrial policy has addressed the so called "softer" areas such as marketing and training. Table 2.8 provides a breakdown of industry budget distribution over a seven year period.

TABLE 2.8.

INDUSTRY BUDGET DISTRIBUTION (%)

	1985	1986	1987	1988	1989	1990	1991
CAPITAL	61.4	59.4	57.7	54.0	52.9	52.7	47.3
MARKETING	11.0	11.7	12.7	14.4	11.4	12.7	14.3
Sc & TECH.	10.8	11.1	12.9	12.9	16.8	17.3	20.1
TRAINING	10.6	10.5	8.3	7.2	6.5	5.7	7.3
OTHER (NON F/A)	6.3	7.3	8.4	11.5	12.4	11.6	11.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Department of Industry and Commerce ESRI p30.

This reveals that a significant decline in the share of the budget going to support capital investment took place, and it has been concluded that this only partially addressed the main recommendations set out in the influential Telesis Report. While it would appear at first glance that expenditure on marketing has increased (rising from 11% to 14.3%) it needs to be acknowledged that in the context of an overall decline in the total budget (from £297million in 1985 to £293million in 1991, with a dip to £250million in 1988, it represents a negligible increase in expenditure. The "other" figure refers mainly to employment grants, which have been examined in detail earlier.

O'Farrell (35) in a seminal study of the founders of new manufacturing firms in Ireland, carried out in 1983, identified new product development, marketing, financial management and control as key problem areas for small firms. This points to a need for serious attention to be paid to the issue of providing management training in these areas for such entrepreneurs. It is one thing to take an idea on board and start up an enterprise; it is quite something else to shape that company into a vibrant operation capable of developing into a medium sized and ultimately large company.

The Consultative Committee on Marketing (36) pointed to many weaknesses in the area of marketing within indigenous companies. Apart from obvious problems such as product quality, late delivery and so on, it concluded that many of these companies lacked an overall *strategic focus* for taking advantage of marketing opportunities and needed much support in developing capabilities in areas such as market research, developing a professional approach to selling and penetrating export markets.

O'Farrell and Hitchens (37) in a comparative study of sixty four small Irish firms and forty four companies from the south of England pinpoint the failure of many Irish companies to view training expenditure " as an investment rather than an overhead cost to be minimised". This comment applies equally to management and employee training.

The Advisory Committee on Management Training (38) provides some damning evidence of the lack of emphasis given to management development ; indicating that over twenty per cent of the top thousand companies spend nothing on management development , with over fifty per cent spending less than five thousand pounds (in 1987) on such issues. Likewise they indict the State for spending only three million pounds on management development, usually through subsidy of providers, on an ad hoc basis and with no strategic focus.

A survey of marketing practice among companies in both the Republic of Ireland and Northern Ireland (39) reveals some alarming incidences of poor understanding of both the marketing concept and marketing functions. More worryingly, from the point of view of the contribution of State agencies to development of marketing within Irish firms, the survey identified major confusion among companies in the Republic as to who is responsible, within the realms of State infrastructure for marketing. Indeed the respondents would appear to hold the view that " ultimately there is no responsibility for marketing function in the State infrastructure - because everybody is responsible, nobody is responsible."

An OECD survey (40) of marketing performance in twenty two countries provided graphic evidence of Ireland's deficiencies in this area. Measured over a number of criteria ranging from *company attitude to marketing* to *product design, delivery and after - sales service,* Ireland ranked in the last quartile. While this survey is somewhat dated and of a general nature, it is indicative of a deep malaise within indigenous companies in the mid 1980's with regard to their utilisation of the marketing concept.

Ward (41) in an influential article written in 1987, accuses economic policy of being myopic in its focus on the indigenous sector. His views are summed up in the following passage ;-

" The short term need to increase employment by producing jobs resulted in the neglect, for many years, of the need for integrated full - function industries, i.e. industries which produced, marketed and serviced customers from Ireland." (p99)

These studies point, in a converging fashion, to weaknesses in the general area of management development and in the specific realm of marketing all indigenous firms operating in Ireland. When the findings are discussed in the context of the small, growing firm, then it becomes more disturbing. Given the constraints which such firms typically face, such as bureaucracy, negative perceptions of entrepreneurs, access to funding for development, adverse taxation, lack of professional management input and lack of knowledge of specialist skills and functions, it becomes a strategic imperative for industrial policy to put in place a series of policies which are designed to drive improvements in these areas. Clearly issues such as bureaucracy and the fostering of a climate which is positive about entrepreneurship cannot be created by simply spending State money: although, over time, a proactive approach to the small firm sector would undoubtedly establish a more conducive entrepreneurial environment. However the issue of management development can be addressed through industrial policy.

One such initiative, called the *Mentor Programme,* makes available a panel of experienced retired business executives to a selective number of small firms who demonstrate development potential. The mentor will assess the business and provide some preliminary advice. If the company decides that he should provide ongoing advice then the mentor will help the companies in areas such as strategic planning, general management advice, marketing, quality control, finance and industrial relations.

This concept addresses the need to help small companies develop their business while at the same time learning specific skills from experienced business executives. However it is submitted that, like so many other initiatives, it only goes a bit of the way to addressing the problem. For instance the onus is on the company to pay the mentor for the most time consuming part of what can be offered e.g. the development of a plan, at a time when it may not be in a financial position to absorb such costs. That there is a need for such help is undeniable. While the efficacy of using retired business people is not challenged, it does smack of a "piecemeal", "make - do" approach on the part of the State. This is an area where the allocation of greater resources would reduce the cost to companies who may be experiencing cash flow problems and more importantly move the company along the "learning curve" to greater levels of expertise.

2.7. OVERALL ASSESSMENT AND RECOMMENDATIONS

This chapter has presented an appraisal of initiatives undertaken by the State with regard to seeking improvements in the small firm sector. The overall verdict on the effectiveness of industrial policy in this area has to be mixed. On the positive side there is evidence that the State has re - orientated policy away from the high levels of grand aid to fixed assets to the "softer" areas. There is also a recognition in the 1990 Review of Industrial Performance (42) of the need to be increasingly more selective and discriminating in relation to supporting small companies. This means a move away from developing companies which cannot achieve the minimum scale of operation required to survive. Likewise the review acknowledges that the *quality of employment* is largely dependent on the size of the firm: small firms tend to pay low wages and provide fewer fringe benefits than large firms and in many cases the nature and duration of the jobs is temporary. As a consequence there is an indication that the State agencies are looking at the need to be more rigorous in their assessment of initial start - up proposals and likewise where proposals are received from sectors that are already well catered for.

On the other hand however a number of major reservations exist about the efficacy of much of the small firm policies. They largely centre on the failure of the State agencies to recognise the unique characteristics of small growing firms. These characteristics are not taken into account when the State subsequently judges the performance of small firms. The short - term measure of employment gains is still used, and is reflected in the level of employment grants given to this sector. It is submitted that this is unduly simplistic when applied to the small firm sector and is ultimately counter productive because by definition, growing firms will need time to develop and overcome the many barriers which are in the path of growth. They also suffer from deficiencies, particularly in the general area of management skills. If these weaknesses are not redressed then they may not survive in the longer term. Put simply, more resources should be reallocated to these areas, than has been the case in the past.

There is also a need to rationalise the number of State agencies which are currently retaining an input into the small firm sector. A Survey of Business Attitudes carried out for the 1986 Review of Industrial Performance indicated that eighty six per cent of the respondents felt that there were too many agencies and fifty per cent believing that there should only be one agency. The attempts to subsequently rationalise the agencies could best be described as limp: characterised by a reluctance to infringe on the various "empires" created by the various bodies. The Coalition government of Fianna Fail and Labour has managed to increase the number of bodies, in spite of the advice of the recent Culliton Report in 1992 (42). On a more fundamental level there is still no single agency with responsibility for marketing: a situation which was highlighted as being a major weakness in a number of studies reviewed earlier in this chapter. Until this "nettle" is grasped, the issues of bureaucracy and duplication of services remain.

The Culliton Report (44) has identified an under supply of available equity capital for small companies to enable them to grow. While the IDA provides equity, it has been viewed as a way of ensuring repayability to the State and reducing the cost per job. Equity stakes have also been held at around the ten per cent mark in order to avoid issues of control. The Culliton team recommend a much more proactive approach by the State institutions with greater consultation and co-operation between the financial community and venture capitalists. While the medium sized firm is likely to be unhappy with the potential loss of control, it can be argued that the IDA, by taking equity stakes in the small firm, can help to move it along the learning curve more quickly. This of course is a radical proposal because the level of risk associated with start - up and infant projects is high and the State agencies would have to take this as a "given". It would also place greater demands on the managerial and counselling aspects of their workload.

On a macro level, it is submitted that the recommendations of the Culliton report need to be addressed with regard to the seeking of improvements in the infrastructure. Small firms are particularly vulnerable if the costs of telecommunications, energy, postage and transportation services are uncompetitive relative to other countries. The Government have implemented changes in the telephone charges to the business sector in September 1993. It is too early to judge the impact of this policy. The report puts forward a strong argument for achieving a balance between technical /vocational skills and the liberal arts at all levels of education. This again is a radical proposal because if implemented, it will necessitate a change from the present emphasis in education which is heavily concentrated in the arts and social studies area. By giving greater recognition to technical and vocational skills allied to enterprise development courses, it can be argued that an enterprise culture will gradually enter into society resulting in entrepreneurs being viewed in a more positive light.

The financial community also needs to be encouraged to become less risk - averse than is the case at present. There is patchy evidence to suggest that the small firm is disadvantaged by being charged higher interest rates than larger firms. This represents yet another obstacle to growth. The likelihood of banks altering their position is regarded however as low (to say the least).

In summary it can be seen that the initiatives in the area of the small firm sector has had mixed results. The Review of Industrial Performance in 1990 identifies the role of an active industrial policy as one of accelerating the emergence of a number of small companies to a point where they can "make the leap into the internationally trading or skilled sub supply areas" (45) allied to its contribution to net sustained industrial employment. It is contended that the evidence presented in the preceding discussion indicates that at best, small firm initiatives have only partially succeeded. Specifically it is argued that the State, by once again locking into the "employment generation" equation, has not understood the unique characteristics of the smaller firm: in particular to realise the need to invest in the "softer", less tangible elements of an enterprise such as management development. As a consequence the benefits which might accrue : increased employment levels, a greater propensity to export and a move to being a medium sized company will be <u>long term in nature</u>. This unfortunately is not seen as attractive by politicians who look for quick - fix, short term solutions. This appraisal would suggest that political expediency takes much greater precedence over rational thinking.

2.8. SMALL FIRM POLICY : INTERNATIONAL COMPARISONS

The final section of this chapter places small firm policy in Ireland in the context of policies implemented by other countries in the European Community. This is perceived to be necessary because it discourages a myopic, inward - looking stance which would be the case if focus was only given to the policies which pertain in Ireland.

Before examining the relevant data, it is worth re- appraising the definitions which are used by the EU to delineate small from medium and large enterprises.

- *micro enterprises :* *0 - 9 employees*
- *small enterprises :* *10 - 99 employees*
- *medium enterprises :* *100 - 499 employees*
- *large enterprises :* *over 500 employees*

The most recent statistical information on enterprises in the European Community is for 1988. A recent study analyses the implications of this information for the SME sector within the European Community. (46) Table 2.9 provides some general parameters of SME's.

TABLE 2.9

MAIN INDICATORS OF MICRO, SMALL AND MEDIUM - SIZED ENTERPRISES 1988

Description	0 - 9	10 - 99	100 - 499
Number of Enterprises (000's)	13600	920	70
Employment (millions)	26.2	22.2	14.0
Employment per Enterprise	1.9	24.1	210
Turnover per Employee (by 000's ECU)	69	101	140

Source : European Observatory for SME's (1993) p54.

Table 2.10 provides some key indicators relating to how and where the enterprises are located by sector. It confirms that the extraction / energy sector has by far the largest average firm size while at the same time, it is the only major sector where SME's account for less than fifty per cent of employment. By all criteria, the trade and construction sectors are the realm of SME's in the European Community. The employment share of these firms is about ninety per cent.

TABLE 2.10

INDICATORS BY SECTOR : 1988

Description	Number of Enterprises (000)	Employment per Enterprise	Employment Share (0 - 9) %	Employment Share (10 - 499) %
Extraction	150	29.4	7	31
Manufacturing	1710	15.7	14	49
Construction	1920	4.2	44	47
Trade	3830	4.5	45	41
Services	6990	4.6	35	34
Total	14600	6.1	30	41

Table 1.11 examines the vexed question of the rates of new business survival across the European Community. While such statistics have to be treated with caution ; due to the possible different interpretations of survival, they do serve to provide some tentative parameters for consideration.

TABLE 2.11

SURVIVAL AND DEATH RATES ON NEW FIRMS BORN IN 1985 IN SELECTED EU STATES*

YEAR	B.	DK	F	D	IRL	NL	U.K.
Death rates							
1985	0.1	-	17.0	14.0	10.1	-	12.0
1986	0.1	-	12.0	10.0	9.7	16.0	14.0
1987	0.2	-	10.0	6.0	10.2	-	10.0
1988	0.6	31.0	7.0	4.0	7.2	16.0	9.0
1989	1.2	11.0	6.0	3.0	4.9	4.0	6.0
Survival							
ALIVE	97.8	58.0	48.0	63.0	57.9	64.0	49.0

Source : Conservatory p150

*** Countries not included did not have comparable statistics.**

B = Belgium, DK = Denmark, F = France, G = Germany, Irl = Ireland, NL = Holland, UK = Britain

These figures reveal some wide variations, although it must be pointed out that this data only refers to firms that *started* with employees. However in Belgium no sanction is given to firms that do not cancel the registration when closing. Hence the number of surviving firms is considerably overstated. When this is taken into account it would appear that Ireland performs slightly better than some and not much worse than others in this area.

2.9. GENERAL CHARACTERISTICS OF SME POLICY IN THE EU

The 1993 study undertaken by the European Network for SME research (p403) puts forward the view that in general Member States are "converging on the creation of a favourable business climate in combination with specific measures to support specific SME needs". It identifies Germany the United Kingdom, France, the Netherlands, Belgium, Luxembourg and Denmark as broadly pursuing policies such as the creation of employment, support of existing companies, and the support of business start - ups to enhance business dynamics in the small firm sector. By contrast a more interventionist approach has been observed in Portugal, Greece, Ireland, Spain and Italy ; although Ireland has not formulated a specific SME policy as "almost all Irish enterprises are SME's. The latter cohort of companies identify a number of specific objectives like :

* attraction of foreign companies
* modernisation of manufacturing companies
* innovation and revitalisation of traditional sectors
* adoption of innovation
* creation of employment
* removal of discrimination

It is pertinent to note that there is a correlation between the degree to which certain Member States are marginalised (in a peripheral sense) and the levels of intervention which takes place.

2.9.1. Pattern of Supporting Measures

All member States have developed a wide variety of measures consisting of different measures to encourage people to start their own business. This is illustrated in table 2.12. Both financing, information and counselling and training are the instruments favoured by governments in their policy implementation. Each State offers financial support for starting an enterprise. Several types are in evidence such as state guarantees on loans, the provision of loans and the provision of grants to assistance in obtaining equity capital from Venture Capital funds. Belgium, Greece, the Netherlands, Portugal, and the United Kingdom provide a detailed range of support measures in this area.

TABLE 2.12.
POLICY FIELD: START - UPS

COUNTRY	INSTRUMENTS				
	FINANCING	FISCAL	INFO & COUNSELLING	TRAINING	OTHERS
Belgium	X	X	X	X	X
Denmark	X		X	X	
France	X	X	X		X
Germany	X		X	X	
Greece	X		X	X	
Ireland	X		X	X	
Italy	X	X	X	X	
Luxembourg	X	X	X	X	
Netherlands	X		X	X	
Portugal	X		X	X	
Spain	X		X		
United Kingdom	X		X	X	X

The Research Institute (p 59) draws some tentative conclusions from these statistics.

Technology and R & D : very intensive policies for SME's have been developed in France, Germany, Greece and Ireland, while in Luxembourg, no real support in this field exists.

Start - ups : in Belgium, Italy, and Luxembourg limited attention is paid to start - ups ; France and the U.K. both have extensive programmes for new business formation.

Financing : strong financial incentives have been developed in Greece and Ireland ; in the Netherlands, and the U.K. there are fewer financial instruments

Exports : apart from Portugal, Spain, the United Kingdom and Luxembourg where hardly any incentives are developed, there seems to be a wide coverage in this field. Ireland supports exports more strongly than average, when compared to other Member States.

These statistics indicate that, comparatively, Ireland comes out very strongly in terms of instrument utilisation. Again, caution is urged because the information contained in table 13 is very general in nature, simply "counting" general policies which feature in any given country; instead of evaluating the content, structure and quality of such policies and programmes. As has been demonstrated earlier in this chapter, a wide ranging series of policies have been implemented by the Irish State agencies over the past couple of decades. The relative success of these programmes has been mixed and the major criticism levelled at them revolves around the lack of sensitivity to the specific characteristics of small firms when designing and implementing such strategies. In particular, the approach to management development programmes is questioned. The maxim of "quality not quantity" is recommended as the principle to be applied in this case. The thoughts of Carroll (47) might be considered in the context of small firm policy development where he expresses the opinion that perhaps the single biggest weakness is not the tangible evidence of proliferation of policy instruments but rather " the absence of an adequate and sophisticated business philosophy. " This "philosophy" will be a focus for examination and assessment in the next chapter.

2.10. SUMMARY

This chapter has examined the evolution and development of small firm policy in Ireland. The assessment has highlighted a number of weaknesses within the general area of management development and within the specific remit of marketing in indigenous firms. It has been argued that while successive governments have been relatively successful in attracting foreign firms to locate in Ireland, they have been driven by short - term, "quick - fix" issues, rather than the longer term implications of their decisions. This is reflected in the bureaucratic obstacles which entrepreneurs face when seeking to initiate, develop or expand their business; adverse taxation legislation; lack of professional management input to the development of the business. It therefore becomes a strategic imperative for policy makers to implement small policies to address these deficiencies.

The Culliton Report has been commended for its insightful approach to addressing these issues. The indications, since its publication in 1992 however would suggest that the Fianna Fail / Labour government and the "Rainbow Coalition" have sought to largely ignore many of the recommendations which were contained in the body of this text. While without wishing to be cynical about the matter, it is argued that political expediency will inevitably take precedence over decision which may make sense in the longer term, but which have negative connotations for decision - makers. This is perhaps best highlighted by the need to streamline many of the state agencies involved in supporting enterprise. Such a move however would have the effect of eliminating a large number of public servants: a decision which politicians tend to avoid where possible.

To some extent the problems which entrepreneurs have traditionally faced in such areas as telecommunications, transportation, road infrastructure, postage costs and banking charges have been partially addressed over the past three years or so. Whether this is due to the dedication and / or the farsightedness of politicians, or their ability to utilise the large funding from the EU is a moot point.

When Ireland is compared with its fellow members of the EU, it can be seen from the evidence that it comes out quite strongly in terms of its ability to utilise a broad range of instruments which are designed to support industrial enterprise in general. A strong word of caution is proffered in respect of interpreting too much from such research as that provided by the EU. A mere check - list of measures in no way reflects the sensitivity of government agencies to the specific needs and requirements of small business - owners. It is the task of the next chapter to provide an understanding entrepreneurship and whether the theoretical perspective which exist in the literature equate to what happens in reality.

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CHAPTER THREE

ENTREPRENEURSHIP: GROWTH AND THE SMALL FIRM

3.1. INTRODUCTION

Given that the main focus of the study involves an investigation into how small firms plan for their business growth and development, and in so doing, how they utilise marketing in such activities, it is important to consider the relationship between entrepreneurship, growth and the smaller firm.

The initial section of this chapter examines precisely what is meant by the term "entrepreneurship" and its relationship to the concept of the owner - manager. The subsequent analysis and discussion is carried out in the context of the environment of the "enterprise culture" which emerged in the United Kingdom in the 1980's and spawned a number of initiatives and support programmes which were designed to encourage the fostering of small business creation and development. While the subsequent research undertaken in this dissertation focuses on the electronics sector in the Republic of Ireland, it is submitted that much of the empirical research into small firm development has been carried out in the United Kingdom and inevitably will have relevance for similar firms operating in its closest, neighbouring country. It will also be recalled from the previous chapter, that successive Irish Governments, since the late 1960's have also embarked on a strategy of cultivating the small firm sector with the ultimate aim of making the indigenous firm more competitive within the domestic arena and in the longer term, in export markets.

Because of the difficulties in interpreting what exactly constitutes a small firm, the next part of the chapter reviews and assesses the various attempts of researchers to define what is meant by such a term. While this issue was discussed in the context of small business policy, in the previous chapter, no attempt was made at that stage to consider the conclusions which can be drawn from the literature.

The latter part identifies and assesses the literature and empirical research which addresses the manner in which a company evolves and grows over time. In view of the focus on the role of planning within the smaller firm, it is argued that this section provides an essential pre - understanding of the concepts, models and approaches which have been posited by researchers in this field. It is also submitted that this is a critical exercise, because such an examination will more clearly identify the influencing factors surrounding evolution and growth. More importantly it will allow for a framework to developed which can be subsequently utilised in the design of the research methodology for the study of small, indigenous firm in the electronics sector in the Republic of Ireland.

This chapter concludes by placing the alternative theories of small firm evolution and development in context. It highlights potential shortcomings of the work in the area and identifies issues which need to be addressed in further research in the area.

3.2. ENTREPRENEURSHIP IN CONTEXT

In placing this examination of entrepreneurship in context, the background of the "enterprise culture" which sprung up in Britain in the 1980's, cannot be ignored. This period is reflected in statistics produced by Curran and Blackburn (1), which identified that self - employment during this decade rose from under two million in 1979 to almost three and a half million in 1989. During the same period, the number of firms registering for VAT rose by 285,000. Many reasons have been advanced for this upsurge, ranging from the major restructuring of traditional industries, leading to recession and the subsequent release of resources into the economy, through to the emphasis placed by the Thatcher - led government on a free enterprise economy. Likewise it has been argued that advances in technology, such as computer - based flexible production systems have encouraged a more adaptable approach, ideally suited to small - scale manufacturing. It has also been argued, that government initiatives, mainly through advice and aid, have led to substantial rises in self - employment. This view is not universally accepted, and indeed some of the claims are frankly spurious. What cannot be ignored however is the fact that the term "enterprise culture" has become a very popular icon to describe the 1980's.

The use of terminology such as "enterprise culture" can be somewhat disingenuous. It conveys an impression of clarity in so much that it identifies a behavioural phenomenon, but on closer inspection, can lead to numerous interpretations of what it actually means. In this respect, Richie (2) goes some way towards venturing an explanation. He suggests that rather than using an all - encompassing term such as "enterprise culture", it might be more accurate to explore a wider range of ideas which can help to provide a deeper understanding. He puts forward the view that there may be a number of such enterprise cultures in existence which identify different standpoints and assumptions in relation to the term "enterprise culture". Four such examples are provided by Richie :-

1. <u>Believer - Revivalism.</u> An interpretation of enterprise culture which suggests that the enterprise is the key to making a new Britain whose economy will be dynamic, expansionist, innovative, risk - taking and successful.

2. Sceptics Versions. This puts forward a negative view of enterprise culture, which portrays a naive romanticism of the past or a visible demonstration of "the greed economy of the 1980's or finally as a way of symbolising particular political viewpoints e.g. "Thatcherism".

3. Analysts Versions. Advocates of this approach attempt to identify the essential elements of the enterprise culture and express them objectively. Thus, values, attitudes and beliefs are isolated and measured if at all possible against behaviour and performance and / or interpreted as an aspect of wider social, economic and political processes.

4. Subject - Driven Versions. This reflects the views of those who operate and run the enterprise. Ritchie is a strong advocate of the view that the overwhelming evidence on small business owners suggests that they have what he calls a culture of "steady state survivalism" or what might be referred to in a more colloquial fashion, as "street wisdom writ large".

Ritchie's views are realistic in that they explicitly recognise the possibility that there may be numerous interpretations of the term "enterprise culture". While the categories developed by him can only be described as being "rough" and approximate attempts to reflect what these differences are, they do provide an underlying starting - point for any researcher attempt to probe further into the area of entrepreneurship and the small business sector.

Burrows (3) suggests that individualism; independence; flexibility; anti - collectivism; privatism and self - help were dominant themes of the enterprise culture during the 1980's. It is difficult to argue however that this phenomenon will continue to the same extent through to the end of this century. Certainly, the first three years of the present decade would appear to indicate that considerable disaffection with the concept of the enterprise culture, is evident in the United Kingdom. This may be due in part to the recessionary climate which has prevailed since the onset of the 1990's and also because of the demise of the person credited with developing the concept (Margaret Thatcher). However it is outwith the scope of this study to engage in prolonged debate on these issues.

3.3. TOWARDS AN UNDERSTANDING OF ENTREPRENEURSHIP

It has to be accepted that at the outset of any attempt to gain an understanding of entrepreneurship there is no harmonious agreement on a universally accepted definition. This is perhaps most graphically (and amusingly) highlighted by Kilby (4) who likens the search for an entrepreneur to hunting the Heffalump (a character from A.A. Milne's book *Winnie - the - Pooh)* :-

> *"The Heffalump is a rather large and very important animal. He has been hunted by many individuals using various ingenious trapping devices, but no one so far has succeeded in capturing him. All who claim to have caught sight of him report that he is enormous, but they disagree on his particularities".(p1)*

This analogy, whilst superficially appearing to be glib, in fact highlights the confusion and potential misinterpretation which exists in the minds of many commentators and researchers in the area. Indeed it could be argued that the entrepreneur can be likened to a chameleon : capable of appearing in different guises to different people, depending on their interpretation of what is meant by an entrepreneur and indeed how the so called "entrepreneur" decides to be presented.

Chell and Haworth (5) and Ginsberg and Buchholtz (6) have undertaken extensive reviews of the literature on entrepreneurs and entrepreneurship and a representative selection of definitions is presented here. It is argued that the range and diversity of interpretation is very evident :-
Hull et al (7) utilise the definition given in the 1972 Webster's New World Dictionary which states that an entrepreneur is:

> *"a person who organises and manages a business undertaking, assuming the risk for the sake of profit".*

They extend this to include:-

> *"individuals who purchase or inherit an existing business with the intention of (and effort toward) expanding it".*

This integrated definition, while short and simple, in fact encapsulates much of the conventional wisdom which many commentators attribute to the terms "entrepreneur" and "entrepreneurship". This is demonstrated in the emphasis on business expansion, the implied notion that risk is involved and the profit motive.

Harwood (8) elaborates further by proposing that an entrepreneur is one who : -

> *"takes initiative, assumes considerable autonomy in the organisation and management of resources, shares in the asset risk, shares in an uncertain monetary profit, and innovates in more than a marginal way".*

While this interpretation reiterates much of what is contained in the Hull et al definition. It introduces the notion that an entrepreneur needs to demonstrate a level of independence, self - motivation and innovation which is not to be found within the majority of people in society.

In similar vein, Meredith et al (9) argue that entrepreneurs are people who :-

> *"have the ability to see and evaluate business opportunities; gather the necessary resources to take advantage of them; and to initiate appropriate action to ensure success".*

Chell et al (10) note that this definition is representative of many people's perceptions in that it implies that the entrepreneur is somehow assured of success and that the possibility of failure is ignored. This poses a number of problems of both a practical and indeed cultural nature. Some authors such as Timmons (11) argue that many entrepreneurs only succeed after firstly going through a learning curve which can involve one, some or many failures. This highlights a cultural influence in that the term "failure" can take on different connotations depending on which country or geographic region the entrepreneur is operating within. Chell et al (12) observe that in the United States, business failure is regarded as a learning experience. This allows for the entrepreneur to develop the necessary skills to subsequently establish a venture. It could also be argued that the support institutions such as the banks and lending bodies also reflect this positive, constructive environment. By contrast, they argue that in the United Kingdom, failure has a stigma attached to it, with many negative connotations surrounding the collapse of a business enterprise. It is also submitted that this line of argument can be extended to the Republic of Ireland: partially due to the closeness of both countries, but also due to a tendency on the part of many Irish people to adopt a "begrudger's mentality" which reflects itself in the adage that an underdog is always supported strongly, but when success is achieved he or she becomes a target for criticism and abuse. In both countries it can also be argued that the lending institutions adopt a more stringent approach in their support of small firms. This is reflected in higher bank charges and lending rates.

Of perhaps more critical importance is the need to examine the distinction (if any) between the terms "entrepreneur" and the "entrepreneurial venture", the "small business owner" and the "small business venture". In this regard, the work of Carland et al (13) is noteworthy in its attempt to provide some illumination. They suggest that :-

> *"An entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterised principally by innovative behaviour and will employ strategic management practices in the business......*
>
> *An entrepreneurial venture is one that engages in at least one of Schumpeter's categories of behaviour : that is, the principal goals of an entrepreneurial organisation are profitability and growth and the business is characterised by innovative strategic practices".*

In contrast to these observations : -

> *"A small business owner is an individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be a primary source of income and will consume the majority of one's time and resources. The owner perceives the business as an extension of his or her personality, intricately bound with family needs and desires.*
>
> *A small business venture is any business that is independently owned and operated, not dominant in its field, and does not engage in any new marketing or innovative practices".*

This perception provides for an important distinction between an entrepreneur and the small business - owner manager and demonstrates the dangers associated with using the two terms in an interchangeable, loose manner. It provides the first learning point in this chapter : namely that a division exists in that entrepreneurs are characterised by innovative behaviour and an ability to operate strategically in pursuit of their business goals. By contrast, owner - managers are characterised by more short - term, day - to

- day issues such as generating an income for their family with the long term growth potential of the business not being at the forefront of their thoughts .

Chell et al (14) while not necessarily disagreeing with the sentiments expressed by Carland et al, do inject a cautionary note into the proceedings by highlighting a number of pitfalls which can accrue from not placing the distinction between an entrepreneur and an owner - manager under closer scrutiny. For instance they note that it is assumed both entrepreneurs and small business owners are founders of the business. Clearly the act of creating a business venture does not necessarily mean that a person can be termed an entrepreneur. This is view is supported by Gartner (15) who argues that many studies of small business owners demonstrate that they would only be entrepreneurial at the business initiation and start - up phase of business development They also note that many of the distinctions which are drawn by Carland et al do not stand up to close scrutiny and need further development before they can be confidently accepted. This is highlighted in the observation that entrepreneurs in developing their business objectives, are not primarily pursuing their personal goals, whereas small business owners are. If indeed they are not pursuing personal goals, then what are the main motivating factors ? These are not specified by Carland et al and clearly need further substantiation.

Drucker (16) is more precise and pragmatic in his attempts to define entrepreneurship and reinforces the arguments expressed by Carland et al. He notes that in the United States in particular, an entrepreneur is often defined as one who *"starts his own new or small business"*. However he argues that this simple act alone, does not demonstrate evidence of entrepreneurial behaviour or entrepreneurship. He cites the example of a couple who invest their savings in a Mexican restaurant in a typical American suburb. While clearly taking a risk in opening such a venture, Drucker argues that they are replicating a concept which has already been tried many times before by other individuals.

By contrast, he argues that McDonalds - the hamburger chain, was entrepreneurship in action. While not necessarily inventing anything unique to the world, the McDonalds phenomenon applied management concepts and management techniques such as basing itself around the principle of asking the question "What is of value to the customer ?", standardising the product, designing process and tools and by basing the training of management and operatives on an analysis of the work to be done and setting the standards demanded from the results of such an analysis. Thus by upgrading the yield from its resources, it succeeded in creating a new market and a new breed of customer.

Drawing on this example, among others, Drucker makes a persuasive argument supporting the view that entrepreneurs are in many respects, a *minority* among new business ventures. They create something which is new and different to that which has been on offer before. They also change or transmute values ; thus acting as catalysts for change in society. The use of the word *"change"* in this context, should not be underscored. The typical entrepreneur, in Drucker's view:-

> *"always searches for change, responds to it, and exploits it as an opportunity (17 p25).*

This definition reflects the perception that the entrepreneur by implication, needs to adopt a *proactive* approach to the establishment and subsequent development of the business venture.

In this respect, Chell et al (18) suggest that the following characteristics of entrepreneurs can be used to distinguish them from owner - managers; opportunistic, innovative, creative, imaginative, ideas - people, proactive and agents of change.

The foregoing examination of the various definitions and interpretations of what constitutes entrepreneurship has revealed a wide discrepancy in understanding. Chell et al (19) summarise the situation by noting that the key problem of defining the entrepreneur exists at two levels : the first arising from the tendency to apply the term loosely in everyday usage to all business owners. On the other hand, it may be used quite narrowly to define a specific subset of business owners (as evidenced in the approaches of Carland et al and Drucker), thus raising the spectre of how to identify the distinguishing features which ultimately separate the entrepreneur from the small business owner.

The views of Curran and Stanworth (20) on entrepreneurship take account of the problems of definition identified by Chell et al and capture the correct balance between applying a broad versus narrow approach. They argue that entrepreneurship, "if rigorously defined", refers to :-

> *" the creation of a new economic entity centred on a novel product or service or, at the very least, one which differs significantly from products offered elsewhere in the market."*

This definition, it is argued, reinforces the need for differentiation rather than sameness, but also recognises that the creativity and innovation identified as being important in other definitions, does not necessarily have to emanate from the product or service content or process. Instead, it can derive from imaginative approaches within other areas of the marketing mix, aside from the product area, or from a novel approach to the organisation structure of the firm.

In summary, this section has examined the various interpretations of entrepreneurship and has identified a lack of uniformity as to an accepted, agreed definition. It is argued that a distinction can be made between an entrepreneur and the small business owner. This is crystallised in the view that many people can start an enterprise but very few bring something unique and different to the market - place.

3.4. ENTREPRENEURSHIP IN HISTORICAL PERSPECTIVE

While the preceding discussion highlighted the variation and potential for confusion and misinterpretation which can occur, it does not place entrepreneurship in any form of historical evolution or development. It is submitted that such an exercise will help to identify some of the reasons at to why such obfuscation exists and more importantly help the reader to gain an understanding of the role which entrepreneurs play in present day economies.

Any investigation into the historical evolvement of the entrepreneur must begin by recognising the role which various economists have played in placing an interpretation on their contribution to society. Chell et al (21) identify the French economist *Richard Cantillon* as the first individual to recognise the role of the entrepreneur. He distinguished between three categories in the early market economy which prevailed at that time - the Mid - Eighteenth Century: the landowner, the entrepreneur and the hireling. He suggested that the primary function of the entrepreneur was to engage in exchanges for profit in the face of an unknowable uncertainty. A number of subsequent French economists attempted to differentiate between a capitalist and an entrepreneur. For instance, Turgot viewed a capitalist as someone who has a choice as to how he invests his money ; in either land or in a business enterprise. If he opts for the former, he is classified as a capitalist and landowner. If his money is invested in a business, he is deemed to be a capitalist and an entrepreneur if he subsequently manages and operates the business himself. Thue entrepreneurship, under this early interpretation is deemed to be synonymous with labour.

Hebert and Link (22) quote the views of Jean - Baptise Say, a French economist of the early 19th century who argued that entrepreneurship can be equated to the broad management function. This is amplified in the following quotation :-

> *" The entrepreneur is called upon to estimate, with tolerable accuracy, the importance of the specific product, the probable amount of the demand, and the means of its production : at one time he must employ a great number of hands ; at another, buy or order the raw material, collect labourers, find consumers, and give at all times a rigid attention to order and economy ; in a word, he must possess the art of superintendence and administration".*

Hebert and Link posit the view that Say was the first person to accord a role for the entrepreneur in society. They note however that Say did not go far enough by neglecting to recognise the key role of the entrepreneur as a force of change in the economy.

In contrast to the French economists, Chell et al (23) argue that the British school of eighteenth century economists, most notably led by Adam Smith (1723 - 1790) did not credit the entrepreneur with much of a role. In his acclaimed work *The Wealth of Nations,* Smith observed that a manufacturer might expect not only to make a profit from his undertaking, but also the profit might be expected to bear some relation to the extent of the investment. This view is captured in the following quotation :-

> *" He could have no interest to employ them, unless he expected from the sale of their work something more than that what was sufficient to replace his stock to him ; and he could have no interest to employ a great stock rather than a smaller one, unless his profits were to bear some proportion to the extent of his stock".* (Chell et al p15)

Thus it can be seen that Smith saw that the profits accruing to the entrepreneur (or projector) are as a direct result of the investment made - therefore equating the function of the entrepreneur with that of the capitalist. Other British economists such as Ricardo and Mill also to a large extent reiterated the views of Smith. Chell et al (24) credit Alfred Marshall (1842 - 1924) as being one of the later economists who recognised the need for the entrepreneur to be innovative and imaginative in his approach to business creation and development. He identified two types of business owner: those who will seek out new, improved methods for engaging in business and in so doing, cannot avoid taking some form of risk, and those who stick to the tried and trusted methods for doing business.

Chell et al (25) in their review of the German School of thought in this area, point to the fact that economists such as Thunen (1785 - 1850 addressed the fundamental question of how the entrepreneur should be compensated for his activity? Their arguments rested on the premise that if entrepreneurial talent is a scarce commodity in society then profit should be regarded as a special kind of payment. Thunen distinguished between the return to the entrepreneur from that of the capitalist by emphasising a residual which is the return to entrepreneurial risk - that risk which is uninsurable.

Mangoldt (1824 - 1858) drew a distinction between businesses which make products to order, thus reducing the level of risk entailed, and those which produced for the market, which inevitably is a more speculative exercise, given the level of uncertainty and unknown prices. Mangoldt's attempt to differentiate between the two categories of business venture is useful because it highlights different types of entrepreneurial behaviour : the innovative, creative category and the opportunistic business operator.

Attention is also drawn by Chell et al to the Austrian School, most notably led by Carl Menger (1840 - 1921) who introduced the need for the entrepreneur to obtain information about the general economic situation. This would help address the issue of reducing the level of uncertainty associated with business operations.

American economists such as Amasa Walker (1799 - 1875) made a clear distinction between the entrepreneur and the capitalist by positing the view that the former must be regarded as a *creator of wealth*. His son, Francis A. Walker (1840 - 1897) reinforced this view and categorised four types of entrepreneur: the rare, gifted individual, those with high - ordered talent, those that do reasonably well in business and the ne'er do wells. While such a distinction appears to be superficial and simplistic, it is not that far removed from some of the contemporary approaches. It can also be argued that it represents one of the earliest attempts to introduce personality variables into the discussion on entrepreneurship.

Much of the review so far, of the contributions of various economists from different countries, whilst revealing geographical differences which can be explained by the prevailing economic conditions experienced in that country, nevertheless indicates a commonality in that they represent the entrepreneur as an individual who responds or reacts to outside forces which impact on the market. This perspective of the entrepreneur does not appear to countenance the concept of that individual as a proactive, dynamic, change agent within society. Nor does it portray the entrepreneur as someone who revels in change and the resulting economic disequilibrium which may follow as a consequence.

In this respect, the work of Joseph Schumpeter (26, 27) (in particular his book - The Theory of Economic Development, 1911) radically altered people's thinking about the role and function of the entrepreneur. He argued that the disequilibrium brought about by the proactive innovative entrepreneur is the norm of a healthy economy, in contrast to the notion of equilibrium and optimisation of existing resources as propounded by the classical economists. The term "innovation" is central to Schumpeter's thesis. He contends that the entrepreneur drives change though the ability to innovate. This can be achieved in a number of different ways : -

* The creation of a new product or alteration in its supply
* the development of a new method of production
* the opening of a new market
* the capture of a new source of supply
* a new organisation of industry.

He further contends that : -

> *"Everyone is an entrepreneur only when he actually carries out new combinations, and loses that character as soon as he has built up his business, when he settles down to running it as any other people run their businesses"*

Drucker (28) adopting the views of Schumpeter, argues that entrepreneurship is not confined to the economic sphere. The entrepreneur exists in other fields, such as education and health care. He suggests that the entrepreneur *"always searches for change, responds to it, and exploits it as an opportunity"*.

In terms of placing the work of Schumpeter in context, it can be stated that as well as perceiving the role of the entrepreneur to be proactive instead of passive, he forced contemporary researchers to entertain the notion that in order to more fully understand the entrepreneur, it was necessary to study the psychological influences which lie within the recesses of entrepreneurs and which motivate them to create and develop business ventures. The work of Herbert and Link (29) reinforces and builds on this perspective where they generate a taxonomy of entrepreneurial theories based on their assessment of the historical perspectives of the entrepreneur. They make a sharp distinction between those authors who portray the entrepreneur as a static, passive individual and those which identify him as a dynamic, proactive agent of change.

Chan and Lau (30) in their assessment of the review of definitions provided by Chell et al (31) put forward a framework which they label *COSI* - *c*hange oriented, *o*pportunistic, *s*trategic and *i*nnovative. This serves as a useful pedagogical tool as well as an aide memoir. However they unfortunately adopt an uncritical tendency to "list" a number of attributes under each heading, leaving the reader with the impression that if an individual was proficient in all of these categories and in all of the attributes identified, then he or she could assume a "God - like" status in the community. In effect, there is too much of a disposition on the part of many researchers to provide long lists of attributes without the necessary attempt to provide rigorous analysis and evaluation of each factor listed. It is submitted that it is sufficient at this stage of the investigation to accept that a sharp distinction can be drawn between the entrepreneur and the small business owner. It is further contended that the early work of Schumpeter and the subsequent philosophy as propounded by Peter Drucker serve as a useful guideline for identifying the defining characteristics of the entrepreneur.

3.5 THE ENTREPRENEURIAL PERSONALITY

The preceding discussion has defined the term "entrepreneurship and also considered how it has developed historically. Much of this analysis has identified the tendency of researchers to "pigeon - hole" or differentiate entrepreneurial behaviour from that of non - entrepreneurial activity according to whether or not a set of traits, attributes, skills and competencies exist. In this respect, it is necessary therefore to evaluate the literature and empirical research which has been carried out in this area. As is the case with the evaluation of the various approaches to defining the term entrepreneur, the evidence suggests that much conflict exists with regard to the influence of personality attributes in shaping entrepreneurship.

McClelland (32, 33)) carried out some research in the 1950's which had a far - reaching and profound influence on subsequent work in the field of entrepreneurship. The basic tenet of his findings was that the key to entrepreneurial behaviour lies in the area of achievement motivation. In other words, this is reflected in a drive to succeed and excel and that this trait is reflected in the amount of time and effort the individual spends examining how they can perform a particular task more effectively. McClelland suggested that individuals who exhibited such characteristics were "high achievers".

Chell et al clarify this categorisation in the following manner :-

> *" High achievers are said to like situations where they can take personal responsibility for finding solutions to problems. They like rapid feedback on their performance so that they can judge whether they are improving or not. They avoid what they perceive to be very easy or very difficult tasks and they dislike succeeding by chance. (34,Chell et al p37)*

While McClelland's work undoubtedly proved to be seminal in its influence on subsequent researchers, it also has incurred much criticism. In essence this opprobrium centres on a number of areas. Sexton and Bowman (35) express disquiet on the basis that McClelland relied too much on the Thematic Apperception Test as the research tool. Brockhaus (36) suggests that the predictive power of McClelland's theory can be challenged. In particular he questions whether the need for achievement can positively be linked with the desire to establish and subsequently manage a business venture. Hull et al (37) actually provide empirical evidence to suggest that it is in fact a weak predictor; noting that there are a variety of reasons which motivate an individual to start a business, ranging from those who seek a challenge (which would broadly fit in with McClelland's thesis) to a simple desire to move to an alternative lifestyle (in this respect, the individual may be "pushed" into the decision by the wife / husband or other members of the family).

He has also been criticised on the grounds that his research attempted to link economic development to the prevalence of achievement. Ray (38) suggests that underdeveloped countries were represented in the economic development literature of the 1950's (the period when McClelland carried out his research), as reflecting extreme poverty and a scarcity in factors of production and were shaped by a prevailing sense of fatalism. Ray observes that since fatalism was perceived as a major cause of underdevelopment, developed societies were obviously achievement oriented and the antidote to fatalism was the recognition of a need to succeed. Chell et al (39) also raise the question of how cultural influence can distort McClelland's findings, in particular, whether his thesis has equal relevance for different countries. They note, and not without some justification, that historically in Britain, high achievers were "hived off" to top jobs in the civil service. Likewise it could be argued that in the context of Ireland, such individuals were steered towards "safe", "respectable" professions such as banking, medicine and the judiciary. In further development of cultural differences Shina (40) demonstrated that in a country such as India, which experiences, with regard to resources, a high need for establishing co - operation with Government agencies and politicians, it will produce more entrepreneurs than those who exhibit a high need to achieve.

Notwithstanding these criticisms, some tentative research has indicated that entrepreneurs have a higher need to achieve than people in general. (See Hornaby and Aboud (41) and Begley and Boyd (42). McClelland (43) has demonstrated that training courses, designed to develop achievement motivation in business people have led to significant improvements in performance, specifically in increased sales, profits and numbers of people employed. Chell et al (44) however raise the critical issue as to whether such findings can be replicated. In this respect they refer to research carried out by Begley and Boyd (45) who found very little correlation between various psychological characteristics of founders and non - founders and measures of business performance.

It can be argued quite forcefully that much of the inconclusiveness which has emanated from empirical research in this area has occurred from the simple fact that there has been no uniform agreement as to a definition of the entrepreneur - this, it will be recalled, is a constantly recurring theme running through the discussion to date. Ray(46) is also critical of the tendency of researchers to focus on one particular trait while giving insufficient attention to a set of attributes. He also notes that by relying on a list of attributes it assumes that the attributes which lead to the formation of a new venture are synonymous with those which subsequently cause new ventures to be successful. Ray notes that the opposite may be the case, citing the example of an individual who has a high internal locus of control, i.e. someone who believes that they are in control of their own destiny. This person is most likely to feel uncomfortable working in the role of an employee, where they are subject to the authority of others. This can lead to a situation where a new business venture will be formed. Paradoxically, the desire to retain control of the situation may very well lead to a situation where there is a marked reluctance to delegate responsibility to other people within the venture, leading as a consequence to bad decisions and ultimate failure. Ray notes that virtually every personality trait can be both positive or negative in relation to some aspect of entrepreneurship and new venture development.

He can be supported insofar that what he says has solid appeal on the grounds of logic and intuition. The road to becoming an entrepreneur is infinitely more complex than the manner in which it is represented by many of the researchers. This is compounded by the use of faulty, inadequate research techniques which do no justice to the level of complexity i.e. the thematic apperception test, or the testing of questionnaires within a non - representative sample. Ray (47) cites the example of the most widely quoted study in the area of risk - taking, using the *choice dilemmas* questionnaire technique, which was based on a sample of forty applicants for business licences in St Louis, Missouri, in the autumn of 1978. The main criticism is reserved for the fact that the author generalises from what is clearly (at best) a marginal, non - entrepreneurial sample in universal terms and purports to depict the findings as if it were speaking about a universally entrepreneurial phenomenon. In addition therefore to the confusion which arises when interpreting empirical research in the area; due to the myriad of perceptions as to what constitutes entrepreneurship, the concentration on one or a small number of traits (to the exclusion of other perhaps equally important ones) and questionable research techniques which do not allow for generalisation, also point to severe criticisms which can be levelled at much of the work in this area.

The above comments create the impression that much of the research in the area of entrepreneurship and traits is at best, questionable, and at worse, severely flawed. However an amount of revisionist thinking has taken place about the trait approach which has led to research during the last decade which is worthy of consideration.

Chell et al (48) identify the following areas where such revisions have taken place :-

1. More radical ways of conceiving of entrepreneurial traits.

2. The revision of instruments for measuring entrepreneurial traits.

3. The development of instruments to measure situational variables so that the interaction between entrepreneurial traits and pertinent situations can be examined.

4. The development of models of the entrepreneurial process whereby entrepreneurial behaviours exhibited in the business context and performance outcomes can be measured.

A major study was carried out by McClelland (49) in 1987 which sought to address the question whether or not there are key competencies which are needed for entrepreneurial success. The researchers distinguished between a group of twelve "successful" entrepreneurs and twelve "average" entrepreneurs in each of three types of business, in each of three developing countries (India, Malawi and Ecuador). The technique known as the Behavioural Event Interview (BEI) was utilised. This is similar to the Critical Incident Technique developed by Flanagan (50) in 1954 (See Chell et al p45) and requires the respondent to outline critical events which have influenced and shaped the direction of the business since its inception. These are recorded on tape and a panel of "judges" then identify the competencies which have been revealed during the interview. The following areas were identified as being more characteristic of successful than of average entrepreneurs, and are outlined in table 3.1.

TABLE 3.1. ACHIEVEMENT ORIENTATION

PROACTIVITY	ACHIEVEMENT ORIENTATION	COMMITMENT TO OTHERS
Initiative	*The ability to see and act on opportunities*	*A commitment to the work contract*
Assertiveness	*Efficiency orientation*	*recognition of the importance of business relationships*
	Concern for high quality work	
	Systematic planning	
	Monitoring	

Source : Adapted from Chell et al. p45

While the study is more complete and detailed than his earlier pioneering work in the 1950's, it defined the entrepreneur as encompassing all types of small business owners, thus remaining at odds with many researchers who draw a sharp distinction between both categories. This is reflected in a set of six attributes which McClelland felt were *not* more characteristic of successful than of average entrepreneurs. These were : self - confidence, persistence, persuasion, use of influence strategies, expertise and information - seeking. Unfortunately no attempt was made to make a comparison with non - business owners and as Chell et al note, these six characteristics may typify owner - managers in general.

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	Concern for high quality work	*business relationships*
	Systematic planning	
	Monitoring	

Source : Adapted from Chell et al. p45

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This laxity with regard to research design and selection of methodology is also evidenced in work undertaken by Meredith et al (51) who put forward the view that there are nineteen traits which provide a working profile of the entrepreneur. Of these nineteen, five can be identified as core traits: self - confidence, risk - taking ability, flexibility, a strong need to achieve and a strong desire to be independent. Much of these traits, in fact would appear to simply replicate or reinforce earlier work. However this list of traits was developed at a workshop on entrepreneurship, and although it has been widely cited by contemporary researchers, Chell et al note that it is not clear from the article, how this list was compiled or more alarmingly, whether or not it was tested in any way.

Timmons et al (52) have been one of the few teams of researchers who have provided a comprehensive attempt to grasp an understanding of entrepreneurship. Their concept of what goes into the "make - up" of the entrepreneur centres around the belief that entrepreneurial skills and behaviours can be nurtured and developed over time. They also argue that the younger the individual, the higher the levels of energy and drive. These latter characteristics can provide a counterbalance to the fact that the younger individual will be lacking in areas such as management experience, wisdom and judgement. Many of these behaviours such as persistence in problem solving, seeking and using feedback, calculated risk - taking and decisiveness, they argue, can be learned. They do however identify four types of behaviours which may not fall into this category : -

* high levels of energy, health and emotional stability
* creativity and innovativeness
* high intelligence (defined as being "street - wise" and having a "nose" for business) and conceptual ability
* Vision and capacity to inspire.

They argue that the motivation of the entrepreneur is achievement oriented, which supports the earlier arguments put forward by McClelland. They do point out however that an achievement orientation is situation specific, in the sense that there must be a perceived opportunity in the first place, with perceived goals which can be achieved. This is an important line of argument, because much of the earlier trait theorists assumed that people not only behave in the same way in the same (or similar) situations, but that they should behaviour similarly across a broad range of situations. Clearly this can only be described as an unduly idealistic position which is unlikely to occur with much frequency in reality.

They are also one of the few researchers to identify characteristics which can be attributed to the "non - entrepreneurial" mind. These are depicted in table 3.2.

TABLE 3.2. CHARACTERISTICS OF ENTREPRENEURS

1.	**INVULNERABILITY ; -likely to result in unnecessary risk - taking.**
2.	**MACHISMO : - goes beyond over - confidence and outlines people who try to prove that they are better than others.**
3.	**ANTI - AUTHORITY ; - the rejection of outside help, advice and feedback.**
4.	**IMPULSIVENESS ; - the marked absence of reasoned decision - making and a failure to "tease out" the implications of the resulting actions.**
5.	**OUTER - CONTROL ; - (as opposed to an internal locus of control)**
6.	**PERFECTIONISM ; - a persistent state of unhappiness with what has been achieved.**
7.	**KNOW - IT - ALL ; - a failure to recognise what they do not know**
8.	**COUNTER - DEPENDENCY ; - an extreme case where the individual tries to achieve everything on his own.**

Source :adapted from Timmons, J.A.(53, 1989) *The Entrepreneurial Mind.*

It can be argued that the theory of entrepreneurship put forward by Timmons has appeal on the grounds that it makes sense from a practical viewpoint - particularly in the implicit line of argument which suggest that the entrepreneurial process is comprised of that which the individual brings to a particular situation and the specific demands which that situation places on the individual, if he or she can take up the challenge and obstacles presented, and achieve success. It recognises that the probability of any one individual initiating a business venture and subsequently achieving a level of success in not dependent on a fixed set of attributes or variables. Situation - specific factors, be they cultural or otherwise will always influence any given variable and create a negative or positive effect. It is argued therefore that a more realistic understanding of the entrepreneur will allow for such contingencies.

This view is substantiated by Gibb (54) who argues that the strength of enterprising skills (e.g. problem solving, creativity, persuasiveness, planning, negotiating and decision - making), attributes (e.g. self - confidence, autonomy, achievement orientation, versatility and resourcefulness) and behaviours (e.g. acting independently of others, coping with and enjoying uncertainty, opportunity seeking and commitment to making things happen) as well as the mix, will vary between individuals. Likewise, Gibb argues for an acceptable balance between the degree to which an individual is influenced by genetic, innate influences as opposed to environmental considerations. Of greater significance is his view that if enterprise can be acquired by experience and exposure, then it can be enhanced by means of education and training.

The preceding discussion has arrived at a general conclusion which suggests that entrepreneurial behaviour can be identified by a display of certain traits and attributes. However rather than adhering to a philosophy which suggests that a fixed, rigid set of traits can be applied to the identification of entrepreneurial behaviour, it is more realistic to argue for a contingency - based approach which must relate to the specific situation and the background and experience of the individual concerned.

3.6. THE SMALL FIRM - REVISITED

Thus far the focus of attention has been given over to an investigation of entrepreneurship and in particular, the role of the entrepreneur. This exercise has deemed to be necessary because any examination of the small firm and the patterns of growth attaching to it, assumes that somebody instigated the formation and initial development. It should be stressed at this stage that the primary objective of this study is not to solely examine the entrepreneur. While it is anticipated that some of the companies which will be investigated will identify with entrepreneurial practice and entrepreneurship, others will provide opportunities to study how owner - managers instigate and develop enterprises. In particular the study focuses on the question of how small firms develop, and in so doing, utilise marketing in their planning activities. It is argued therefore that it is equally necessary to identify and evaluate the literature on small firm growth patterns, in the belief that what may constitute entrepreneurial behaviour in the initial stages of development may not be appropriate as the firm seeks new markets, introduces new products and copes with the associated problems resulting from such expansion. In essence, a review of the literature on entrepreneurship only partially addresses small firm growth and is overly simplistic, focusing on the initial stage of company formation.

It will be recalled that in the previous chapter which examined the small firm sector in the Republic of Ireland, considerable discussion took place as to what exactly constituted a "small firm". That discussion focused specifically on the various categorisations which are utilised by State agencies in various countries. It is not the prerogative of this section to re - investigate the issues raised earlier. Suffice to say that there is a general lack of agreement and indeed confusion when attempting to define a small firm according to the number of employees which exist in a particular firm. It is however maintained that by taking a uni - dimensional definition of the small firm, such as size, many essential characteristics and relevant features of the small firm are ignored. This stance endorses the views of Mendham and Bannock (55) who note that "the most significant difference between big and small firms *is not their size"*. Instead Carson(56) argues that the main differences can be revealed when objectives, management style and marketing considerations are investigated.

Schollhammer and Kurilof (57) put forward five qualitative attributes which help to identify small businesses ;-

* *Scope of Operations* ;- Small firms serve predominantly a local or regional market rather than a national or international market.

* *Scale of Operations* ;- Small firms tend to have a very limited share of a given market ; they are relatively small in a given industry.

* *Ownership* ;- The equity of small firms is generally owned by one person or, at most, a very few people. Small firms tend to be managed directly by their owner or owners.
* *Independence* ;- Small firms are independent in the sense that they are not part of a complex enterprise system such as a small business division of a large enterprise. Independence also means that the firm's owner / managers have ultimate authority and effective control over the business, even though their freedom may be constrained by obligations to financial institutions.

* *Management Style* ; - Small firms are generally managed in a personalised fashion. Managers of small firms tend to know all the employees personally ; they generally participate in all aspects of managing the business, and there is no general sharing of the decision - making process.

Clearly it is easy to find fault with such a classification. For instance it is fundamentally wrong to make the generalisation that the scope of a small firm's operations is to be predominantly found in local / regional markets. While this may be so for some enterprises in the services sector, it is a common characteristic of many electronics firms that they achieve a high degree of penetration within international markets at the very earliest stages of their development. Scott and Bruce (58) for example, recognise that while the area of operations may be local, the markets served need not be so. It is acknowledged however that this will only apply in the case of innovative enterprises which are typically entrepreneurial in their behaviour.

Similarly, it is not always the case that small firms are confined to a very limited share of a given market. It is possibly more accurate to suggest that in many cases, they may have a very large share of a specialised or niche market.

In relation to the question of ownership it is accepted that certainly in the early phases of a firm's existence, it will, in all likelihood, be owner - managed. However as the firm expands its operations; by widening its product range, acquiring new customers, moving to new markets and increasing the number of employees, it is surely unrealistic, at best, and an example of bad management at worst, to expect the owner to continue to make all of the key decisions, without delegating responsibility to professional managers.

Carson (49, p8) adopts the definition put forward by the Committee for Economic Development which is more realistic in its attempt to categorise the small firm. It suggests that such a firm is one which possesses *at least two* of the following four characteristics :-

1. Management of the firm is independent. Usually the managers also the owners.

2. Capital is supplied and the ownership is held by an individual or small group.

3. The area of the operation is mainly local, with the workers and owners living in one home community. However, the market need not be local.

4. The relative size of the firm within its industry must be small when compared with the biggest units in the field. This measure can be in

terms of sales volume, number of employees or other significant comparisons.

While this approach reiterates the earlier definition proposed by Schollhammer and Kuriloff, it adopts a more pragmatic stance, recognising that it is unrealistic to expect every small firm to fulfil all of these criteria.

Stanworth and Curran (60) give cautious support for the definition put forward by the Bolton Committee(61) which carried out a major study of the small firm sector in the United Kingdom, in 1971. This group perceived the small firm to be a socio - economic unit with the following characteristics :

1. Economically, a small firm is one that has a relatively small share of its market.

2. Managerially, the small firm is administered by its owners or part - owners in a personalised way, rather than through the medium of a formalised management structure.

3. Finally, it is independent in the sense that it does not form part of a larger enterprise and owner - managers are free from outside control in taking their principal decisions.

Stanworth and Curran's reservations about this definition revolve around the lack of available data on ownership, management structures and market shares which precludes any comprehensive operationalisation of the Bolton Committee definition. In this respect they draw attention to the fact that this committee adopted a statistical definition for small firms in the manufacturing sector of two hundred employees or less. Drawing on their own empirical work with small firms, Stanworth and Curran argue that this is not a satisfactory approach, as many of the characteristics of the small firm are dissipated long before the figure of two hundred employees has been reached.

Their criticisms are well founded. In the intervening years since this article (1976) there is little evidence to suggest that researchers have "grasped the nettle" and attempted to provide support for such definitions. This review of attempts to define the small firm does indicate that a reliance on "size" as a means of differentiating a small company from a medium or large enterprise is simplistic at best and does not do justice to the complexities associated with attempting to understand the central question as to how a firm develops and grows over time.

Carson (62) identifies the issue of management style, and in particular, management weakness, as the key factor which has dominated the literature and which has been often cited as the most significant factor in influencing the development of a business. Chief among the proponents of this argument are Tate et al (63) who highlight the fact that one of the most significant characteristics which appear in any study of small business managers, is the limited standard of business education. Broom et al (64) also identify the related characteristics of lack of managerial skill and depth allied to a general misuse of time.

In addition to weaknesses in the area of management, Carson (65) points to other constraints such as a general lack of financial resources and the related "catch 22" situation where small businesses are denied the services of specialists precisely because of a lack of finance. This latter point is of crucial significance, as it will undoubtedly influence the subsequent patterns of growth and development which can be achieved by the company. It also provides the first clue to support the view that because the owner - manager has to become an expert in many areas (from telephone receptionist to financial controller to the generator of new business), such growth patterns will not necessarily occur in a smooth, orderly fashion, as is so often portrayed in conventional textbooks.

3.7. GROWTH AND THE SMALL FIRM

The preceding sections of this chapter have examined the concept of entrepreneurship and small firm definition. In many ways, this assessment has taken a static approach: in other words, they have not been related to the critical issue of how enterprises evolve and grow over time.

In a recent review of the literature which examines small and medium enterprise growth, Gibb and Davies (66) identify four very different approaches to understanding the growth process. They are as follows:-

* Personality Dominated Approaches

* Organisation Development Approaches

* Business Management Approaches to Growth

* Sectoral and Broader Market Led Approaches

3.7.1. THE PERSONALITY SCHOOL

The initial category - personality dominated approaches, refers to researchers which have focused on exploring the impact of the entrepreneurial personality and capability on growth, including the owner manager's personal goals and strategic vision. Gibb and Davies (67) are sceptical of those researchers who pursue the belief that it is possible to produce a typology of the entrepreneur which will facilitate the prediction of growth potential within a particular firm or which will identify competencies which might be enhanced to encourage growth within the firm. They reinforce the view that a contingency based approach is the only realistic route, focusing not upon the characteristics of the entrepreneur, social, psychological or economic, but on his / her behaviours. As has been demonstrated earlier, the more logical view suggests that different types of entrepreneurial behaviour and different traits will be required to achieve growth, in different markets, depending on the levels of uncertainty and complexity experienced in each situation.

3.7.2. THE ORGANISATION DEVELOPMENT SCHOOL

The vast majority of the work in the area of growth and the small firm is to be found in what Gibb and Davies term the "organisation development approach" (68). This in turn can be broken down into three sub - categories : -

a). the relationship between personal objectives and business goals including also the influence of family,

b). literature which relates to the stages of growth model of the firm with a related focus on changing managerial considerations and the changing role of the entrepreneur as the firm passes through its phases of development, and

c). the influence of networks and the impact of these on entrepreneurial behaviour.

3.7.2.1. Personal Objectives and Business Goals.

Haahti (69) provides a thorough examination of the relationship between the entrepreneur's personal goals and the goals of the organisation. Simon (70) presents a strong argument which suggests that when the firm is small, the entrepreneur and the firm's goals are virtually synonymous, and that as organisational development occurs, so too does management development. Gibb and Davies pick up on this point to expose the single profit objective hypothesis put forward by traditional economists as a basis for the theory of the firm, as being wholly unreal. They quote the work of Stanworth and Curran (71) which clearly demonstrates entrepreneurs have a wide range of different personal objectives which can change over time. Bevan et al (72) note that many owner - managers do not have personal objectives to grow the business beyond a certain level of operations. This phenomenon can be partially explained by a genuine lack of ambition on the part of the individual concerned or more significantly, a major reluctance to delegate responsibility to other people, due to a fear of losing control of the way in which the company is managed.

Of a related nature, but outwith the scope of this study, is the influence of the family and the resulting conflicts which may ensue. This may cause a situation where opportunities for further growth potential may be passed over, in favour of certain family members.

3.7.2.2. Stages of Growth.

The vast majority of the work in the area has tended to focus on the notion that as a firm grows and expands its operations, it will pass through a series of stages. Stanworth and Curran (73) identify this as being a dominant theme running through the literature. Because of the prevalence (if not necessarily importance) of such models, it is argued that some time should be spent examining and evaluating the most significant of them.

Larry Greiner (74) can be credited with the earliest and perhaps most influential attempt to conceptualise the development of an organisation. Prior to the appearance of his framework, McGuire (75), Steinmetz (76) and Christensen and Scott (77) put forward basic models which were largely intuitive, and sought to delineate the various stages of growth experienced by firms.

For example, Steinmetz (79) proposed a four stage approach, characterised in the following fashion :-

1. *Direct supervision:* the simplest stage, at the end of which the owner must become a manager by learning to delegate to others.

2. *Supervised supervision:* where in order to move on, the manager must devote attention to growth and expansion, manage increased overhead and complex finances and learn to become an administrator.

3. *Indirect control:* in order to grow and survive, the company must learn to delegate tasks to key managers and to deal with diminishing absolute rate of return and overstaffing at the middle level.

4. *Divisional organisation:* at this stage, the company has "arrived" and has the resources and organisational structure that will enable it to remain viable.

Steinmetz explicitly stated that each stage ended with a critical series of decisions which had to be addressed before the company could enter the next stage. It could be argued however that his model exclusively focused on managerial considerations and in particular how issues of control and delegation alter over time. This ignores other non - managerial factors such as the nature of the product(s) offered and market(s) served. Christenson and Scott (81) considered this latter issue in their model. However while their framework makes a faint appeal to logic, it can be challenged on the grounds that it does not reflect the true nature and characteristics of the small firm, equating, for the most part, to what one be referred to a a large company, by many non - American researchers.

Greiner (81) while essentially providing a re - working of the thoughts espoused by Steinmetz, did succeed in developing the ideas to a greater level of detail and clarity of explanation. He contended that growing organisations move through five distinguishable phases of development, each of which contains a relatively calm period of growth that ends with a management crisis. Based on cases which he collected at the Harvard Business School, he identifies five key dimensions which are essential for building a model of organisation development :-

1. *Age of the organisation ;* identifying the time span of an organisation as being an essential dimension for any model of development.

2. *Size of the organisation;* resting on the belief that a company's problems and solutions tend to change markedly as the number of employees and sales volume increases.

3. *Stages of evolution;* most growing companies do not expand for two years, then retreat for one year; rather, those that survive a crisis, usually enjoy four to eight years of continuous growth without a major economic setback or severe internal disruption. These quiet periods are labelled evolutionary periods or stages

4. *Stages of revolution;* recognises that it cannot be assumed that organisational growth is linear. A study of numerous case histories reveals periods of substantial turbulence spaced between periods of evolution. They are typically characterised by a serious upheaval of management practices and as a consequence, demand a change of approach.

5. *Growth rate of the industry;* the speed at which growing firms encounter such phases of evolution and revolution is closely related to the market environment of its industry.

Greiner, in his summary of the model, acknowledges the need for more rigorous testing of his stages. He recognises that they are only approximations, but points out that one should not sit back and wait for conclusive evidence to emerge: rather managers should be educated to "think and act from a development point of view" (82, p73).

In assessing this contribution to knowledge, it should be acknowledged at the outset that Greiner created an awareness among researchers and practitioners of the need to consider the critical dimension of time and its impact on decision - making. Many management theorists still treat discourse on planning and strategy as though it exists in a vacuum, separated from the influence of time and history.

His model can be criticised on the grounds of the absence of even a superficial attempt to empirically test it. Thus it is normative in nature and reflects the distilled wisdom of one (albeit experienced and learned) individual. It could also be argued that even basic research with small companies is not sufficient to test out the framework. Rather there is a need to carry out a longitudinal study so that the various changes experienced by companies, and their responses, can be tracked over a period of time.

It can also be argued that Greiner's concept of a small firm reflects an "Americanised" perception which almost certainly does not relate to the typical European view - a common criticism of many of the "stages of growth" models. This in most noticeable when he refers to "profit centres" and "plant managers". Even if definitions of small firms of employees such as "less than 100 employees are accepted, it is difficult to envisage strategic business units emerging in such an organisational structure.

However the model does have some positive points; mainly in the shape of a strong intuitive appeal to common sense, in its favour. The "acid test" of course, is determined by its influence on the approach adopted by contemporary researchers.

In this respect, the frameworks for growth developed by Churchill and Lewis (83), Flamholtz (84), Scott and Bruce (85), Tyebjee et al (86) and Clifford et al (87) are worthy of evaluation.

Churchill and Lewis (88) present a summation of the work of Greiner and earlier researchers, and criticise their frameworks on a number of grounds. The main ones revolving around the view that they fail to adequately document the important early stages in a company's origin and growth. They are also critical of the tendency for such models to use company size as defined in terms of annual sales turnover or number of employees, thereby ignoring other potentially relevant factors such as value - added, the number of locations, complexity of product lines and the rate of change in products or production technology. Based on a combination of experience, a search of the literature and the results of research drawn from the responses of one hundred and ten owners and managers of successful small companies (in the $1 million to $35 million sales range) to a mailed questionnaire, they have developed a five stage model, each stage being characterised by an index of size, diversity and complexity and described by five management factors: *managerial style, organisational structure, extent of formal systems, major strategic goals and the extent of the owner's involvement in the business.*

Through their research, they identified eight factors which change in importance as the business grows and develops and which play a prominent part in determining ultimate success or failure. Four of these factors relate to the enterprise and four to the owner. They are as follows:

Company - Related.

1. Financial resources, including cash and borrowing power
2. Personnel resources, relating to numbers, depth, and quality of people, particularly at the management and staff levels.
3. Systems resources, in terms of the degree of sophistication of both information and planning and control systems.
4. Business resources, including customer relations, market share, supplier relations, manufacturing and distribution processes, technology and reputation, all of which give the company a position in its industry and market.

Owner - Related.

1. Owner's goals for himself or herself and for the business.
2. Owner's operational abilities in doing important jobs such as marketing, inventing, producing and managing distribution.
3. Owner's managerial ability to delegate responsibility and to manage the activities of others.
4. Owner's strategic abilities for looking beyond the present and matching the weaknesses of the company with his or her goals.

They suggest that as the business moves from one stage to another, the relative importance of the factors changes and that these factors can be viewed as alternating among three levels of importance: first, key variables that are absolutely essential for success and must receive high priority; second, factors that are clearly necessary for the enterprise's success and must receive some attention; and third, factors of little immediate concern to top management.

How useful then is the framework proposed by Churchill and Lewis? In terms of placing it in perspective, it should be recognised at the outset that it is mainly a "re - working" of earlier concepts put forward by Steinmetz and Greiner. Thus it does not present a significantly different approach. That said, it does serve as a useful pedagogical tool which can be used to illustrate to would be owner - managers, academics and Government industrial support agencies, the critical success factors necessary for the development of an enterprise.

Flamholtz (89) has developed a similar framework which identifies seven stages of growth in a company's life cycle: *new venture, expansion, professionalisation, consolidation, diversification, integration and decline and revitalisation.* It is worthy of review however because he explicitly pinpoints the need for such a company to make the transition from an essentially entrepreneurial mode in the initial stage, through to a professionally managed mode, leading eventually to possible diversification into unrelated products and markets.

Flamholtz advocates that there are four steps by which senior managers of a rapidly growing entrepreneurial company can assist the company to make a smoother transition from one stage of growth to the next. He suggests that there is a need firstly to perform an organisational evaluation or audit of the company's effectiveness at its current stage of development; secondly formulate an organisational development plan; thirdly implement the plan through action plans and programmes; and finally to monitor those programmes for effectiveness.

The value of Flamholtz's model lies it its appeal to common sense. It is easy for the reader to relate to the concepts contained in the model, particularly the teething problems which he identifies as being symptomatic of the early stages of business development. It is also easy to see how this model could be used as a clear guideline to follow for would be owner - managers at workshops or seminars.

However, in common with many of the writers in this area, Flamholtz does not appear to back up his thoughts with any empirical evidence to lend credence to them. While this in itself, does not mean that his model should be rejected out of hand, it means that such deliberations are of a speculative nature, and this cannot be glossed over. Yet again, many of the examples utilised in his book do not equate to the typical "small firm" to be found in the Irish context. As a result, the specific, as opposed to the general, features of the model need to be questioned. In particular while Flamholtz's suggestions for managing the transition between the various growth stages make sound sense, experience would suggest that many small Irish companies are not in a position in the first place to be able to carry out such activities as organisational audits or organisational development plans. The issue here is not one of querying their usefulness or validity; rather it has to be considered in a situational context. This latter point would appear to be the main criticism to be made of Fromholtz's work : its specific contents do not "sit easily" with the Irish experience, and its general prescriptions, whilst making sound sense from a logical point of view, are not specific enough to have direct relevance, apart from their pedagogic value.

Scott and Bruce (90) have drawn heavily on the work of Churchill and Lewis (91) and Greiner (92) and essentially re - work the stages proposed by these earlier authors into a five stage process:-inception, survival, growth, expansion and maturity. A detailed examination of these stages is deemed to be repetitive in nature and as a consequence it warrants a brief mention only. Likewise the criticisms which have been levelled to earlier models apply equally to this approach. Scott and Bruce are quite specific and realistic about the usefulness of this model, stating that :-

> *"The model is not intended as a panacea for strategy formulation. It is rather a diagnostic tool to assist in analysing a firm's present situation. It is also meant to be an indicator of what strategies appear suitable at various stages in an organisation's growth. It is however a tool, and cannot make the decisions for management. They must rely on their judgement for that (93, p51).*

Tyebjee et al (94) conducted interviews with senior managers of several rapidly growing companies and conclude that the key to building up an effective enterprise is through the development of a formal marketing organisation. It is one of the few "stage of growth" models which explicitly recognises the need to acknowledge the role which the marketing function plays in the evolution of a firm.

Clifford et al (95) provide an excellent appraisal of the influence of management succession within the stages of small business development. In particular they broaden the discussion away from the preoccupation of many of the authors of the stages of growth models on the product life cycle concept to account for the *size of the enterprise* at different points in time. They acknowledge (quite rightly) that this emphasis is important as it recognises the role which exogenous factors such as market demand and industry structure play in determining the potential scope for small business growth.

They also examine the influence of *structure* of the enterprise as it evolves over time. This refers specifically to the notion that the various crises and stresses which emerge from time to time, force the founder to reconsider his or her role : in particular, the need for some sort of formal management structure through which the owner gradually delegates a number of management functions to others. This is a theme which is explicitly recognised in the models put forward by Greiner (96) Churchill and Lewis (97) and Steinmetz (98).

In addition to these two common strands of size and structure which pervade many of the theories of small firm growth and development, Clifford et al recognise a third strand; *self,* an issue which was originally developed by Stanworth and Curran, in 1976. This term refers to a number of "latent social identities which exist and influence small firm growth. It adopts a *social action view* of the small firm; concentrating heavily on attempting to understand the internal social logic of the small firm as a social grouping. In particular Stanworth and Curran argue that :-

" ....the key to growth lies in the meanings attached to participation in the firm by the actors involved.. The small firm, in this view, is an ongoing social entity constructed out of the meanings and actions of those who participate in the firm or who are "outsiders" in relation to the firm as social groupings but nevertheless interact with the participants.(99 p45).

Their message steadfastly revolves around the acceptance that the very strong influence of the owner - manager on the small firm's organisational style calls for an in - depth examination of this role. Of particular importance are the specific reasons for the owner - manager's decision to "go it alone". This, they argue, helps to provide an understanding of subsequent attitudes to growth at later stages in the firm's life.

They observe (based on their own research and the research of others) three latent social identities which appear with some frequency in relation to the role of small firm entrepreneur :-

1. *The "artisan" identity.* Here the entrepreneurial role centres around intrinsic satisfactions of which the most important are personal autonomy at work, being able to pick up the persons you work with, status within the workplace and satisfaction at producing a product quality product with personal service.

2. *The "classical entrepreneur" identity.* This identity most closely resembles the classical economists view of entrepreneurship (which has been examined extensively in an earlier section of this chapter). Earnings and profit

become a core component in the entrepreneur's definition of his role and hence in the way he acts out his role.

3. *The "manager" identity.* Here the entrepreneurial latent social identity centres on meanings and goals concerned with the recognition, by significant others, of managerial excellence. The entrepreneur structures his role performance to achieve this recognition from fellow members of the firm but, more, especially, from outsiders such as other businessmen.

Thus, following Stanworth and Curran's line of argument, the artisan identity is not overly concerned with growth, being more preoccupied with survival. It clearly relates to the initial stages of a business's development. As the firm survives this formative period, the goals associated with the artisan identity will largely have been fulfilled and the entering of a period of sustained profitability is more conducive to the "classical entrepreneur" identity. Likewise as the firm continues to grow, forces (both internal and external) tend to push it towards a more formalistic, bureaucratic structure. Thus social relationships between the actors involved in the firm become less personal and skills will be required which are, in the vast majority of cases, largely outside the repertoire of the entrepreneur.

Stanworth and Curran are forthright in their view that :-

"The emergence of these "growth factors" depends on a variety of factors, and may not occur until the firm has grown to be of some size. But what is more important is whether the entrepreneur comes to perceive the likely outcomes of these changes and the decisions he makes concerning their desirability as well as his ability to cope with them in the kind of person he has now become. So, again, we return to the internal logic of the firm, seen from the point of view of its main actor, and the possible outcomes which can develop". (100. p47)

This rather lengthy quotation in fact crystallises the philosophy put forward by Stanworth and Curran. They argue for the need to study growth patterns not from the point of view of an exclusive focus on the external factors such as industry structure and market forces, but a balanced approach which takes into account the internal logic of the firm; largely shaped and influenced by the key actor, i.e. the business founder. Thus it is most likely that the role of the entrepreneur / owner - manager will be reconfigured and redefined during the course of the firm's development.

This alternative view of business growth makes a number of significant improvements on the earlier theories. Firstly it provides a reasonable explanation as to why the seeking of growth may not necessarily be the main motivating force for many owner - managers. This is in contrast to many of the earlier theories which have been reviewed in this chapter, which implies an uncritical, automatic acceptance that growth is an inevitable "driver" to guide the development of the company from its inception.

It clearly recognises that if an entrepreneur defines his role in relation to his self - identity, then a lot can be said about the way in which the firm is likely to perform in a wide variety of situations. This supports the contingency based notion which has been examined earlier and also recognises the idiosyncrasies of the small firm which make it difficult to assess if the standard stages of growth are applied. This latter point is critical in attempting to understand their line of argument. Stanworth and Curran have been highly critical, and quite rightly so, of many of the stages of growth models because they portray the small firm moving sublimely through a sequence of growth without investigating whether this is a necessary progression for many firms or whether certain stages can be missed out or variations in sequence can occur.

Their main criticisms of earlier work centre around the view that the overall theoretical perspective of these authors is a highly *positivist* one which is reflected in the fact that the underlying paradigm for theoretical development is a "highly idealised version of that used in the natural sciences" (101). The small firm is seen as a "behaving entity whose elements are related in quantifiable, systematic and highly predictable ways and the object of theory construction is the generation of law - like propositions concerning the growth process" (102). Given this perspective, they argue that due to poorly constructed samples, in terms of numbers included and skewedness in the distribution of levels of size, the resulting models do not in any way allow for law - like propositions to be arrived at.

Instead of this highly positivistic approach to research design, they argue for an inductive approach which will provide for better understanding of the internal logic of the firm and in particular, the owner - manager. The net results of their deliberations are to be found in the earlier review of the three latent social identities - the "artisan", "classical entrepreneur" and the "manager".

Clifford et al (103) observe that the contribution of Stanworth and Curran is particularly noteworthy because their insight "brings in self - actualisation as a driving force behind observable developments in small firms: it is not the whole story but no story could be complete without it".

Stanworth and Curran succeed in heightening people's awareness of the need to consider the internal factors which help to shape the growth patterns experienced by many small firms. This is in contrast to the focus on external factors which has been the main preoccupation of many of the earlier stages of growth models.

Gibb and Scott (104) provide a comprehensive summary of those external and internal factors which are thought to influence the process of change in the small firm. The main issues are identified in table 3.3. They put forward the view that the processes by which decisions are made in small firms are far more informal and based on less sophisticated techniques that would be common in larger firms. It is argued that the original focus of much of the prior research in the area was to be located within the external factors and that Stanworth and Curran have succeeded in redressing the imbalance, by encouraging researchers to consider the internal, latent social identities of the entrepreneur / owner - manager.

This analysis of the literature by Gibb and Scott also reveals the potential dangers associated with designing a research methodology which will allow for an effective study of how small firms plan their business growth and development, which is drawn from the positivistic approach to research. The list of internal factors generated in figure five and their influence on the shaping of growth highlights the broad range of possible idiosyncrasies associated with the small firm. This does not allow for an orderly, systematic, quantitative appraisal. The influence of the characteristics of the entrepreneur on the decision - making process allied to the nature of small business development also calls into question of how relevant and realistic the traditional, classical concepts of management (revolving around planning, organising, controlling and staffing) are, when considered and applied to the smaller business. It is introduced at the end of this section on the stages of growth models, because it reinforces the perception that the impression of small firms developing in an orderly, sequential and logical fashion, as represented by discrete, neatly defined stages, is simplistic at best, and grossly inaccurate, at worst.

TABLE 3.3. INTERNAL / EXTERNAL FACTORS

EXTERNAL FACTORS	INTERNAL FACTORS
1. Existing product range and position in the market.	1. The owner - manager : personal and leadership characteristics
2. Pressures for change form competition and stage of product life cycle	2. The presence or absence of qualified staff
3. Age and development profile of the firm's major products	3. Extent of functional specialisation
4. Dependency on a few customers	4. The control system : degree of formality
5. Market uncertainty and complexity	5. The managerial capability of the workforce
6. Rates of change in the economy	6. The financial situation of the company - liquidity
7. Existence of particular institutional "block" to progress	7. Age and quality of the physical assets
8. Wider environmental factors - social, legal, and political	8. The extent to which managerial time is available
	9. Levels of managerial motivation and commitment

Source : adapted from Gibb Allan and Scott, Michael. (1986) "Understanding Small Firm's Growth". in *Small Firm Growth and Development.* Scott, Michael (Ed.) Gower Press. Aldershot. pp86 - 87.

3.7.2.3. The Network Approach

A burgeoning literature has emerged throughout the last decade on the role which networks play in establishing, cementing and developing business relationships. Much of this has emanated from the interaction approach to business - to - business marketing. This philosophy has shifted the focus from a view of suppliers and customers as independent, autonomous actors, free to act as they wish within the market - place, to one of two entities which "over time develop interdependencies and a veritable relationship via exchange processes of various kinds (105). This basic, but far - reaching view of business relationships, has been developed and refined by authors such as Hakansson (106),Easton and Araujo 107), and most recently by Axelsson and

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Easton (108). The definition of an industrial network is borrowed from social exchange theory and Hakansson (109) describes it as a set of two or more connected exchange relations. Exchange is defined in turn as consisting of a voluntary transaction involving the transfer of resources between two or more actors for mutual benefit. The term resource is further defined by Cook (110) as "any *value* (sic) activity, service or commodity". Thus, industrial networks presuppose the establishment of exchange relationships and any changes in the established relationship occur through investments in tangible assets capable of appearing on the balance sheet, or through the acquisition of skills or knowledge in areas such as research and development, marketing, etc. It is not deemed to be relevant for the purposes of this study to undertake an extensive review of the ***general*** literature: this would be beyond the scope of the subsequent study and would deflect from the crucial issues under investigation. However a review of network theory as it applies to the small firm is presented, because it represents an alternative view of how such firms develop and cultivate growth.

At the heart of any assessment of the role of networks in the formulation of business relationships is the underlying assumption that "companies are interwoven with heterogeneous actors through a vast amount of inter - organisational relationships" (Gemunden and Heydebreck, 111) and that the establishment of such relationships will prove to be a major asset over a period of time. This statement, while identifying the concept of a series of relationships as central to the concept of networking, is not strong enough in its attempt to pinpoint the variety of relationships which exist in any business activity framework. Curran et al (112) make the valid observation that networks and the act of networking have both *compulsory* and *voluntary* aspects, which can be seen on a continuum. At one extreme are the compulsory range of business activities which have to be engaged in and without which the business cannot be sustained. For example, every company has to liaise with a bank, in order to ensure that bills are paid and customer payments are lodged. Further along the continuum, participation becomes increasingly voluntary, for example, it is optional (although not necessarily evidence of best practice) for companies to carry out marketing research. At the end of this continuum are such optional activities as joining the local golf club, or becoming a member of the chamber of commerce. Very few theorists highlights such areas as being crucial to the success of a business, although many companies would perceive such contact points as being appropriate for making contact with potential customers or facilitators. While this view applies to all firms, irrespective of size, it can be argued, quite forcefully, that it has a fundamental importance for the smaller company.

Perhaps of greater significance to the smaller firm is the potential which networking allows for them to become more innovative, through their relationships with other firms. Much of the empirical research in this area has been conducted with firms which operate in the high - technology sectors (Oakey 114). In a later article (115) Oakey also points out that in many cases, the precise nature of the relationships between small and large firms in such sectors is often of the *subservient* kind; in which sub - contractors or niche producers (the small firm) sell to a large population of industrial producers. In such cases, while in the short - term, there is mutual benefit for both parties, the longer term benefits to the small firm may dissipate in the "maze" of over - dependency which may inevitably result from a situation where it may have a very narrow customer base. A study by Oakey (116) of small biotechnology firms maintained (reluctantly, in most cases) a single customer base. It should be noted that this tends to occur in industries which are embryonic or at the early stages of growth. By contrast, in mature high - technology sectors, such as certain sub - sectors of the electronics industry, small firms can cultivate a larger customer base, although not without some difficulty.

The level of empirical research in the area of personal networking and the entrepreneur is limited. Johannisson (117) one of the main authors in this field, acknowledges this, but does offer some preliminary statements which are in need of empirical testing. They can be summarised as follows:-

1. *The self - image argument :* Where the entrepreneur has a need to reinforce his / her self image in order to be able to impose it on others.

2. *The existential argument :* In contrast to role relationships, personal ties relate to the person as a whole i.e. include shared values as well as effective and instrumental strands.

3. *The learning argument:* Entrepreneurs are experiential learners, not necessarily because of lack of management competencies but mainly due to the very notion of the entrepreneurial event: structural change in the market place cannot be recalled from history.

4. *The appropriateness argument :* Since personal networks are tailored to fit both the provider and the recipient, the opportunity costs associated with time and other investments in he exchange are negligible.

5. *The flexibility argument :* Although individual network ties are even more difficult to replace than resources controlled by ownership, the personal network as a whole provides flexibility.

6. *The stretchability argument :* Network resources can be expanded in two ways with only marginal investment: with respect to the direct linkages and with respect to the network as a whole. In a personal network, services in return can be postponed by way of delayed reciprocity and barter replaces money as an equaliser through general reciprocity.

7. *The holistic argument :* Since the personal network of the entrepreneur is egocentric, it helps the entrepreneur to focus his / her efforts. In order to identify new business opportunities, the network must operate as a scanner and when a venture is subsequently launched, the network provides needed resources.

8. *The political argument :* The personal network has a political potential in the sense that control through business is difficult for outsiders. The total (perceived) network is only known to the entrepreneurs themselves.

Johannisson's views are a distillation of many concepts which have yet to be tested empirically. As such, their contribution to knowledge has to be judged with caution. However it has to be acknowledged that the inclusion of network theory does reinforce the view that it is insufficient to examine the issue of growth and entrepreneurship from the sole perspective of internal expansion. Network theory broadens out the discussion to include the economic and social contexts. Given the initial limitations and constraints facing owner - managers, particularly in the early stages of the company's development, it can be argued that it is imperative that a personal network be built up by them, to facilitate growth. That said, there is an opposing view which suggests that the underlying premise of the need for continued growth may not be strictly accurate. Hackett (118) as early as 1974 for example, noted that three major disadvantages can accrue from pursuing a policy of growth : an inability to achieve adequate financial control and planning, the difficulty of maintaining a responsive and timely decision - making process and a possible decline in the ability to realise the creative and innovative potential of individuals in larger organisations.

Another issue which does not appear to have been adequately addressed in the mainstream literature on networking is the potential for predatory behaviour; resulting from the unalterable fact there are two or more parties who are not equivalent in terms of power, size and monetary value. Thus while a large firm may be prepared to provide help in the form of contracts, help with research and development or functional expertise, they may do so with a view to acquisition. Some work by Smith (119) and Balfour (120) provides evidence of this practice occurring in high technology industries. Oakey (121) also argues strongly that altruism does not exist in the forging of a network link, noting that irrespective of whether one firm wishes to take over another at some time in the future, both parties enter into such a relationship because they seek an advantage in establishing such a bond.

Yet another distinguishing characteristic of the small business sector is the desire on the part of many owner - managers / entrepreneurs for independence as to how they run their lives generally and in particular the extent to which they can control their working environment. Thus if this view is accepted, it casts some doubt on the logic for such companies to establish a large number of relationships, with the possible effect of diluting the amount of independence associated with running their own businesses. A very recent study by Curran et al (122) would appear to support the view that such owner - managers tend to have small and non - extensive networks with little resort to external contacts such as accountants and bank managers, except for basic, routine transactions. This situation has been influenced by such pragmatic issues as the heavy demands placed on the owner - manager's time and the costs associated with using professional services such as accountants, marketing research agencies etc. This helps to ensure relatively small networks.

The work of Curran et al is recent and has to be deemed as significant in its contribution to further knowledge in the area of networking. The overall results point away from the original notion that the small business owner embraced the concept of networking in a proactive manner. It highlights the need for further studies in the area, before an adequate theoretical base can be developed.

Any concluding evaluative comments on network theory can best be summed up in the words of Gibb and Scott who note that while there is evidence to suggest that;-

" the nature of the networks of the entrepreneur change as the business develops ....there is little hard evidence as to how these changes occur as the business grows and how the changes impact upon the potential for growth (123,p22).

Networking theory undoubtedly has been one of the main areas which researchers have focused on over the past number of years in the context of industrial marketing. Clearly more work needs to be done on networking as relating to the smaller firm, before any firm conclusions can be drawn. This is because the particular characteristics of the small firm may mean that it is more difficult for them to establish strong networks with larger firms. This might occur in situations where small firms struggle to convince other companies of their capability, trustworthiness and perhaps, long - term viability. While these issues may act as constraints, it is equally plausible to argue that the flexibility and close personal attention which the small firm can provide to other partners, may facilitate the establishment of such networks.

These latter issues are conjectural at present, in the absence of any substantive base of empirical research and much of what has been written has been based on largely anecdotal evidence.

3.7.3. BUSINESS MANAGEMENT APPROACHES TO GROWTH

Gibb and Davies (124) identify a school of thought which relates the growth of a firm to its performance in the marketplace and in particular its financial performance and its ability to operate at maximum efficiency levels. Under this train of thought, it is assumed, not unreasonably, that all growth must emanate from the marketplace, and as a consequence, has at its epicentre the Ansoff matrix (125) which identifies four possible routes to growth under the product / market scope : market penetration, product development, market development and diversification. This schema is placed in the context of the firm's desire to improve its competitive position.. Gibb and Davies (126) suggest that this approach is frequently adopted in management teaching programmes as a "pseudo - scientific model of planning approaches to product / market development and business goal setting, including the business plan as the main means of assimilating the path to successful growth".

Clearly the popularity of Ansoff's approach, as evidenced by the frequency with which it appears in textbooks and articles, is a testament to its effectiveness as a "teaching tool", which in turn provides an understanding of how firms can achieve growth. Unfortunately, while it is clear and unambiguous in its intent, it does not attempt to examine the underlying factors which can positively or negatively influence a firm's growth potential. It provides a useful guideline as to how growth can be achieved, without "peeling off the layers" to reveal the underlying patterns and interconnecting issues.

Gibb and Davies (127) also refer to business management approaches which focus on upon financial performance. This is demonstrated by the attempt to predict the future performance of the firm, based on financial ratios and their changes over time. Thus past performance is used to predict future capability. In this respect, the approach resembles the philosophy adopted by the banker or accountant, as they apply general, expected or predictable standards to assess future performance. Allied to this is the notion that the banker or accountant expect "well managed" businesses to be in a position to generate financial and other related information on a regular basis. The capability of the firm to do this is deemed to be evidence of a capability to control the business.

The logic of this approach can be seriously questioned. The use of indicators to predict future performance is fallacious because they are essentially *outputs* deriving from the performance of the firm, rather than actual *inputs,* which can directly influence performance. While this criticism may be justified, it has also to be acknowledged that this concept resides very firmly in the minds of those members of the financial community. Given their emphasis on cost and efficiency as general principles for dictating the growth potential of firms, it can be said that this influences their judgement when deciding whether or not to provide financial assistance. Thus the peculiarities of the small firm and the difficulties which it can experience in areas of cash flow management, the failure of customers to pay on time and so on, can receive an unsympathetic response from the financial community. As is the case with so much of the concepts reviewed in this chapter, the evidence is tentative and anecdotal in nature.

3.7.4. SECTORAL AND BROADER MARKET LED APPROACHES

This last series of approaches towards an understanding of growth refer to a wide ranging and disparate range of studies which have focused on the external constraints and problems associated with small firm growth. Clearly such studies are too numerous to examine in detail. Gibb and Davies (129) cite a wide range of issues which have been addressed by such studies in the United Kingdom. They can be summarised as follows : -

* The impact of various regional counselling, training and assistance schemes provided by various support agencies.

* The potential effects of (perceived) bureaucratic constraints (e.g. taxation levels, interest rates on loans) availability of suitable labour.

* Sectoral studies e.g. the high technology area, focusing on building marketing into design and quality from an early stage, and keeping abreast of the latest developments in the area of technology.

* The development of a professional management competence and the correlation between the educational attainment of managers and the growth performance of firms.

It can be argued that many of these studies have contributed to a furthering of knowledge- particularly in relation to specific problems and constraints which small firms experience as they develop. Clearly the wide variety of such studies precludes them from becoming predictive models of small firm growth. This is compounded in many cases by the common feature of very small samples, unrepresentativeness in sample selection and sub sectoral studies which are too narrow in focus to allow for broader generalisation.

3.8. Summary

This chapter has examined the relationship between entrepreneurship, growth and the small firm. The basic logic for this approach is grounded in the belief that the three areas are inexorably linked. The main purpose of this review has been specifically to examine the various approaches emanating from the literature which have put forward theories as to how the smaller firm grows. Clearly the role of the entrepreneur / owner - manager impinges to a significant extent on the development of a firm's business activities. As a consequence, the early part of this chapter reviewed the relevant literature on entrepreneurship. The main conclusion from this analysis has been that much of the empirical research has suffered from some weaknesses, mainly arising from a tendency to ignore the view that any attempt to identify personality traits and characteristics must be contingency - based. This allows for the various idiosyncrasies associated with the small firm and the fact that any findings tend to be situational in nature.

The analysis of the various growth models has also identified a number of weaknesses : chief of which are, the emphasis on formalistic, deductive methodological approaches - very firmly grounded in the positivist tradition, an over - emphasis on concepts which appeal to common sense but are not empirically tested at all, a tendency to use research constructs and paradigms which are drawn from work carried out with large firm (and a rather simplistic view that they are equally valid for a study of the small firm) and an arbitrary view of what in fact constitutes a "small" firm. It is submitted that by far the most glaring weakness lies in the relative paucity of qualitative, inductive research methods which have been used by researchers in the area. This is evidenced by the quest for large numbers of companies to be examined in survey design While this allows for subsequent quantitative analysis, it is argued quite forcefully that it does not necessarily provide for an in -depth understanding of the internal forces and influences which are present in the small firm. This is an issue which will be addressed at length in a later chapter.

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CHAPTER FOUR

STRATEGY: MARKETING, PLANNING AND THE SMALL FIRM

4.1. INTRODUCTION

The purpose of this chapter is to examine the actual process of achieving growth within the emerging firm. The initial section clarifies the associates range of terms which appear in the literature and are used to examine and explore the issue of strategy development and implementation. It is submitted that the preponderance of terminology in this area can lead to confusion and misinterpretation and as a consequence, obfuscate the challenge of planning for the practising manager. The term "strategy" is certainly an over - used word in the business vocabulary and the looseness of interpretation which surrounds it needs to be clarified in the context of a detailed study of how small companies utilise strategies and plans in their business activities.

The next part of the chapter identifies the specific components of strategic planning and examines the relevance of such an activity for the smaller company. This is deemed to be an important contribution to the subsequent design of a research methodology for the study, as there would appear to be an underlying assumption that planning is automatically " a good thing to do" for any organisation. However there is also compelling evidence emanating from some researchers that a blind acceptance of such a philosophy ignores much of the reality of what happens in practice. This apparent discrepancy between theory and practice is examined in greater detail.

The precise nature of the marketing planning process and its relationship to corporate, business or strategic planning is then reviewed. This section begins to address one of the fundamental considerations of this thesis: the role which marketing planning plays in the small firm's business planning activities. It is argued that many of the researchers and authors in this field use such terms interchangeably and in a loose manner, without giving much thought as to how marketing interacts with corporate decisions. In similar vein much of the discussion which exists in the literature tends to focus on large or multinational firms; with little corresponding focus on the small firm. This apparent inconsistency is redressed, with a review of the relevant literature and an attempt being made to relate to the characteristics of the small firm. This exercise indicates that much of the conventional theories regarding planning have little applicability or indeed relevance for such companies.

The final part of the chapter examines the relatively few attempts to put forward a framework for understanding how small companies can utilise the marketing function and integrate it into overall planning activities. As well as reviewing these concepts, some alternative views are identified and put forward for subsequent testing in the subsequent study of small, indigenous electronics companies.

4.2. STRATEGY DEFINED.

At the outset of any detailed discussion on strategy, and in particular its antecedents, it is maintained that it is dangerous to put forward a standard definition or interpretation of strategy. This is for the valid reason that even a superficial examination of the vast literature reveals many interpretations and definitions which are adopted by both authors and researchers. Clearly not all of the interpretations are accurate or indeed correct. However it is felt that it is more relevant when reviewing the literature, to broaden the various perspective of strategy, as opposed to imposing a narrow focus. This does not make the task of achieving clarity any easier, but nonetheless, allows for a realistic appraisal.

Evered (1) identifies the word *strategy* as deriving from the Greek word *strategos*. This in itself, is a combination of two words : stratos, meaning army and agein, meaning, to lead. Placing the discussion in relation to business, it can be interpreted as concerning the leading of the overall organisation.

Ansoff (2) identifies a number of basic functions which strategy performs for the typical organisation. They are as follows :-

* Giving direction to the company as opposed to immediate action
* Stimulating the search for business opportunities
* Providing a link between objectives and resources
* Generating information, as well as requiring information for its formulation
* Monitoring changes in objectives and their subsequent impact on changes in strategy

Day (3) offers a view of strategy which suggests that it:-

" Describes the direction the organisation will pursue within its chosen environment, and guides the allocation of resources. A strategy also provides the logic that integrates the parochial perspectives of functional departments and operating units and points them in the same direction".

In similar vein, Aaker (4) postulates that the strategy concept can be:-

" .....encapsulated into two core elements: the product - market investment decision which encompasses the product - market scope of the business strategy, its investment intensity and the resource allocation in a multiple - business context.

The development of a sustainable competitive advantage to compete in those markets. This core concept encompasses underlying distinctive competencies or assets, appropriate objectives, functional area politics and the creation of synergy".

Luck and Ferrell (5) offer the view that strategy is:-

" a scheme or principal idea through which an objective could be achieved".

From this brief foray into the thoughts of the above authors, it becomes readily apparent that a number of terms such as objectives, resources, opportunities and action begin to emerge. This in turn raises a particular problem facing researchers in the area of strategy: namely the looseness with which many authors and researchers use terminology. In this respect, Greenley (6) identifies the possible confusion which results as the tendency of such writers to refer to strategy without any differentiation by levels of planning. The operative word in this sentence is *levels.*

These perspectives are helpful to the extent that they identify a number of broad outcomes which one might expect to accrue from the implementation of a broad strategy:- the product(s) - market(s) to be targeted, the level of investment associated with such moves, related to available resources and allied to the specific core competencies which allow a firm to initially develop and (hopefully) sustain a competitive advantage.

Wensley (7) notes that if the above definitions are accepted as being an accurate portrayal of what strategy is all about, then it recognises that strategy is a formal, explicit exercise which the typical firm undertakes. This indeed is the most commonly held view of how strategy is formulated. But is it the only perspective ? Indeed is it a correct perception ? In response to the former, it can be stated that it is not the only view. Mintzberg and Waters (8) have articulated an alternative outlook which suggests that there are various kinds of strategies ranging from those that reflect a deliberate, rational approach, to those which emerge without necessarily reflecting any pre - ordained intentions on the part of an individual or a department.

This multi - dimensional view of strategy contributes significantly towards a greater understanding of the issue. It immediately casts some doubt on the belief that strategy is a pre - ordained, formalised exercise. Instead it advocates a more flexible perspective; based on the notion that it is more accurate to adopt a contingency - based stance. This acknowledges that what might be appropriate for one company might be singularly irrelevant for another. It also puts forward the intriguing view that a strategy can emerge without any pattern or advance thinking. In a later article, Mintzberg (9) reinforces this view of the need for flexibility in defining strategy by offering the opinion that explicit recognition of multiple definitions can help people to gain a clearer insight into the issue. Accordingly, he suggests five definitions of strategy :-

Strategy as Plan : In this case two essential characteristics are evident; strategies are made in advance of the actions to which they apply, and they are developed consciously and purposefully.

Strategy as a Ploy : Where strategy can be used as a specific manoeuvre to outwit a competitor. For example a company may threaten to expand plant capacity to discourage a competitor from building a new plant. In this scenario, the real strategy is the use of the threat, not the expansion itself. Hence it can be deemed as a ploy.

Strategy as Pattern : Defining a strategy as plan is not sufficient; it is also necessary to put forward a definition that encompasses the resulting behaviour. Thus strategy may be viewed as a pattern - specifically a pattern in a stream of decisions. Viewed in this context, strategy is *consistency* in behaviour, whether or not it is intended.

Strategy as a Position: Specifically a means of locating an organisation in what organisational theorists like to call an "environment". Thus, strategy becomes the mediating force, or match between the internal and external context.

Strategy as Perspective : In this case, the content of strategy does not just consist of a chose position, but also of an ingrained way of perceiving the world. Strategy in this context is to the organisation what personality is to the individual.

The key to understanding Mintzberg's thinking lies in his emphasis on the need for eclecticism in defining strategy. By this he means that within the five definitions which he puts forward, various relationships exists among them; with no one relationship, nor any single definition taking precedence over the others. He also argues that in some ways the definitions compete (in that they substitute for each other), but in other, more important ways, they complement.

This distillation of Mintzberg's ideas may appear at first glance to be over - emphasised. However it is argued that they represent a realistic attempt to understand the practical dimensions of strategy. He does not provide a bland, uni - dimensional definition. Rather, he presents a broad range of contingency - based views, which are not mutually exclusive. While he might be accused of being vague and imprecise in his approach, it can be equally argued that this accurately represents what strategy is all about in any case.

In order to provide a balanced assessment of the alternative perceptions of how strategy is formulated, it is necessary to further explore Mintzberg's views on the traditional school of thought which advocates a prescriptive approach to strategy formulation, emphasising the process as consisting of formal planning and of analytical positioning (relative to the competition). In a later article Mintzberg (10) associates the Business Policy Group at the Harvard Business School as being the prime advocates of such an approach. The essence of this school of thought is that strategy formation is viewed as a process of informal conception i.e. the use of a few essential concepts to design the "grand strategy". Mintzberg notes that the most essential elements of these concepts is that of congruence or match. This is best described in the work of Christensen et al (11) who suggest that "economic strategy will be seen as the match between qualification and opportunism that positions a firm in its environment".

The pioneering work of Learned et al (12), Andrews (13), Chandler, (14), and Newman (15) are good examples of how the thoughts of this school are articulated. The contribution of the ideas developed by Igor Ansoff (16) can be added, although a perusal of his work quickly identifies that it places much greater emphasis on *planning* as the main driving force behind strategy formulation. This contrasts somewhat with the more conceptual approach proffered by the prescriptive proponents.

Proponents of the design school reinforce the view that strategy development consists initially of an internal appraisal of a firm's position allied to an assessment of the external environment within which such a firm operates. This exercise is crystallised into what has been referred to as a *SWOT analysis* - a standard feature of any basic lecture to both undergraduates and postgraduates on the topic of strategy. In this context, a matching up of the key success factors (which are basic requirements for establishing a presence in a given market) and the distinctive competencies (identified from the internal appraisal of the company's operations) takes place.

In creating a particular strategy, two other considerations also come into play: the basic beliefs and values of those individuals who lead the organisation and are responsible for shaping its future, and the ethics of the society in which the organisation is embedded and which need to be taken into account when developing strategy.

Mintzberg (17) identifies a number of basic premises which underpin the process of strategy formulation as advanced by this school of thought. They are worthy of explanation and evaluation. The first premise which he detects is that :

> *" Strategy formation should be a controlled, conscious process of thought".*

This line of argument firmly places the exercise of strategy formation in the context of a deliberate, rational, fully thought out category. Clearly this approach dismisses the notion that strategy development has any positive benefits to gain from a reliance on intuition (which could be deemed to be the direct opposite of rational deliberation) This is reinforced by the views of Andrews (18) who argues that " if strategy is implicit in the intuition of a strong leader, the organisation is likely to be weak and the demands the strategy makes upon it are likely to remain unmet".

The second premise noted by Mintzberg (19) is that:-

> *Responsibility for that control and consciousness must rest with the chief executive: that person is the strategist".*

This view advocates the primacy of the chief executive as a shaper of a firm's destiny, where he / she is perceived as the central architect of organisational purpose.

Premise three notes that:-

"The model of strategy formation must be kept simple and informal".

This view is best summed up by Andrews who suggests that "this (strategy formation) is not a theory attended in the rigorous sense by elegance or vigor (sic), nor is it really a model, for the relationships attended by the model are nor quantifiable: rather it serves as an informing idea". (20)

Of the premises outlined so far, this particular one does raise some problems of interpretation. On the one hand, proponents such as Andrews argue for a level of formality and rationality to be associated with strategy development. Yet, in deference to practitioners who have to carry out such an exercise in "the real world", they stress the fact that a rigorous approach can pose a threat to effective implementation.
Premise four : -

"Strategies should be unique: the best ones result from a process of creative design".

This underlies the view that strategies have to relate to the specific situation facing an organisation and not to any generic set of variables which can be applied unilaterally. This contingency based view is supported in the work of Hoefer and Schendel (21). Because of this argument for specificity, much of the work of the design school concentrates on the process by which strategies are developed.

Premise five : -

Strategies emerge from this design fully formulated".

This highlights the fact that this school of thought advocates the big picture or grand strategy which results from the process. In particular it argues that the strategist will have before him a range of alternative strategies to choose from which the most appropriate (in the mind of the strategist) will be chosen. Interestingly this is an approach which would appear to have originated with the Harvard Business school in their approach to teaching strategy by using the case study method. It is still strongly utilised in the vast majority of business schools throughout the Unites States and Europe.

Premise 6 :-

> *"These strategies should be explicit and, if possible, articulated, which also favors (sic) their being kept simple".*

This expresses the belief that if the strategy is not articulated to the rest of the organisation, then it cannot be adequately tested or challenged and as a consequence is likely to be intrinsically weak. In line with this is the notion that strategies must be adhere to the basics of simplicity to allow it to be communicated clearly and without the potential dangers of distortion that can inevitably accrue, if it is unduly lengthy.

Premise seven :-

> *"Finally, only after these unique, full - blown, explicit and simple strategies are fully formulated can they then be implemented".*

This raises an ever - recurring theme running through this dissertation: namely the distinction between strategy formulation and strategy implementation. While the issue will be fully debated at a later stage, it is necessary to pinpoint the underlying premise of this school of thought which clearly separates thinking from acting. This classical view of rationality - diagnosis, prescription then action is articulated very succinctly by Bourgeois and Brodwin (22). It also supports the view put forward by Chandler (23) as far back as 1962, that structure must follow strategy: the design of strategy must dominate the thinking of the organisation, and only after a strategy has been formulated, does the company begin to address the question of how the company needs to organise itself to implement the strategy.

While Andrews does make some subsequent modifications to his original perception of strategy (24), in particular the need to achieve a balance between flexibility and focus and between a sense of direction within strategy formulation and the need to respond to potential opportunities in the environment, he is a firm proponent of the traditional model of strategy as represented in the design school of thought.

Mintzberg (25) raises the question of how closely this model resembles the reality as being the "acid test" for assessing the validity of the approach of the design school. His critique of the model is based on a consideration of a number of specific aspects associated with the model: the need for a conscious assessment of strengths and weaknesses and the assumed sequence of strategy followed by structure, the need to explicitly articulate the strategy, and finally the dichotomy between formation and implementation as assumed by the model.

In relation to determining the strengths and weaknesses, Mintzberg highlights the problem associated with the expectation that executives in a company can carry out such a conscious task and ensure that their deliberations are free from potential biases, hopes and aspirations, thus being able to assure reliability and objective detachment from such influences. It also identifies a potential problem of being able to achieve a broad agreement, among the participating executives, at to what constitute the precise strengths and weaknesses. A study by Stephenson (26) actually pinpoints these problems, based on an exercise with managers, where he asked them to assess their companies strengths and weaknesses in general. The latter two words were to prove significant, because the single recurring theme emerging from this study was that managers felt that such an exercise would only be appropriate if such strengths and weaknesses were to be defined in the context of a particular problem facing the organisation. By contrast such an activity is an academic exercise without a particular focus. Hofer and Schendel (27) also query its usefulness on the grounds that it is difficult for any organisation to be really sure of its strengths before it tests them empirically in the field. In essence this puts forward the not unreasonable view that many of these internal self - assessments are based on the *past* behaviours and experiences of the organisation, and may not necessarily apply to future behaviours. Given that any strategic changes affecting a company involve new experiences, ranging from minor to radical, allied to a similar continuum of risk, then it can be difficult, if not impossible, for the company to be able to anticipate, in advance, whether a core competence which it has identified in its appraisal exercise, will stand up under this alteration to established behaviour.

The claim that structure follows strategy as propounded originally by Chandler in 1962 (28) is debunked by Mintzberg on the grounds that an internal self assessment of corporate capabilities is central to the traditional design school and since structure is a key component underscoring this exercise, then structure has a major role to play in determining strategy, by constraining and conditioning it as well as providing guidance. This implies that past structures cannot be blithely set to one side when embarking on a new strategy. Thus neither strategy or structure take precedence; they both support the organisation.

On a superficial level, Mintzberg is on less firm ground when critiquing the view that strategy needs to be explicitly articulated within an organisation. The arguments for so doing, prove to be persuasive: it allows for the strategy to be discussed and debated by the relevant executives, it helps to integrate the executives with a common purpose and it can boost morale. He accepts these arguments - providing the conditions facing the company are right. The most important of those being where the strategist is sure about the direction the company is going in, and has no doubts about the viability of that direction. However for this condition to exist, it assumes that the company is operating in an environment which exudes stability and unpredictability. Given that it is rare for any company or organisation to operate in such "friendly" conditions, Mintzberg argues that the explicit articulation of strategies in situations of turmoil can lead at best, to blinkers being placed on the thought processes which has the net effect of preventing the ability to think creatively, laterally or innovatively. Likewise the more clearly articulated the strategy, the more firmly embedded and interwoven it becomes into the company's stream of consciousness. This can lead to major problems at a later stage, when the company has to contemplate a change to its previously held beliefs. The danger of blindly articulating strategy is that it ignores the inescapable fact that strategies do not appear fully formulated overnight, they are part of a learning process and typically evolve gradually over time.

Mintzberg reserves his strongest criticism for the formulation - implementation dichotomy which is central to the design school's philosophy. He argues that this line of thinking broadly reflects traditional western thinking: that to act you must first know what you want to accomplish. In other words, think first, then do. This is evidenced in many different ways. For example in the field of military strategy (which provided many of the initial frameworks for subsequent business strategists), Feld (29) noted the sharp distinction drawn between the traditional officers in the rear, of the battle, who draw up the plans and direct their execution, and the front - line troops who are expected to carry out the plans given to them. This approach can be criticised because it explicitly suggests that the individuals who have no direct front - line experience have full knowledge and are able to devise plans which can anticipate the likely moves of the enemy, and that information provided by the front - line "foot soldiers" can trickle back to the grand strategists without any distortion or loss of accuracy or relevance.

Mintzberg argues forcefully that many contemporary western organisations have adopted the approach as outlined by Feld, and not necessarily for the better. Interestingly this has not been the case with many Asian companies. Ohmae (31), a seminal author in the area of strategy has castigated many western companies for creating a division from those at the top and the ordinary worker at the bottom. He quotes the example of an executive from a "blue - chip" company who in discussions with him, was very talkative and knowledgeable about his specialist area - pricing strategy and competitive cost analysis, but noticeably less cheerful when asked to comment on problems encountered in the area of poor production technology and procurement practices, and even more so when witnessed having discussions with factory floor workers. He notes that in sharp contrast:-

> *" Japanese top managers, having started out "where the rubber meets the road", never tire of reminding the employees that they, the workers, know the business best and that innovation and improvement* <u>*must*</u> *come from the* <u>*genba*</u> *(where the action is)"* (32)

It can be seen from this brief insight into Japanese management practices that there is no visible dichotomy created within the hierarchy of a company - between management and workers.

Mintzberg (33) identifies such behavioural patterns (where formulators implement and implementors formulate) as a situation where the organisation is in a *learning mode.* This, in his view is the major weakness of the design school: that by assuming that strategic learning somehow takes place in one head for a limited period of time and then stops, so that strategies can be articulated and implementation can begin, it denies processes that have often proved to be critical to the creation of novel and effective strategies.

Quinn (34) has taken on board this issue in an earlier study and concluded that the formal systems paradigm, as enunciated by the design school does not adequately characterise the way successful strategic processes operate in organisations. Rather, effective strategies tend to emerge from a series of "strategic subsystems", each of which attacks a specific strategic issue facing the company (e.g. an acquisition move or a product elimination exercise) in a disciplined way, but "which is blended incrementally and opportunistically into a cohesive pattern that becomes the company's strategy".

This opposing viewpoint reinforces the belief that a systematically planned strategy, based on a logical, sequential process, does not necessarily relate to the practical experiences of organisations. Both Quinn and Mintzberg have articulated a perception of strategy which suggest that more focus needs to be given to the qualitative, "softer", non - measurable issues which so often determine strategy in an organisation. Of course it is precisely because of the difficulties associated with measuring such variables, that such a view has incurred the opprobrium of many people who are more comfortable with the so called systematic approach to strategy.

A considerable portion of the preceding discussion has focused on the views of two opposing schools of thought: that which suggests a formalistic approach to strategy and one which advocates a more flexible, experiential approach. Before other related issues are examined, it is important to form a view as to the relative merits and demerits of each view. The approach as outlined by authors such as Andrews, Aaker, and Day have a number of positive outcomes to recommend them. It provides clear direction and guidance to a company and in so doing, presents a logical, sequential process which can be easily understood and adopted. It clearly adopts a prescriptive, normative approach. This implies that it reflects reality and as a consequence, represents the single best means of depicting strategy development. It is on this premise that serious questions can be asked.

This latter observation is taken up in a more recent article by Mintzberg (35) where he introduces the notion of *crafting* as opposed to *planning* strategy. This distinction creates the image of strategy being formulated and implemented in a fluid manner as a result of experience, knowledge of the industry, a level of psychological comfort with the issues to be addressed, and leading to a position where creative strategies evolve. This is in sharp contrast to the image of the chief executive or senior manager sitting in his or her office, poring over a "raft" of documentation, and developing a serious of steps and procedures to be implemented by others on schedule - thus epitomising the rational thinker.

It is submitted that these views have much to commend them. They present a picture which does not hide behind a cloak of superficiality. This latter point is evident with the rather simplistic tendency of much of the design school writers to portray strategy formulation and implementation as a series of sequential stages. This ignores the many imponderable factors which can influence such an exercise. Once again there is a strong argument which suggests that a contingency based approach is more effective and above all, a more realistic means of reflecting the situation.

Criticisms can be levelled at the work of Mintzberg and Quinn in that they articulate a view of strategy which suggests that somehow or other it consists of a tendency for company to stumble or muddle their way to a developed strategy, and that as a consequence it does not represent a coherent or logical means by which a strategy can be achieved. This however does not stand up under close scrutiny. On the contrary, it calls for a set of skills which mean that the so called strategist needs to be able to manage the complex set of patterns and inter - relationships which exist in the organisation and which ultimately shape strategy.

The research methods used by Mintzberg which have enabled him to arrive at his conclusions can be challenged on the basis that they were not drawn from large, representative samples. For instance, one of his early, seminal articles (36) was based on interviews with five chief executives. In short, this type of approach does not conform to the positivistic, deductive research paradigm which has been at the forefront of research design for a number of decades. However the suitability of such an approach can be seriously questioned if a deep understanding of the influencing factors and forces is not grasped initially. In other words, the deductive approach to research design will provide quantitative data for the researcher to analyse. It will also present the opportunity to generate statistics. However the psychological comfort which can be attained from large scale quantitative surveys is severely weakened if there exists only a superficial knowledge in the first place. Thus, while Mintzberg has sacrificed scale and volume in his research design, he has more than compensated for this by acquiring a much richer depth of knowledge and understanding about strategy development.

It can be concluded from this section of the chapter that it would be erroneous to dismiss one or each of these alternative philosophies as to how strategy develops in the organisation. As Mintzberg has demonstrated, such development can be either deliberate (reflecting the rational school) or emergent; depending on the particular mode of operations existing within the specific organisation. Certainly such an exercise has to be viewed as a learning process by which the company goes through an iterative, experimental process. In this respect strategy can be examined in the light of Davies's (37) definition which suggests that it is simply "a coherent pattern of actions to improve the organisation's long term competitiveness". This is very close to the approach as outlined by Mintzberg and views strategy as a *continuous improvement process*. This is very significant as it moves away from the notion that strategy development is solely about working through a serious of sequential stages. In the words of Davies:-

"strategy serves as the bridge that.........provides a means of access from the firm's current resources and capabilities to the future competitive reality expressed in its vision". (38)

Thus, the preceding discussion calls for a balance to be applied when examining strategy development. On the one hand recognising the benefits associated with a broad, prescriptive framework to help a company formulate and implement strategy, and on the other, a recognition that greater attention needs to be given to the requirement for a more flexible, experiential approach to planning, which takes account of the practical difficulties associated with operating a formalistic, rational framework.

4.3. STRATEGIC PLANNING CONCEPTS WITH RESPECT TO STRATEGY

This section examines what is meant by the term "strategic planning" and its influence on the overall task facing any company, irrespective of size: that of having to plan for the future, in an uncertain environment and with constraints operating on the resources available to it. The task of trying to gain an understanding of this term is not helped by the veritable "minefield" which exists in the form of the range of terms used by authors when writing and researching in the area of strategy and planning.

Greenley (39) makes a serious effort to provide some clarity by proposing a planning framework. He starts by presenting some discourse on the exact nature of planning, suggesting that most of the discussion in the literature, places the concept of planning in the context of the overall management function. Much of the current knowledge base relative to the management task emanates from the work of Henri Fayol (40). In his pioneering work in the late 1940's he observed that management is based on the following :-

* *Planning:*-Examining the future and drawing up a plan of action

* *Organising:*- Establishing a human and physical frame to enable the undertaking to achieve results.

* *Commanding:*- Activating the organisation

* *Co - ordination:*- Drawing together all activity and effort.

* *Controlling:-* Seeing that everything occurs in conformity with establishing rules and expressed command.

Fayol's work has subsequently become (either consciously or sub consciously) the basic framework for most textbooks and articles on management. Much of this work has followed the principle of "variations around a central theme". A good example of this is the work of Hussey (41) who classifies the tasks of management into three areas:-

* *Deterministic:-* Those tasks concerned with the creative, planning and arranging functions, including the determination of objectives, policies, procedures and organisational structures.

* *Motivational:-* Tasks which motivate the organisation, including communication, leadership and personal development.

* *Directing:-* Implementation, co - ordination and control.

In relation to explaining the nature of planning, as distinct from the overall task of management, Steiner (42) identifies a number of different roles that planning can fulfil in a company. They are :-

* *Generic planning:-* which systematically examines future alternatives and decisions are made, based upon these alternatives.

* *Planning as a process:-* starting with objectives, defining strategy and policies to achieve objectives, prescribing sub - plans in detail, and establishing an organisation to implement the plans.

* *Planning as a philosophy:-* holding the view that the company creates patterns of logic and managerial attitudes for a review of performance.

* *Planning as an integrating framework:-* placing the emphasis on a comprehensive and uniform programme of plans for the entire organisation, over a long period of time.

This approach provides a useful attempt towards an understanding of planning insofar as it places it in a multidimensional context: representing it as both a philosophy which an organisation should embrace and as a framework for helping it to achieve its predetermined goals.

Greenley (43) identifies a number of features of planning which are developed in much of the literature on this subject. . He observes that the main thrust of the nature of planning has been relative to its role as a function of management. In particular the discussion focuses on its relationship to current activities and decisions about future actions which affect the company. The need to create a working environment which has committed, motivated personnel is also stressed. This in turn helps to ensure that planning activities can be developed and implemented in an atmosphere of understanding and co - operation. As a corollary, planning can help to create motivated personnel. Virtually all of this discussion stresses the "systematic and disciplined approach to the manager's role within the company". This is a view which has received much support from both practitioners and academics. It also has engendered much debate about the practicality of practising managers being in a position to work in such an organised way.

4.4. LEVELS OF PLANNING WITHIN THE FIRM: STRATEGIC VERSUS OPERATIONAL

Thus far the discussion had focused on the nature of planning relative to the overall management task. It is also necessary to focus on levels or categories of planning which exist in the organisation. This is deemed to be important because such discussion will help to clarify how the decision - making process operates and in particular how they can be implemented.

Hofer and Schendel (44) suggests that three levels of strategy (sic) can be identified:-

1. *Corporate strategy* - the level at which decisions are made about the range of businesses in which the organisation will compete.

2. *Business strategy* - the level which concentrates specifically on the manner in which the company is to compete with respect to each business, where the latter is situation specific to industries and product - market scopes.

3. *Functional strategy* - the level which concentrates on maximising the resource productivity of each of the functions, such as marketing and manufacturing.

This approach has the benefit of being conceptually simple to comprehend. However it could equally be argued that it raises more questions about the nature of strategic planning than it answers. Specifically, it fails to adequately explain the many conflicting ways in which companies organise their hierarchical structures to allow for such an approach to be implemented. Greenley and Aaby (45) pinpoint a lack of consensus on definitions and terminology within the literature; resulting in a myriad of labels such as organisational strategy, generic strategy, SBU strategy, strategic management, strategic planning, strategic marketing, master / grand strategy, operational strategy, composite strategy, root strategy, strategic posture and marketing strategy. Faced with such a range of alternatives, one could be excused for pleading a high degree of confusion. To compound the problem, authors such as Jain (46) provide a persuasive argument to suggest that there is a great degree of overlap between the marketing literature on strategy and the general literature on strategic management. This is an issue which is taken up in a later article by Slater and Aaby (47).

Within the range of terms identified in the preceding paragraph, one clear isue emerges. This refers to the need to distinguish between the terms *"strategic"* and *"operational"* respectively. Thankfully this is an aspect of the literature which has been clarified reasonably clearly. For instance Ackoff (48) notes that strategic planning can be differentiated from other aspects of planning in that its impact has an *enduring* effect on the organisation, being broad issues which relate to the longer term.

Because of the substantive nature of such decisions, allied to their impact on resources and the concomitant requirement for financial outlay, writers such as Denning (49) and Higgins (50) place the responsibility for such decision - making firmly in the hands of top management as opposed to middle ranging, functional managers.

Taylor (51) posits the view that strategic planning not only allows the company to tackle adverse situations which may arise from general environmental conditions: it also allows the company to exploit opportunities which also appear. If the former view is accepted, it can suggest that strategic planning is nothing more than "fire fighting" or staving off problems which could not be predicted in advance. This is not what the basic nature of strategic planning is about. Rather, it allows the firm to identify and select opportunities which it can pursue; the actual planning process helping to dictate the determination of the desired direction in which the firm wishes to go.

Greenley (52) identifies a number of specific features which can be associated with strategic planning. These are outlined in table 4.1.

TABLE 4.1. The Nature of Strategic Planning

Strategic planning is concerned with:-
- **Exploiting opportunities**
- **The future shape, size and posture of the firm**
- **An examination of the firm as a whole**
- **Assessing the effects of environmental variables**
- **The responsibility of top management**
- **Developing overall objectives and strategy**
- **Enduring consequences for the firm's future**

Thus it can be seen that strategic planning very clearly takes a long term perspective of the firm's future: specifically addressing the related questions of what markets and products it should be addressing.

The strategic planning process is represented in this case as a detailed exercise which has the overriding task of bridging the strategic gap (presuming that no company irrespective of size, can hope to be in a position to automatically meet the changes necessary to drive change) between a company's desired position i.e. where it wishes to be, vis - a vis its current position i.e. where it is at present.

An extensive review of the literature reveals a wide discrepancy as to how authors define the time frame for strategic planning. This can range from a three year focus to anything up to twenty years. Any discussion on the efficacy of pinpointing a suitable time frame has to placed in historical context. For instance, Carpenter (53) suggests that the 1960's were characterised by an emphasis on long range planning which was perceived as a fancy term for five year forecasts and financial projections and objectives. Whereas the 1970's led to the emergence of strategy consultancies which developed a series of concepts that led to a move away from simple extrapolation of figures and towards issues of business economics and competitive interaction. In the 1980's there was a definite swing away from the "designer " approaches to strategy development as promulgated by the Boston Consulting Group, the Arthur D. Little Consultancy firm and many others. Stubbart (54) argues strongly that the "increasingly volatile, complex and interactable environments" facing long - range planners, allied to an accelerating rate of social, political, technological and economic change, have rendered the conventional strategic planning exercise (which is more suited to incremental change as opposed to convulsive change) "futile in such conditions". By implication therefore, the longer the time frame used by companies, the greater the likelihood that errors and inaccuracies, at best, will occur. In the worst possible scenario, it can be argued that a company can be guided to a course of action which will lead to extinction.

By contrast, operational planning concerns itself with planning the existing areas of business and not directly concerning itself with the broad changes in direction which is reflective of strategic planning. The typical features of operational planning as identified by Greenley (55) are identified in table 4.2.

TABLE 4.2. The Nature of Operational Planning

Operational planning is concerned with :

- **projecting current operations into the future**
- **projections into both the long and short run**
- **labelling short - range operational planning as tactical planning**
- **manufacturing and marketing current products**
- **deploying the current base of resources**
- **modifications of business functions only**
- **the responsibility of functional managers.**

The various features of operational planning as identified by Greenley is relevant because it does not suggest that it only concerns itself with the short - term. Rather, it reflects the view that looking into the long term future not only necessitates the development of strategic plans, but recognises that in order for such plans to be implemented, it is dependent upon the business functions within the company. This is very much within the domain of operational planning.

4.5. THE MARKETING / STRATEGY INTERRELATIONSHIP

The preceding discussion has attempted to clarify the generic term " *strategic planning*". It identified, in the process, that a vast number of terms exist in the literature which does not help to make it easy to achieve such clarity.

However further clarification does need to be made. This is because of the tendency of many writers to use terms such as *strategic marketing* (56) and *strategic market planning* (57). As a consequence there is a need to examine the precise relationship between marketing strategy and strategic management. In particular this section will address the question as to whether major differences exits and if this is the case, then what the resulting implications are. As has been already indicated in the earlier discussion, it is clear that a lack of consensus exists on the various definitions which appear in the literature. Wind and Robertson (58) note that this presents difficulties in that "sound and consistent definitions are needed in order to advance research". If their view is accepted, then it is clear that there is little evidence from the literature to suggest that this is the case. Gardner and Thomas (59) in their review of the emergent themes in relation the strategic marketing, highlight the fact that while it is important to separate marketing strategy from corporate strategy, it is a difficult exercise.

Before examining the precise nature of the relationship between marketing strategy and strategic planning, it is a useful exercise initially to examine the contributions of marketing to strategic management and likewise to explain what is meant by the terms "marketing" and "marketing strategy".

4.5.1. MARKETING DEFINED

There have been numerous attempts to define and place marketing in context. A random selection is presented for consideration. While it is necessary to examine what is meant by the marketing concept, it is deemed to be more appropriate to consider the misconceptions which people have about the term and, more fundamentally, why companies have failed to implement much of what has been recommended in the literature. The marketing concept has been described as :-

> *" A corporate state of mind that insists on the integration and co - ordination of all of the marketing functions, which, in turn, are welded with other business functions, for the basic objective of producing maximum long - range corporate profits".* (60)
>
> *"The marketing concept means that an organisation aims all its efforts at satisfying its customers at a profit".* (61)

" The marketing concept.....calls for most of the effort to be spent on discovering the wants of a target audience and then creating the goods and services to satisfy them". (62)

In addition to these definitions, a reprise of the works of Drucker (63) and Levitt (64) identifies the purpose of business as that of creating and retaining satisfied customers. In achieving this position, the early work of Keith (65) can be identified as one of the most effective attempts to explain the marketing concept. In his article he used the Pilbury company, as a case study, to trace the managerial phases through which a company must go through in order to arrive at what he calls the marketing control phase. He suggests that a company moves from the initial production philosophy (which places the emphasis on the notion of "selling what we make"), to a sales orientation which stresses the need for a large amount of promotional and selling effort, through to the marketing philosophy which revolves around the notion of "making what we can sell". This approach as articulated by Keith as far back as 1960 has formed the basis for most opening chapters in introductory marketing textbooks. By implication it is prescriptive in nature, suggesting that it is the most appropriate avenue to success for every company. It clearly identifies both the production and sales orientations as being inferior to the marketing orientation.

It would be wrong to assume that the marketing concept has been embraced avidly by everyone. For instance Bennett and Cooper (66) have argued that American companies which have claimed to adopt marketing, have diverted attention away from a long - term emphasis on product development and quality manufacturing to a short - term emphasis on tactical areas such as advertising selling and sales promotions. As a consequence, product value has suffered. They cited the cases of the American automobile and television industries - once dominated by local companies. but now dominated by imports. Their thesis suggests that American companies have become seduced by the need to focus on market research to generate new products as opposed to basing strategy on the creative insights of the R & D personnel. As a consequence they argue that the consumer is only able to provide feedback on products with which they are familiar with - leading to "new, improved" products, in contrast to radical innovative products. They perceive the "technology- push" approach leads to truly new products of superior quality and product value. They are supported in this view by Hayes and Abernathy (67). Thus this notion of the product concept begins with the ingenuity and inventiveness of the scientists and engineers, not the needs and wants of the consumers. This alternative view would appear to be at odds with the established definitions of the marketing concept.

McGee and Spiro (68) present a more balanced assessment and note that such criticisms do not contradict the basic tenets of the concept itself. They argue that the product concept is "synonomous with customer satisfaction as described by the marketing philosophy". They support this stance by noting that the product concept is but one implementation of the marketing concept. While in some product categories, customers do demand high quality, innovative products, not all categories require technical excellence, or indeed should be positioned as premium goods within a particular market sector. This is undoubtedly a more balanced, pragmatic position. While scientists (under the technology - push theory) may well generate ideas which subsequently translate into successful products, there have been many instances where this has not been the case. This latter point reiterates a tendency of many writers on the marketing concept to adopt an unduly simplistic, prescriptive approach which is then applied to all situations, irrespective of the idiosyncrasies and nuances of particular market situations. This extends to the view that markets do exist where the production philosophy, so derisively dismissed by many advocates of the marketing concept, can be an appropriate strategy to pursue.

In the mid 1980's King (69) wrote an influential article portraying his views as to the performance of marketing within firms in the United Kingdom. He identified a number of false areas of marketing being practised by managers and which have been misunderstood as marketing. This has led to British companies under - performing He suggests four such routes to failure:-

1. Thrust Marketing : - this reflects a view which focuses almost exclusively on price and price - cutting as the main method for achieving sales. It thus makes the erroneous assumption that the consumer is looking for cheapness: it fails because the consumer is really looking for value.

2. Marketing Department Marketing : - this practice emerged when companies recognised that selling and marketing were not the same and therefore two departments were created. This encouraged marketers to develop their own arcane practices and jargon, bolted on to the typical company bureaucratic structure with all its hierarchies and departmental boundaries.

3. Accountants Marketing :- in this particular case, companies have stressed the bottom line figure on the profit and loss statement. This approach, of necessity, has focused on short - term consideration rather than the longer term .

4. Formula Marketing :- this approach holds the view that control is more important than innovation. This is reflected in the tendency for companies to recruit executives from MBA schools. People from this background are taught to approach problems in the same way; typically relying on excessive number crunching and analysis. They also tend to move between jobs and companies without spending the necessary time to gained the requisite competence in any given area. This approach encourage safe, "middle - of - the - road" brands. It leaves such products open to attack from competitors on a number of fronts however.

The four false marketing practices outlined above appear to make sense from an intuitive point of view. It is easy to cite countless examples of companies who have fallen into one, some or all of those traps. King succeeds in making people think about the true role of marketing and its basic function in the company. He is on less sure ground when it comes to the recommendations for improving marketing practice. While it is difficult to disagree with his suggestions: that a) a company should start with the company, b) adopt a longer term perspective, c) use all the company resources and d) innovate, it is less clear as to how such thoughts might be implemented in such organisations.

The views of Bennett and Cooper provide some telling evidence as to why marketing has not played as proactive a role in strategic planning as many advocates would desire.

Schnaars (70) puts forward the view that the greatest gulf between marketers and business strategists exists in the respective attitudes to the *competitor*. Historically much of what has been written on strategic planning has considered the competitive effects. By contrast he notes that the traditional marketing paradigms have focused on the consumer, not the competition.

The mention of competition and the concomitant need to study competitive manoeuvres in essence identifies the link between the marketing concept and marketing strategy. The seminal work of Michael Porter in the 1980's, most notably his book Competitive Strategy (71) moved competition to the forefront of strategic thinking. Although his background is in the area of industrial economics and his work has been directed towards the mainstream business strategists, he has succeeded in concentrating the minds of marketers on the role of the competition when designing marketing strategy.

Schaars (72) makes the valid observation that marketing strategy requires a balance between two separate groups - consumers and competitors. Historically, marketers and business strategists have focused on only a single orientation. The requisite balancing act is presented in figure 4.1.

FIGURE 4.1. ***Consumer versus Competitor Orientation***

Consumer Orientation	*Consumer / Competition Balance*	*Competitor Orientation*
Examples		
Marketing and Consumer Behaviour	*Competitive Marketing Strategy*	*Corporate Strategy*

Schnaar's views have some degree of substance in that they suggest that the marketing concept by itself, has proved to be an incomplete view of business. He can be challenged however on the claim that many of the writers have ignored competition. It is more accurate to suggest that they have downplayed the influence of competition. It is less accurate, indeed simplistic, to suggest that the competitive factor has been ignored. A perusal of many standard textbooks on marketing provides evidence that the competitive factor is given attention. A good example is that of Murray's book (75) which depicts the marketing function as "managing market needs with company resources in a competitive environment to produce products or services that is needed at the appropriate time, price and location, and which is clearly communicated to the target market."

4.6. MARKETING STRATEGY EXPLAINED

Greenley and Aaby (74) provide a synthesis of the various approaches used by writers in the literature to explain the concept of marketing strategy. They present five differing schools of thought as to what makes up marketing strategy. These are outlined in table 4.3. Their categorisation of the various approaches serves the highlight the incremental manner in which marketing strategy has begun to overlap with much of the strategic management literature; once again highlighting the difficulties of differentiating between the various terms.

TABLE 4.3. *EXPLANATIONS OF MARKETING STRATEGY*

FIRST : THE MARKETING MIX SCHOOL **How a company organises the elements of the marketing mix**
SECOND: THE TARGETING PLUS MIX SCHOOL **Targeting and positioning in certain segments of the market and how the elements of the mix are used in each segment**
THIRD: THE SEMANTICS SCHOOL **The establishment of marketing objectives, selecting target market segments and developing a mix for each segment**
FOURTH: THE HIERARCHY SCHOOL **The utilisation of marketing through the management hierarchy at the corporate, business and functional levels**
FIFTH: THE STRATEGIC MANAGEMENT SCHOOL **The establishment of product - market spaces, sustainable competitive advantage and the commitment of resources**

The *Marketing Mix School* reflects the traditional way of explaining marketing strategy. This approach is best summed up in the work of Boyd and Larreche (75) who put forward three levels of strategies by which the elements of the marketing mix are organised:-

* marketing strategies - the generalised statement which applies to the marketing mix across a set of product - market entries. It is company specific and stresses the interrelation of those elements related to the product, its price, the distribution system and the communications system.

* marketing element strategies - this adopts a narrower focus, emphasising a specific element of the marketing mix such as the particular type of product strategy

(innovative versus follower), pricing strategy (penetration versus skimming) or distribution strategy (selective versus exclusive versus intensive)

* product - market entry strategies - this kind of strategy statement sets forth guidelines pertaining to a specific product - market relationship. It bears a close relationship to corporate strategy, because it focuses on the general product - market equation and thus involves decision - making in the areas of resource allocation, and investment.

The second attempt at explanation; *the Targeting Plus Mix School,* defines marketing strategy as the integration of market choice plus a marketing mix configuration choice. For example popular textbooks such as McCarthy (76) and McCarthy and Perreault (77) use the term "target market" extensively, to highlight how a firm will establish market share in any given segment. A related term, "positioning", has also featured prominently in the works of Kotler (78), where he uses the concept to establish leadership for companies in selected markets. In a similar vein, Greenley uses the term in the context of the decision as to which market segment or segments to participate in.

The *Semantics School* is best represented by the works of Cravens (79) and Cravens and Woodruff (80) where the objectives are included as part of marketing strategy. Greenley and Aaby (81) argue that this integration of marketing objectives with strategies and policies is in contrast to much of the traditional management literature which separate means from ends (strategy from objectives). Cravens (82) states that marketing strategy consists of a target market strategy, objectives and a marketing programme positioning strategy. To add to the confusion, another strategy label is introduced, where positioning is used in the context of formulating particular activities as opposed to positioning the company in the market - place (as was the case with the previous school)

The Hierarchy School is based on relating marketing to different levels in the organisation. This is best evidenced in the writings of Jain (83 and 84) where he uses the term corporate marketing, strategic marketing and marketing management almost synonomously. He suggests that marketing strategy takes place at the business unit level and that a number of inputs from the corporation, customers and competition shape the resultant strategy.

Aaby and McGann (85) take up this theme and argue that marketing has a role to play throughout the management hierarchy. They identify three levels :-

* corporate marketing strategy - the mix elements are applicable across the whole company, being part of the navigational role of the company

* business marketing strategy - the sharing of certain mix elements, such as channels and sales force, where the implementation for each SBU is the same

* functional marketing strategy - a specific mix unique to each business, formulated to address the specific needs of served segments and / or markets

As a result, Aaby and McCann define marketing strategy as:

".........an activity that organises marketing mix efforts and resources relative to strategic references, such that the resource allocation, in the long run, enhances the value of the firm to all stakeholder groups." (86)

The final group as identified by Greenley and Aaby, the *Strategic Management School,* argues that much of the confusion in the use of terminology springs from the fact that strategy is used as either a process or the output of that process. In attempting to explain the term "marketing strategy", Wensley (87) concentrates on the output factor, calling this the marketing strategy statement. This focuses on three major components :

* the product - market space - the competitive arena within which commercial sellers compete against each other for customers

* sustainable competitive advantage - working on the assumption that only those firms which have or are capable of developing a sustainable competitive advantage will realise potential profits and thereby maintain and hopefully improve their competitive position.

* commitment of resources - typically a firm has to invest in specific assets, if they wish to build a sustainable advantage in the market - place.

This synthesis by Greenley and Aaby raises more questions than answers. For instance it is debatable whether the five separate "schools" identified in their analysis are as clearly separated as they would wish the reader to believe. The hierarchical effect - whereby marketing is perceived to operate on a number of different levels (from functional to corporate) would appear to exist to a great extent in each of the categories. The only discernible difference which can be detected is the extent to which a particular school overtly advocates the fact that marketing strategy equates with strategic marketing and that both terms are used synonomously.

They further identify three contributions which have been put forward in the literature to explain strategic marketing. The first approach posits the view that strategic marketing represents marketing's contributions to strategic management. As a consequence of this observation, all other aspects of marketing are therefore operational, including marketing strategy. The seminal influence behind this thinking is the work of Drucker (88) where he advocates the view that marketing is so basic that it cannot be separated from the total work of the company. This is reinforced in the later work of Webster (89) where he suggests that "marketing is not something that can be delegated to a small group of managers while the rest of the organisation goes about its business. Rather it is the whole business as seen from the customer's viewpoint". Likewise, Bonoma (90) has argued that marketing is "too important to be left in the hands of marketers".

This split in the role of marketing in strategic management and operational management is a difficult issue to be definitive about. Schendel (91) argues that the majority of marketing work is operational although its role in strategy - making is seen to be essential.

Brownlie (92) proffers the view that instead of looking for clear demarcations between strategic management and marketing management, it is more appropriate to consider areas of common ground or shared responsibilities. While much of the work of the marketing manager is concerned with operational issues, he argues that the emergence of marketing as a business philosophy has meant that increasingly, senior marketing personnel are contributing to formulation of long range plans and strategies.

The second category - the Strategic Business Unit (SBU) School argue that strategic marketing is only concerned with establishing strategy at SBU level and not at the corporate or operational level. The prime advocate of this line of argument is Jain (93) who observes that " practice of strategic marketing seeks first to examine each product

/ market before determining its appropriate role. Further, different product / markets are synergistically related to maximise total marketing effort". This appears to be a clear-cut delineation, although the tendency to relate it to the strategic business unit level is unduly narrow and reflective of the "American " perspective of how a business operates. Gardner and Thomas (94) dispense with this distinction while putting forward the same view as Jain. However they introduce two more labels in their discussion : marketing positions and programs, thus adding further to the confusion over terminology.

The third contribution - the Interchangeable School, stems from an influential article by Wind and Robertson (95) in the early 1980's, where they use the terms strategic marketing and marketing strategy interchangeably. However while this is the case, a closer reading of this article indicates that these authors support the view that marketing management "is most fundamentally concerned with the design of the marketing program (sic) or mix" whereas "marketing strategy forces explicitly on the quest for long run competitive and consumer advantage".

Greenley and Aaby's work has only served to further add to the confusion surrounding the use and application of these and other terms. However it is submitted that it is both pragmatic and logical to use these terms interchangeably, provided a number of caveats are entered into.

Firstly it is prudent to consider the specific category level. For example are we talking at the corporate, strategic business unit or purely functional level ? Here, a delineation can be made, as many of the marketing activities most commonly associated with the elements of the marketing mix, would clearly be undertaken at a functional, departmental level.

Secondly, much of the discussion and examination contained in the literature fails to address the differences which can occur in both the interpretation and utilisation of terms such as marketing strategy and strategic marketing as a result of company size and whether or not a company is a single or a multi - business operation. This is partly due to the background of the academics responsible for promulgating the alternative viewpoints and also due to the focus which is given to the large enterprise.

It can be seen from the preceding analysis of the literature that marketing has a major role to play in the strategic planning process. Wind (96) has identified the development of product and marker opportunities and the preparation of a detailed marketing plan for such ventures as being pre-eminent in this regard. He also suggests that the marketing function acts as a motivator of change within the company and contributes a range of analytical tools and concepts which can aid the strategic planning process. This latter observation of course presupposes that marketing, as a function, is accepted unequivocally within the ranks of senior management and that such recommendations which emanate from the marketing personnel will be acted upon and implemented within the realms of the overall corporate plan. It is submitted that this is a rather simplistic point of view which ignores the inter - functional rivalries and prejudices which have been discussed in greater detail earlier in this chapter. It is one thing to advocate a range of functions which marketing should be expected to perform; it is quite something else to expect them to be implemented.

It is further argued that there is a great likelihood that much of the preceding discussion needs to be re - evaluated in a number of different contexts. Firstly discussion needs to take place in the context of the small, growing enterprise, which after all is the primary target for investigation in this study. Likewise it is also necessary to present an examination of the interface between marketing planning and strategic planning.

4.7. MARKETING : PLANNING AND THE SMALL FIRM

The characteristics of the small firm, together with the contribution which it has made to the Irish economy have been considered in great detail in earlier chapters. In addition the entrepreneur and the growth patterns of the evolving firm have also been examined. One significant area which has not been addressed so far (and which is central to the development of the research methodology for the study) is the way in which the small, growing firm utilises and adopts overall business planning and in particular how it uses marketing and marketing planning within such a framework (if one exists in the first place).

The analysis of the characteristics of small enterprises indicated a number of areas in which owner - managers differ from professional management in larger companies. Carson and Cromie (97) and the earlier work of Cohn and Lindbore (98) note that the former tend to adopt a negative attitude to marketing; perceiving it as a cost to the business (in contrast to an investment), treat distribution and selling as uncontrollable problems and perhaps more significantly, harbour rather cynical views about whether or not general marketing rules and principles can be applied in all cases. By contrast it would appear that they believe each case to be so specific and idiosyncratic, that the latter practice would be dangerous.

More pragmatic considerations also ensure that a different marketing perspective prevails in the smaller enterprise. For example, most owner - managers have (by the very nature of the operation allied, to the limited financial resources) to be experts in all matters pertaining to the running of the business; ranging from telephonist to accountant to salesperson. Schollhammer and Kuriloff (99) suggest that as a consequence, the smaller firms adopt a much more pragmatic approach to the use of marketing techniques and tools as an aid to problem - solving. Given the limited resources, expertise and limited impact (due to fewer orders, less customers and fewer employees) it is not surprising therefore that Carson and Cromie (100) argues that the:-

"small firms' marketing is shaped by the peculiarities of the small firm and may well be constrained by them". (p36)

4.8. THEORETICAL PERSPECTIVES ON THE MARKETING PLANNING PROCESS

Piercy and Giles (101) put forward a conventional model of the strategic marketing process which is appropriate because it attempts to delineate the marketing plan from corporate goals and the marketing audit. This is represented in table 4.

This approach is typical of the broad outlines presented by authors such as McDonald (102), Greenley (103) and Hopkins (104) although one might seriously quibble with the label "marketing audit" being attached to objectives, strategies and tactics. It is commonly accepted that a marketing audit refers to the appraisal and evaluation of existing strategies; not the preparation and implementation of them.

Cousins (105) notes that this sequential, logical model is closely derived from the strategic planning model and puts forward a textbook version of the typical contents of a marketing plan. This is presented in table 4.4.

TABLE 4.4. THE STRATEGIC PLANNING PROCESS

CORPORATE MISSION

CORPORATE GOALS

(GOALS)

MARKETING ANALYSIS

COMPETITIVE COMPARISON

INTERNAL ANALYSIS

ASSUMPTIONS

SWOT ANALYSIS

(MARKETING PLAN)

OBJECTIVES

STRATEGIES AND TACTICS

EVALUATION

MEASUREMENT AND CONTROL

(MARKETING AUDIT)

(Source: Piercy, Nigel and Giles, William (1989) "The Logic of being Illogical in Strategic Marketing Planning". *Journal of Marketing Management.* 5. 1 p22.

TABLE 4.5. THE TEXTBOOK CONTENTS OF A MARKETING PLAN

The Textbook Contents of a Marketing Plan

	Section	Purpose
1.	Executive Summary	A brief overview for management skimming
2.	Current Marketing Situation	Background data on the market, product, competition, distribution and macro environment
3.	Opportunity and Issue Analysis	The main strengths / weaknesses, opportunities and threats, and issues facing the product that the plan must deal with
4.	Objectives	The goals in sales volume, market share and profit
5.	Marketing Strategies	The broad marketing approach intended to meet the plan's objective
6. it	Action programs (sic)	**What** will be done? **Who** will do it? **When** will be done? and **How** much will it cost?
7.	Projected Profit and Loss Statement	The expected financial payoff from the plan.
8.	Controls	How will the plan be monitored?

Source: Adopted from Kotler 1988 in Cousins p36.

She further suggests that the typical process model shows marketing department inputs leading to the strategic planning analysis which determines business unit missions or objectives. These in turn form the main objectives for the marketing plans which are then evaluated and executed and, eventually, fed back into the process by marketing department inputs into the strategic plan. This is represented in table 4.6.

TABLE 4.6. **RELATIONSHIP BETWEEN MARKETING AND STRATEGIC PLANNING**

The Textbook Theory of the Relationship Between Marketing and Strategic Planning

Marketing Department		**Strategic Planning Department**	
1.	Marketing Department Inputs	2.	Strategic Planning Analysis
4.	Marketing Plans	3.	Business Unit Missions
5.	Marketing Execution	6.	Results Evaluation

This model shows the inputs to the process divided according to their department of origin

Source: Kotler 1988, p67

Following the framework proposed in table five, Cousins argues that the theory of marketing management claims that marketing planning is of central importance, citing Kotler(106), who identifies the following activities as accruing from such an exercise:-

* marketing strategy development
* marketing objective setting
* action plans
* a budget and control system
* integration of the business functions

4.8.1. MARKETING PLANNING : THE BENEFITS

The benefits which emerge from engaging in marketing planning are well documented. For instance Lovelock and Weinberg (107) identify a number of crucial areas which can improve the marketing performance of an organisation:-

* Co - ordinating the activities of many individuals in the organisation whose actions are related over time

* Setting a timetable

* Providing for better communication

* Identifying future developments and trends in advance

* Forcing executives to think through the actions they would take if certain events occurred

* Focusing efforts

* Acting as a basis for a control system

* Maintaining organisational integrity - thus preventing a series of ad hoc decisions from being made

McDonald (108) and Carson and Cromie (109) crystallise the benefits which accrue, by noting that above all else, the process of marketing planning provides an environment whereby management thinking can be clarified and where a sense of purpose and direction is provided to both marketing executives and to managers from other functions from within the organisation. Earlier writers such as Boyd and Massey (110) identify further positive considerations such as the probability that there will be a reduction in conflicts between individuals which could result in a subordination of the goals of the company to those of the individual. Terpstra (111) identifies some pragmatic benefits including; the ability of management to think ahead systematically, achieving a better balance between available corporate resources and market opportunities, and above all else, providing a unifying framework for a continuing review of operations.

The foregoing discussion tends to create the impression that the benefits are so clear and unambiguous that there can be very little doubt that companies would adopt the practice of preparing and implementing marketing plans without any equivocation. However this impression would be an incorrect one and certainly is not supported by any of the empirical studies which have attempted to investigate the practice of marketing planning within organisations. Thus, the actual situation is something of a paradox. As Leppard and McDonald note (112), "there is a body of evidence to suggest that there are some very real and worthwhile benefits to be gained from marketing planning. On the other hand, very few British companies appear to invest in this process". (p214).

4.8.2. MARKETING PLANNING : THE EVIDENCE

Much of the empirical research into marketing planning practices has been undertaken by Greenley (113, 114, 115). These four surveys undertaken in the early part of the 1980's covered a total of 240 companies, of which 190 were manufacturing and 50 belonged to the services sector. They encompassed companies which achieved a sales turnover ranging from under £500,000 to £100 million and spanned companies which employed from under 50 people to those which employed over 5000. The profile of the respondents is given in table 1. For each of the four surveys, a random sample was selected from the Kompass Register, with surveys 1, 2 and 4 being based on manufacturing companies, while sample 3 was based upon service companies. Surveys 1 and 3 utilised the same postal questionnaire, whereas survey 2 involved personal interviews with senior marketing personnel and a restructured questionnaire was accordingly designed. Survey 4 also utilised a postal questionnaire. In all cases the request for a response was directed to the chief executive responsible for marketing, or to the managing director where such responsibility was not clearly defined.

The most interesting findings from the analysis of the four studies revealed that only between 31 and 48% of companies prepare their strategic plan before the marketing plan to facilitate the role of the former. In addition, although 71% of companies in survey 4 claimed that the strategic plan affects the marketing plan, only 12% explained the role of the strategic plan as giving overall direction, while a further 35% explained only partial utilisation of such a relationship. Finally, although 84% claimed that their marketing plan provides inputs to the strategic plan, only 43% were able to explain the nature of these inputs relative to the role of each form of planning.

Greenly arrives at the overall conclusion that these results are largely inconsistent with the prescriptive approaches to planning that firms are urged to follow in the literature. He suggests that this is because the literature was of little help to these companies, or that the executives were either unable or unwilling to follow such prescriptive approaches.

TABLE 4.7. RESPONDENT PROFILE BY PRODUCT TYPE AND RESPONSE RATE

Respondent Profile by Product Type and Response Rate

Product Classification	Survey 1 (N = 80)	Survey 2 (N = 40)	Survey 3 (N = 50)	Survey 4 (N = 70)
Industrial Products	73	68	0	66
Consumer Products	27	32	0	34
Services	0	0	100	0

Figures are given in percentages

While the overall results suggest that companies do not practice what is preached at them, the methodology employed, with the possible exception of the personal interviews utilised in survey 2, does not allow for probing the respondents as to the rationale and logic underpinning such behaviour. On a more positive note, it does have to be acknowledged that Greenley's research did represent one of the few empirical attempts in this area. His findings are also supported by McDonald (116) whose research revealed that as few as 10% of companies actually use what might be called a comprehensive marketing plan.

It can be stated that these earlier studies "scratched the surface" in terms of providing an understanding or insight into the behavioural patterns exhibited by companies with regard to marketing planning. This situation is improved upon in relation to later studies where the focus has been on carrying out an investigation of the managerial and behavioural issues related to marketing planning. In a later article, Greenley and Bayus (117) present a useful synthesis of the empirical studies in this area. They are presented in table 4.8

TABLE 4.8. OUTLINE OF PREVIOUS RESEARCH IN THE AREA

Study	Country	Focus	Outline of Results
Buzzel & Wierssma (1981)	USA	SP	Limited use of formal planning methods
McColl - Kennedy et al (1989)	Australia	MP	Awareness and usage of methods - low
Greenley (1985)	UK	MP	Only 24% use portfolio analysis ; half use PLC analysis
Haspeslagh (1982)	USA	SP	Only 45% use portfolio analysis regularly
Hopkins (1981)	USA	MP	A quarter use portfolio analysis; only 13% use PLC analysis
Hooley et al (1984)	UK	MP	Half use SWOT analysis, one third use PLC; a few use portfolio, PIMS, perceptual mapping and conjoint analysis
Reid and Hinkley (1989)	UK / Hong Kong	SP	Little awareness of portfolio and PLC analysis, and PIMS
Ross and Silveerblatt (1987)	USA		Half use portfolio regularly: a quarter use PIMS
Verhage and Waarts (1988)	Netherlands	MP	15% use portfolio, 27% - PLC, 62% use SWOT
Wittink and Cattlin (1989)	USA	MP	Limited use of conjoint analysis
Wood and LaForge (1986)	USA	SP	67% use portfolio analysis

MP = Marketing Planning and SP =Strategic Planning

By way of explanation, Greenley and Bayus note that their review of the literature failed to identify any empirical studies in the literature which address decision making within marketing planning. They defines marketing planning in this context as being a stage of overall planning (which is generally perceived as being subservient to the higher levels of corporate planning, as discussed earlier in this chapter). The studies therefore which are highlighted in exhibit AAA are of a fragmented nature, reflecting research into both strategic planning and marketing planning areas and concentrating on only two or three decision - making methods in each case. Because of this degree of fragmentation, it is difficult to arrive at any significant conclusions, beyond the observation that there is a very low level of utilisation of methods such as the product life cycle concept, portfolio analysis and conjoint analysis. However it is a moot point as to whether the adoption of a technique such as conjoint analysis has much to do with the practicalities of marketing planning.

In order to redress this lack of focus on decision making within the marketing planning process, Greenley and Bayus undertook a mail questionnaire which was sent to members of the American Marketing Association and the Chartered Marketing Institute. Both surveys generated a response rate of 18% and 11 %, respectively. Four specified marketing planning decisions were identified in the literature: pricing products, setting advertising budgets, launching new products and eliminating existing products. The results showed that few of the companies which were covered in the survey, perceived that they are effective in making such decisions (on a scale from 1 - 7, 1 = not effective and 7 = very effective), the mean was 4.5. Little differences were identified between American and British companies. Relatively few companies appeared to utilise the decision making methods which are often prescribed in the literature. It has to be acknowledged that the validity such surveys have to be seriously questioned, given the extremely low resposne rates achieved.

Yet again Greenley and Bayus raise more questions than answers. In defence of this study, it does identify a reluctance on the part of management to adopt many techniques and tools which are so beloved by the academics. This calls into question the usefulness of much of the recommendations put forward by the theorists: there clearly is a significant gap between theory and practice. The study does not answer the question as to whether this gap is caused by a lack of understanding among academics and theorists as to what actually happens in practice, or because practitioners are deliberately ignoring sound and logical recommendations which could benefit them substantially as they strive to improve their company's performance in the market - place.

Although Greenley and Bayus's work in this area has raised some interesting questions, it does suffer somewhat from "fuzzy thinking" with regard to the issues of sample selection, the type of research methodology employed and the areas which have been included (or perhaps more significantly, excluded) in the design of the questionnaire.

With regard to the issue of sample selection, it is not plausible to include large, medium and small companies in a general survey and expect to draw conclusions which are meaningful.

The use of a quantitative approach to survey design limits the level of understanding and richness of information which could have been gleaned from qualitative research techniques. Greenley and Bayus's study provides a good example of the difficulties of adopting a positivistic, deductive approach to research. While much psychological comfort can be gained from generating large volumes of data and statistical analysis, it fails to provide an adequate level of preunderstanding about the complex range of influences which impinge on the marketing planning process.

They can also be accused of focusing on a limited number of decision areas which are deemed to be germane to marketing planning. By implication, they would appear to use the marketing mix, with the notable exception of the distribution decision, as the framework for structuring the questions. While it is conceded that this provides a "ready - made" and administratively "easy" model, it does ignore a range of other decisions which have to be typically addressed by most companies. Examples of notable omissions include decisions relating to new markets (segments or international versus domestic), customer service levels, market access, market coverage and the level of technical, product and sales support to provided to intermediaries.

Within the context of the Republic of Ireland experience, a major study was undertaken for Co - operation North in 1991 (118). This study, among other objectives, attempted to identify and assess the extent, status and standard of marketing practice within business enterprises in both the Republic and the North of Ireland. A sample of two hundred businesses was chosen. Personal interviews were conducted with each company.Significantly, the study team did include companies employing less than 20 employees. Previous studies such as one conducted by Cooper and Lybrand (119) ignored such companies on the grounds that they would be unlikely to exhibit any degree of management structure. The study team notes that this would also be the policy of the Industrial Development Authority. However the study team argued (quite rightly) that in such small companies, despite a potential lack of formalisation, there would still be "implicit" marketing of some kind, albeit unstructured and informal in nature. This is a commendable feature of the study, although criticisms will be levelled later as to the interpretation which they have placed on the findings.

Section four of the study examined the extent to which companies were engaging in marketing planning and the standard of planning which tended to prevail in the respondent companies. The results are relevant because they represent one of the few attempts to provide a quantitative analysis of marketing planning practice in Ireland. Tables 4.9. and 4.10. provide a synopsis of the main findings in this section.

TABLE 4.9. INCIDENCE OF MARKETING PLANS

	Republic of Ireland (%)	*Northern Ireland* (%)
No Marketing Plan	39	62
Have a Marketing Plan	61	38

The firms which emerged as the least likely to have a marketing plan were those in the "small" category. This is not surprising given the characteristics of such firms. Approximately fifty per cent of the Northern companies which claimed to have a marketing plan, could be more accurately described as "sales plans", which although a positive feature, reflects a lack of sophistication and detail which would be the case with a marketing plan. The same percentage was identified in the case of Southern companies. The group also make the valid point that the existence of marketing plans did not indicate a commitment to do anything with them.

TABLE 4.10. FORMALITY OF MARKETING PLANS

	Republic of Ireland (%)	*Northern Ireland* (%)
No Planning	39	59
Informal Planning	8	14
Formal Planning	53	27

From the interviews it was clear that the behaviour with respect to the degree of formality associated with marketing planning was broadly in line with the known characteristics of small firm behaviour, where formal documenting of situations is less prevalent than in the case of medium and large enterprises. In some cases, the researchers identified situations where companies prepared very detailed plans, commissioned from outside sources, as part of the requirement for receiving grant aid or other state support. However the plan effectively remained on the shelf in terms of guiding or monitoring the strategic direction of the company.

The value of this study lies in the employment of the personal interview method, which allowed for a far higher degree of probing than would have been the case if a mailed questionnaire were employed. In this respect, the findings highlighted in the preceding paragraph would not have emerged if the latter tool had been used. As a consequence it can be stated that this study begins to provide some insight into the reasons as to why many companies do not necessarily practice the "textbook" approach to marketing planning.

Unfortunately the report only concentrates on the basic statistics and fails to adequately present some of the more qualitative findings which one assumes must have been generated from the personal interviews. These were largely based on an unstructured series of themes which were discussed with the respondents. While the rationale for presenting the findings in this manner may have something to do with the requirements of the sponsors of the study, it is nonetheless a pity that the "richness of detail" was not encapsulated within the main body of the report.

The work of McDonald (120), and Leppard and McDonald (121) is also helpful in providing an insight into why so many companies would appear to exhibit such a low acceptance level of marketing planning. Earlier authors such as Wills (122) have suggested that business schools should operate at a more theoretical level than industry. His rationale for this stance is that by so doing, they will find new solutions to business problems that the busy executive, preoccupied with the day - to - day activities, would have no time to allocate to such an exercise. While there is no strong evidence to support or disprove such a view, it would appear to go against the reality which suggests that managers have a cynical attitude when it comes to adopting something which is conceptual in nature. On the other hand it can be equally argued that popular techniques such as those proposed by the Boston Consulting Group have been adopted with much enthusiasm; although they have subsequently gone out of favour.

Boydell (123) is more pragmatic in his approach, when he identified a number of so called "barriers" to learning which could perhaps inhibit the acceptance of marketing planning. Among them were the following :-

* Perceptual - not seeing that there is a problem.
* Cultural - being trapped within an existing set of ideas with respect to what is right or wrong, good or bad etc.
* Intellectual - not having the "ammunition" to cope.
* Emotional - related to personal security and typified by a reluctance to change or take risks.
* Expressive - poor communication skills which limit the ability to explain problems and difficulties to others
* Environmental - whether or not the "climate" is supportive or hostile to the conditions necessary for improved performance.

In similar vein, Van Boeschoten (124) suggests that if learning is seen as a problem - solving process, then marketing planning can be perceived at three levels. At the lowest level, it is an unthinking, mechanical process, merely a prescription to be followed. At level two, it becomes a complex process which could require a company to develop new procedures and systems, even to invest in new resources to sustain these new developments. Level three is represented by a situation where a process exists which asks fundamental questions of the company and as a result could affect the nature of the business and its future direction. His basic thesis is that marketing planning is not taken seriously enough.

McDonald (125), based on his extensive work with companies (in both a research and consultancy capacity), has noted a number of organisational barriers to strategic marketing planning. His observations go some way towards providing an explanation for the reluctance of companies to adopt marketing planning more avidly. They are summarised as follows:-

* **A preference for "short - termism"** - where companies eschew the longer term based on the argument that it is difficult to look forward over a three year period if the company is operating in a turbulent environment.

* **Isolating the marketing function from operations** - resulting in a belief that marketing is something a marketing person does in their office and not something which impinges on other business functions.

* **Confusion between the marketing function and the marketing concept** - where a great deal of confusion exists as to what constitutes marketing i.e. the

"well worn" perception that marketing equates to sales, to advertising, to customer service etc.

* **Hostile corporate cultures** - this issue indicates that the acceptance of marketing planning is largely conditioned by the stage of development of the organisation and the behaviour of the "corporate culture carriers" within. Thus the influence of key individuals or an individual (in the case of a small, growing firm) can either positively or adversely affect the acceptance and subsequent adoption of marketing planning process.

This latter barrier has been the focus of a major study by Leppard (126) and subsequently reported on by Leppard and McDonald (127, 128) conditioned by the stage of development of the company and in particular, the behaviour of the corporate culture carriers within the organisation. Their 1991 study (which was based on a detailed assessment of 34 case studies of the marketing planning practices of British companies) demonstrated that where a company has implemented a complete marketing process, along the lines of the "textbook" approach which was outlined earlier, it is not just a series of action steps, it also embodies a set of values and assumptions which, while not being explicit, are nonetheless an integral part of the whole process.

In addition, they found that as an organisation learn and moves along "its biological lifeline", different issues can exercise it at different life phases.(129) This points to the fact that the "culture carriers" or the "product champions" can play a significant role as agents for change or stability, depending on the circumstances facing the company.

Their research also recognised that change does not come easily to an organisation. In particular a company's value system will not alter, unless something very significant takes place to make such a change seem worthwhile.

The work of Leppard and McDonald can be deemed to be significant in many respects. They highlight the "softer", non quantifiable influences. This is especially relevant, given that much of the previous (and indeed present) literature in this area has highlighted the rational, sequential approach to marketing planning, whilst ignoring the rather obvious fact that issues such as management style, leadership skills, motivational abilities and the personality of the chief executive (or product champion). More fundamentally they recognise that an organisation is too all intents and purposes, a "man - made" product, and as such, is dependent upon the skills abilities, weaknesses and foibles of the owner - manager in the early stages of a company's evolution. Later, this will change as an organisational structure has to be put in place and outside, professional managerial specialists appear.

The impact of these "softer" issues cannot and should not be underestimated. They can clearly inhibit (at best) the successful implementation of a marketing plan and ensure (at worst) an unfavourable environment, guaranteed to make any attempt to introduce a plan inoperable. In essence, they recognise that the marketing planning process cannot be viewed as simply a cognitive process which companies can "learn" from a textbook. It is a political process, shaped by the ability (or inability) of influential characters in the company to communicate the organisational values which they wish to see espoused.

4.9. MARKETING AND THE SMALL FIRM

The essential benefits associated with marketing planning have been well aired in previous chapters. However a clear dichotomy between what has been prescribed in the literature and what actually happens in practice, with regard to marketing planning was identified. This in turn calls into question the level or degree of acceptance which companies associate with the marketing planning process. In this regard the 1991 study by Leppard and McDonald (131) has put forward some tentative suggestions as to precisely what types of planning process exist. These are outlined in table 4.11.

This framework is undoubtedly useful because it identifies the fact that the planning approach will differ, depending on the stage in the phase of organisation growth. It also demonstrates that a degree of flexibility is required, in contrast to a rigid, formalistic approach (which is often encouraged within the literature).

What then does the relevance of the above framework have for the small firm? It is clear from the empirical studies carried out by Leppard and McDonald that there are great dangers associated with applying a standard framework of the marketing planning process to all companies, irrespective of size, length of establishment or nature of the products - markets served. As Carson (132) notes, "marketing planning must *fit* the circumstances of the organisation". It is further submitted that the characteristics of the small firm reinforce this notion and that as a consequence, attention needs to be paid to the precise manner in which the marketing planning process can be tailored in such a way as to prove to be meaningful to such companies.

TABLE 4.11. CATEGORIES OF PLANNING

Phase of development	Type of planning process	Observations
Creative evolution	No planning found	Planning is counter - culture at this stage
Directed evolution	Centralised, tightly defined process, with a clear top - down direction	Works well if the system and instruction are clearly communicated and the business is not too volatile. The leader must demonstrate expertise.
Delegated evolution	Decentralised, less tightly defined process, relying on bottom - up contributions	High quality inputs, high staff morale and commitment, but the overall plan can lose focus.
Co - ordinated evolution	Centralised planning, formal process, with clearly defined roles and responsibilities. Top - down and bottom - up direction	Makes good use of company specialists, but the plan can degenerate into a meaningless routine.
Collaborative delegation	Reduction of bureaucratic processes. Creative solutions are found for resolving planning problems	Perhaps different planning processes for different product groups or markets. High concern for both people and the task of planning

Source: Leppard John W., and McDonald, Malcolm. (1991) "Marketing Planning and Corporate Culture: A Conceptual Framework which Examines Management Attitudes in the Context of Marketing Planning". *Journal of Marketing Management.* 7, p234.

To what extent therefore can the literature on marketing and the small firm help to provide a clearer insight ? Yet again, a review of the relevant work indicates a paucity of meaningful research in the area. For instance, Davis et al (133) in 1985 found that there was not a single article in the *Journal of Marketing* which addressed the theme of marketing and firm size. This may simply reflect the fact that much of the research in this journal is based on American businesses; where the focus has traditionally been on the large company. On the other hand, Cannon (134) observes that much of what is written is largely descriptive or pedagogical. He also notes that the reluctance of researchers to examine the smaller firm may relate to the fact that such companies may be less accessible than larger firms. This view however can be strongly challenged, given the increasing difficulties associated with obtaining interviews with executives from the latter companies, due to the number of academic and commercial researchers operating within the business environment.

Most of the entrepreneurial models of behaviour as evaluated in chapter three, pinpointed the view that such an individual tends to be a generalist, with responsibility for all aspects associated with the running of a business. This, Cannon argues, would appear to conflict with the traditionally held view that marketing is a professionalised pursuit and perceived as a functional activitiy. If one also accepts the results of work by Chell (135) which shows that proprietors of small firms tend to operate to very short time horizons, allied to the the intuitive approach which many such firms adopt to planning, then an alternative view of how marketing is utilised by such firms, begins to emerge.

Carson (136) has provided the most recent and comprehensive work with respect to the way in which the small firm uses marketing. He has put forward six marketing models which he perceives as intending to be used in an exploratory assessment of small firms' marketing performance. They are worthy of evaluation.

Model 1: Marketing Limitations.

This approach takes the view that the small firm's constraints effectively limit the the manner in which they can use marketing within their business operations. These constraints: limited resources, lack of specialist expertise and limited impact on the market - place all conspire to ensure that in the vast majority of cases, such companies are not in a position to adopt many of the marketing tools. concepts and techniques which have been identified in the literature.

While identifying some pragmatic reasons for not adopting marketing (or utilising it in a very limited manner), this model offers only a partial explanation and is too superficial, if accepted in isolation, to provide a detailed understanding. Carson, however, does caution against this view, suggesting that the six models should be considered as an interlocking network.

Model 2: Levels of Generalisation.

This model argues that while general concepts, theories and approaches to marketing are acceptable in the "general" sense, but they need to be adapted for use in the "situation specific". Carson cites the work of Weitz and Anderson (137) who constructed a "structure - environment match" model which matches complexity, unpredictability and interconnectedness - called environmental characteristics, with differentiation and integration, which they call organisational characteristics. In essence this model puts suggests a "trickle - down" effect: from the general marketing concepts, through to those which reflect particular industry or product sector e.g. services, industrial or consumer, eventually ariving at situation specific situations - such as small business marketing.

This model makes intuitive, good sense, although it lacks any real depth of rigour or adequate empirical testing to suggest that it is anything more than supposition.

Model 3: Planning versus Operations

This approach identifies two distinctive kinds of marketing decisions and speculates on how difficult it can be for small firms to maintain a balance between the two areas. This is perhaps best illustrated in the workof Sanderson and Luffman (138) who make the distinction between thinking and doing. Thinking referring to planning as a response to the environment, whereas doing is self explanatory, focusing on the immediate environment.

Thus Carson argues that planning activity in small firms can be viewed as being minimal or balanced. "Minimal", refers to a situation where a firm carries out little or no planning but instead is concerned with the operations of marketing. Any planning which is carried out, is treated as a loose guideline. Balanced is defined as a circumstance where some marketing planning occurs i.e. at least once a period and where marketing is "appropriately balanced" between planning and operational activities.

This approach (yet again) makes intuitive good sense. However there is a great degree of "fuzziness" associated with terms such as "appropriately balanced". It is difficult to pinpoint the demarcation line between operations and planning. It can be argued that operational activities are part of the planning process anyway. Supposition wins out at the expense of empirical evidence.

Model 4: Marketing Planning Adapted for Small Firm

This would appear to be a "re - working" of the theme outlined in model two. It accepts the general principles of marketing, but argues that it needs to be applied in a simplistic manner, in order to be both workable and attractive to the owner - manager. Two broad components form the nucleus of the planning process: external considerations and internal considerations. He further suggests that two categories can be used to describe the small firm's ability to use marketing planning techniques: *limited adaptation,* where the company uses techniques which are wholly unsuitable for a small firm, e.g. major media advertising, and *substantial adaptation,* which indicates the degree of refinement of marketing planning techniques to suit the characteristics of the small firm and its particular circumstances.

This approach appears to be vague and somewhat repetitive (see model 2). However it does make the cogent observation that in all likelihood, a small firm will tend not to have a separate marketing plan from an overall business or corporate plan. Instead, it is more likely (if it utilises plan in the first place) to operate with a standard business plan, embracing marketing, financial and production issues. This, allied to the stress on the need for adaptability and refinement, reinforces the view that an alternative perspective of small business planning needs to be borne in mind.

Model 5: Stages of Marketing Development

This approach is indirectly based on the "stages of growth" model identified in chapter three. It argues that the actual prpactice of marketing within small firms is based on how it develops from the time it is established through to when it is about to break through the threshold to be a medium - sized firm. It follows the line of argument that the form of marketing which is practiced will vary in terms of sophistication and complexity, depending on the stage of development of the company. Carson identifies four such stages (based on empirical research). They are as follows:-

* Stage One - Reactive stage; where the company usually starts with one, or a very limited number of customers and is largely dependent for its survival on word of mouth and personal contacts. Marketing as is commonly portrayed in the literature, does not really exist at this stage. If it does, it is likely to be haphazard and primitive.

* Stage Two - Tinkering marketing; here marketing activity is still likely to be haphazard and carried out spasmodically and spontaneously. A typical example of this would be where a company decides to undertake a mail shot exercise or atttend an exhibition.

* Stage Three - Entrepreneurial marketing; this is defined as marketing which is recognised explicitly by the owner - manager for its value in generating sales but which is carried out by the entrepreneur as part of his or her business activities.

* Stage Four - Proactive marketing; this is defined as a methodical, controlled approach to marketing. This will be usually carried out by a marketing specialist who has been brough into the company from outside, when it haas grown beyond a certain level .

This approach is more comprehensive than the preceding models. Carson's research demonstrates that the stages identified in the model are replicated by the companies which he studied.

Model 6: Levels of Activity

This is a composite model which draws on much of the content surrounding the previous approaches. It examines the techniques and operations of marketing practice whilst still taking account of the planning dimensions. It argues that small firms will do marketing in various degrees of different levels of activity depending on a multiplicity of circumstancesa, not least of which may be their stage of marketing development (as discussed in model five). Carson identifies three such degrees of marketing: *little or no marketing* - where companies are largely reacting to customers, *implicit or simple marketing* - where it occurs as a purely instinctive activity and finally *explicit and sophisticated marketing* - where the marketing activity is part of a co - ordinated and integrated programme. Classification of these three dimensions can be made to both external and internal considerations. This is represented in table 4.12.

TABLE 4.12. LEVEL OF MARKETING ACTIVITY

Marketing Planning Considerations	None / little	Implicit / Simple	Explicit / Sophisticated
Market knowledge			
Competitors			
Customers			
Market information			
Competitive advantage			
Promotion			
Price			
Service			

Source: Carson 1991, p28.

Carson (139) stresses that the six models which he presents, should be viewed "as an interlocking network revolving around the hub of marketing planning" (p28). He further suggests that by considering any firm's marketing planning, using any or all of the models, it should be possible to assess that firm's marketing capability and performance.

How then should Carson's work be assessed ? In its defence, it can be argued that it represents a major attempt to treat the topic of marketing planning and its application in the context of the small firm, with a degree of pragmatism and realism which is not evident in the rest of the literature. The interviews which Carson and Cromie (140) have conducted with almost seventy small firms would appear to support the view that such companies fall into one of three marketing planning categories: non - marketing, implicit marketing and sophisticated marketing.

The six models as proposed by Carson, could be reduced in numbers. There would appear to be a great deal of overlap and duplication within them; particularly in models two and three. Rather than presenting them as six interlocking models, it would seem to make greater sense instead, to treat model six as the culmination of the preceding five models.

Earlier work into the issue of marketing and the small firm certainly lacked the detail and depth of analysis which Carson and Cromie have managed to generate. For instance Kinsey (141), in 1985 interviewed fifty Scottish companies and concluded that there was a clear need for improvement in the understanding of marketing concepts and the use of the marketing function in such firms, with the majority of the companies interviewed, falling into the "production orientation" mode.

Ford and Rowley (142), in 1979, using a similar research methodology found that many owner - managers reject the use of the marketing planning framework because they believe it to be incompatible with their objectives and motivations. These included issues such as: achieving a satisfactory financial return, acquiring a high level of job satisfaction, retaining maximum personal control, maintaining a minimal reliance on external finance and taking pride in the quality of the product supplied. In essence, they reinforce the view that much of what is written about planning, by academics, does not "speak the language" of the small business owner.

. The results of the research reported on, in the preceding paragraphs have also been replicated in the United States e.g. Shuman and Seegar (143), Kelley and Young (144) and Robinson et al (145). Indeed Carland et al (146) suggest that the relative paucity of planning in small firms may be explained by the personality of the entrepreneur and have conducted research which supports this view.

In a later article (147) Carson has developed a holistic model for entrepreneurial marketing development. Under this scheme, Carson identifies three aspects which contribute to the model: formalising the marketing network, developing marketing management competencies and maximising education resources.

With regard to formalising the marketing network, Carson argues that it is based on the rationale that entrepreneurs have an intuitive understanding of marketing concepts. While not necessarily knowing about such techniques, their "common sense" approach to doing business is harmonious with marketing development. The mechanism for helping them to develop this approach exists through the personal network of the entrepreneur. While it can be argued that such a framework is already used informally and sub - consciously, Carson argues that it should be placed on a more proactive and conscious footing. This follows the view that an entrepreneur will introduce an idea to one or a number of trusted individuals within the network, and as a result of feedback, will make the marketing decision. This, he suggests, is more beneficial and more relaxing to the entrepreneur, than having to formally present his idea to "forced" peer groups, which are often to be found in action learning programmes, or in seminars or workshops sponsored by Government agencies.

The second aspect: concentrating on marketing competencies, addresses the issue of which particular attributes are best suited to entrepreneurs and marketing. Carson argues that since the literature has been sparse in its treatment of the topic, it can be inferred that those management attributes which can be deemed to be characteristic of both the entrepreneur and marketing management, are taken into account. His review of the relevant attributes includes; vision, leadership, creativity, intuition, motivation, initiative, communication, adaptability and achievement orientation. A reasonable assumption which emerges from this, is that any marketing management decisions that incorporate some or more of these competencies will be sound and consistent decisions. Such decisions are made within the context of the marketing decision spectrum. Carson identifies four main headings to encompass such an area: product, price, image and service. Under his argument, the various management competencies identified earlier, should be viewed as an integrative mix of attributes, which, when used in a balanced manner, will lead to better decision making in relation to the marketing spectrum.

The final factor refers to the need to maximis the education resources available. This involves creating an environment which is designed to encourage opposite perspectives to come together and share their knowledge in the form of *joint learning*. Carsons suggests that there are many benefits to be attained from bringing young managers (new or recent graduates) and entrepreneurs together. This is based on the notion that in many respects, they reflect both ends of the learning spectrum.

Carson argues that such a joint approach capitalises on the compatible strengths which derive from both parties. In his view, it succeeds in reducing the dichotomy between marketing and entrepreneurs while at the same time offering an opportunity to combine education and training.

In evaluating Carson's framework, it should be acknowledged that it is in the process of being empirically tested within the confines of his university. The results of this are not yet published, although verbal feedback indicates that it is proving to be popular with both young managers and entrepreneurs. It should also be borne in mind that such a programme has been designed in a small open economy (Northern Ireland), which has a major priority to develop and further improve the quality of marketing activity within smaller firms.

This latest approach by Carson tacitly acknowledges the discrepancy which exists between the theoretical perspectives offered by many marketing programmes and the specific attributes and characteristics which motivate entrepreneurs to start up a business in the first place. It reinforces his previously held view that marketing can be used more efficiently and profitably after the company has overcome the initial stages of growth and is about to embark on activities which will have a major impact on its future success. Hence the overwhelming need to provide a programme which will improve the quality of marketing decision making in such firms, while at the same time avoiding the mistake of "imposing" a series of concepts and theories more attuned to the needs of the large or multi - national enterprise.

It is submitted that this type of approach bridges the gap between theory and practice. A constantly recurring theme running through this and the previous chapter has been this failure on the part of many researchers, academics and practitioners to focus on the specific characteristics facing entrepreneurs and owner - managers. In this respect the work of Carson is to be commended. It does not of course provide a solution for those owner - managers who are still cynical about becoming involved with academics or recent marketing graduates. However it can be argued (albeit without the benefit of empirical evidence) that in technology based sectors e.g. electronics, computers and engineering, such owner - managers / entrepreneurs are most likely to be the recipients of some form of a degree from a college or university and thus more receptive to the contributions which recent graduates can make to the development of their business.

4.10. MARKETING AND THE TECHNOLOGY DRIVEN FIRM

Given that the primary research which has been undertaken as part of the overall investigation into the use of marketing within the small firm is based on the electronics sector, it is deemed necessary to consider the nature of such technology based firms and their possible impact with reard to the way in which the marketing concept and function is embraced and utilised.

Terms such as "high - tech" can cause problems from the point of view of interpretation. It can mean different things to different people. Slatter (148) provides a succinct attempt to define such a term. He suggests that the most commonly used criteria employed are :-

* the level of product or process sophistication,

* the research and development intensity which prevails in the firm and
* the proportion of technical employees within the work force.

In relation to the level of product and process sophistication, it is perhaps more accurate to talk about a continuum running from "low - tech", through "mid - tech", to "high - tech". Under this approach, a company which has developed a "state of the art", or "leading edge" product or process, could be described as a high technology operator. By contrast, a firm which is producing a product which has been in existence for quite some time and where the level of sophistication attaching to it, is negligible, is more accurately described as a "low - tech" operator. This continuum - based view of technology - based firms does have implications for the manner in which they may subsequently utilise marketing in their business planning activities.

Much of the relevant literature in the area highlights the fact that small firms, due to their characteristics, play an important role in the development of high technology industries.(for instance see Morse (149) and Oakey et al (150). There is a danger, from reading the seminal articles, of believing the fallacy that all types of small firms in such industrial sectors, are, or need to be, strongly innovative in nature. In this respect, Oakey (151), suggests that the age / maturity of a particular industry will shape the extent to which small firms can exist and seek innovations. Abernathy and Utterback (152) observe that as industries age, there is a marked tendency for the establishment of a standardised technological approach to product design and production process.

Averitt (153) has also observed that the extent to which small firms exhibits a degree of innovation is dependent on the strategy which the management employs. He subsequently carried out research with such companies in the electronics sector and identified three strategic types of firms. The most profuse type of small firm is the one who operates as a sub - contractor to a larger firm. This is best evidenced in the case of printed circuit board manufacturers (PCB). Because the technology involved has largely been developed by the larger firm, the small company doe not require to be very innovative: concentrating instead on maintaining a high level of quality control and customer service. The second type of operator is the "niche" producer - a company who meets a market demand of a size which is not attractive to large firms. Oakey identifies products such as a specialist heat exchangers or non - destructive testing machinery. The final category of operator is referred to as the product - based firm, which is often founded on a new product idea, and may attract a mass market appeal very quickly, based on its "new - to - the - world" technology.

It is submitted that the behaviour of firms with regard to how they utilise marketing, will be influenced to a large extent, by the "strategic type" to which they belong. Oakey(154) has put forward the view that while the sub - contractor and niche operators would appear to be ideally suited to the development of close networks with their larger partners, they in fact pursue a passive role, which is largely subservient to their paymasters. Research undertaken by Oakey in the biotechnology industry would appear to support this latter view, and reinforces the "large firm dominance of the "technology paradigm" as propounded by Kuhn (155).

In terms of identifying specific influences on strategy formation within the technology based firm, Slatter(156) makes the cogent observation that the small high - tech firm is the most fragile of all firms. In support of this view, he identifies six groups of factors inherent to such companies, which cause fragility:-

* The rate of technological change;- which is difficult to predict as are the concomitant time and costs associated with the development and commercialisation of technology. Allied to this is the short product life cycle of many high - tech sectors.

* Market volatility and uncertainty;- while generalisations are dangerous (niche sectors exist where conditions are relatively stable), the rapid and often discontinuous change in demand and rapidly shifting competitive strategies produce a market - place in which it is difficult to plan.

* The nature of competition;- for as long as the small high - tech firm can provide superior customer satisfaction it has a competitive advantage. However, the advantage is often is short - lived, if it is only based on technological superiority alone.

* Employee characteristics;- this refers to the motivational characteristics of technical employees, often young, well educated and with a tendency to high job mobility. Thus the cumulative expertise which a small, evolving firm builds up over time, may be eroded if personnel move elsewhere.

* Resource constraints;-while this is a feature common to virtually all small firms, the high - tech category is often regarded as extremely risky by the financial community. Such firms also tend to focus on one or a few

specialised products, aimed at specific customer segments. Thus, they are usually characterised by a narrow and highly specialised resource base.

* The high - tech entrepreneur and the founding team;-empirical research carried out by Corman et al (157) indicate that most high - tech firms are created to achieve intellectual and professional goals as much as the more commonly identified financial goals. Many founders are committed to a particular technology than to a market, and will sacrifice significant growth opportunities in technology and markets they consider to be peripheral, rather than risk losing their chosen technology focus. The presence of the founder can also act as a hindrance or barrier to further development.

Slatter concludes his discussion on the fragile nature of high - tech firms by putting forward the view that managing fragility involves a delicate balancing act between the external forces which drive fragility and the firm's internal resources.

What then are the implications of these observations for the manner in which high, medium or low - tech firms might use marketing within the context of their business development ? It should be stated at the outset that all of previous discussion which took place regarding marketing and the evolving firm still applies to the technology - based company. This is evidenced by the pioneering work of Bullock (158), who identified a similar series of stages in the growth of a small high - tech firm to those examined in chapter three. It is submitted however that those forces which make the management of the small, high - tech firm so fragile, ensure that the development and implementation of a business plan is a more difficult and complex process than might be the case in the instance of a similar size of enterprise in the services or consumer goods sector. Slatter (159) argues that the combined effect of these six forces which drive the fragility of such firms, is to create a situation where the typical high - tech company may exhibit a high propensity for crisis.

The essence of his thesis, which he bases on empirical research with companies in various technology sectors, is that management must develop a decision - making style which is fast, analytical and bold. Fast, in the sense that it helps firms to cope with the rapid pace of development and change in their respective technological environments. Analytical, from the point of view of adopting a more thorough and continuous search for strategic alternatives, from which effective decisions can be made, and bold, referring to the need for small high -tech firms to constantly differentiate itself and reassert its position to deal with shifting technologies and changing competitive strategies.

In many ways this comes down to a trade - off between the speed, flexibility and dexterity associated with a reliance on intuition, "gut - feel" and informality, and the delay in decision making which can occur as a result of taking the time to analyse, rationalise and discuss alternatives with other management personnel in the company. This forms the basis for the final paragraphs of this chapter as the relevance of planning for the small firm is considered.

4.11. SUMMARY

It is more relevant to consider the level of planning and the nature of the company within which such planning activity occurs, rather than be preoccupied with the precise meaning of any one term. Two contrasting perspectives about the efficacy of planning in general have emerged from the analysis of the literature. The conventional view is encapsulated in the belief that planning should follow a logical planning sequence. This is based on the belief that the stages of the planning process are deliberately and rationally chosen. The alternative standpoint rests on the assumption that strategies tend to emerge from a confused and imperfect process - a tendency to "muddle through".

Proponents of strategic planning almost unanimously agree that the planner is in a unique position to provide leadership, guidance and direction to an organisation, because the planning process effectively drives change. Articulate objectors to this view such as Mintzberg (160) argue that there is *"no systematic evidence that planning does any of these things, and no shortage of anecdotal (as well as some systematic) evidence that it can do exactly the opposite"*. These diametrically opposed views capture the essence about the debate on the efficacy of planning for the organisation.

Mintzberg crystallises the issue by noting that the conventional supporters of planning acknowledge many so - called "pitfalls" associated with planning. He argues however that these pitfalls *"are to planning what sins are too religion: impediments to be brushed aside, perfectly understandable cosmetic blemishes to be removed, so that the nobler work of serving the almighty can proceed. Except for one fundamental* *difference: pitfalls are mostly committed by "them," not "us," by managers or by organisations, not by planners or their systems."* (161)

This quotation from Mintzberg addresses the defining issues about the efficacy of planning for companies. It reinforces the view that there is a very clear discrepancy between theory and practice: that for some reason, companies are failing to practice what is preached to them. This is summed up in many recent articles which have queried the relevance of much of the traditional literature on planning. (For example see Reid (162a, 163b), and Mintzberg (164) Perhaps Sarrazin (165) encapsulates the conundrum by noting that writers and researchers have two choices when it comes to encouraging companies to plan: encourage top management to "fit their practice to the theory" or else "attempt first to understand the causes of the discrepancy". Mintzberg argues forcefully, that much of literature has almost exclusively focused on the former. This has resulted in a prescriptive, normative approach, which expects chief executives and senior management to follow the techniques and tools of planning as "laid down" by the literature.

It is maintained that the assessment of the literature in this chapter firmly supports Mintzberg's view that a wide discrepancy between theory and practice exists with regard to strategic planning. In particular it reinforces the belief that conventional approaches to planning are based on order, rationality, control and logic. It is clear that this philosophy has emanated, in the main, from academics who cultivated such an approach, within the confines of the classroom (through the use of the case method, pioneered at Harvard). This ignores the reality of the environment within which most companies actually operate. Very few, if any, can claim to do business in a stable, predictable environment; instead they face chaos, turbulence and volatility.

The "classroom" approach does not envisage creativity, intuition and flexibility as playing a role in the planning process. Rather the focus is on analysis and control.

This is not to suggest that strategy formulation is a waste of time and something to be ignored by the company, irrespective of size. Strategy formulation must however take account of the context and type of company and environment. It must recognise the dangers associated with the "how to do it " approach, when it is clear that in many cases there is an insufficient understanding of the manner in which the typical manager / chief executive operates. In short, there is a dearth of research which sets out to investigate the reasons why managers behave as they do. Consequently, only a superficial understanding of the influencing factors which shape such behaviour exists.

The second main theme to emerge from this chapter has been the relevance of planning for the small, evolving company. It is argued that the treatment of this topic has not been well developed within the existing literature. The looseness of organisational structure, allied to the level of informality which exists in such enterprises, raises serious questions about the most effective and appropriate planning mode.

The role which marketing plays in strategy formulation was extensively examined in the latter half of this chapter. Much of what has been written: from the perspective of the company in general, has again been largely prescriptive and normative. The traditional marketing literature has tended to highlight (not surprisingly) the important role which marketing can play in shaping a firm's future. However, a number of recent studies have begun to question its relevance. Brady and Davis (166) have raised a number of doubts about the self - proclaimed importance of marketing, as a business function. In response to these rather negative impressions, the Chartered Institute of Marketing (167) commissioned a study which examined the extent to which marketing had entered into a mid - life crisis. The results, based on a survey of leading academics and consultants, coupled with a series of in - depth interviews with fifteen successful British companies, makes depressing reading and reinforces many of the criticisms which have been made in the past about the manner in which companies have misused and misunderstood marketing as a concept and function. The main findings indicated that many companies still associated marketing with selling and advertising - rather than forming an integral part of a customer - driven philosophy.

This report concluded that far from being in a mid - life crisis, marketing is "somewhere between childhood and adolescence". Yet again, there would appear to be a wide discrepancy between the theory and the practice. The argument here is not about a theory's usefulness or appropriateness. Rather it is about the lack of insightful research which has attempted to find out *why* companies do not plan or do not make use of the techniques and principles of marketing. When the characteristics of the small firm are taken into account, it becomes even more imperative that research should address the reasons for the discrepancy. The review of the literature contained in this chapter only succeeds in shedding dim light on the matter.

In summary, this chapter has examined the wide and sometimes conflicting, literature on planning: marketing and the small firm. It has succeeded only in raising more questions than firm answers. A revisionist approach to planning has been identified in the literature: driven by Mintzberg at the forefront, but also by a number of other researchers in the more specific areas of marketing planning and the small firm. In the main, such revisionist thinking has stressed the need for a more flexible, contingency - based approach to the planning process: one which allows for the idiosyncrasies to be found in organisations which militates against regularity, order, logic and sequence. The value of planning has not been called into question. But the rather arbitrary manner in which many of the textbooks lay down principles and procedures, has.

The consequences which arise from such conclusions have a profound impact on any proposed study of how small firm utilise marketing within their planning activities. This issue forms the initial starting point for the next chapter.

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CHAPTER FIVE

THE RESEARCH PROBLEM AND METHODOLOGY

5.1. INTRODUCTION

The preceding examination of the literature has revealed a number of potentially critical issues which have major import for the subsequent design and construction of a methodology for investigating the manner in which small firms utilise marketing in their planning processes and procedures. This chapter examines the implications of these issues for research objectives and hypotheses; the subsequent selection of the research methodology employed together with a detailed justification of the logic and rationale behind that selection and concludes by pinpointing the possible limitations associated with such a methodology.

5.2. INITIAL OBSERVATIONS FROM THE REVIEW OF LITERATURE

The extensive review of the literature in the areas of the small, evolving firm and planning / strategy, has revealed a number of issues and findings which only serve to highlight the subsequent difficulty associated with designing a research methodology which can adequately address the need to develop an understanding of the process and procedures which the small firm plans its business activities. These observations can be identified as follows:-

* A tendency to apply theoretical frameworks designed in the context of the large, bureaucratic organisation, to the case of the small evolving firm. This presents a distorted perspective, at best, of the specific characteristics of the small firm and the personality of the owner - manager, and their respective ability to utilise, relate to or adopt the *prescribed* approaches to planning and strategy development, as identified in the literature.

* A tendency for empirical studies into small business to focus on broad, macro issues (e.g. contribution to the economy, characteristics of small businesses) without a corresponding concentration on micro issues (such as the internal decision - making processes). This could be construed as "putting the cart before the horse"; where the bigger issues are being addressed without a clear or insightful picture of the internal mechanisms and procedures which exist in the evolving firm.

* A tendency on the part of researchers to concentrate on deductive approaches to research design: reflected in a concentration on quantitative methods with a focus on data collection. In essence, this creates a situation where such researchers attempt to provide answers to such questions as "*how much?*" and "*how often?*", at the expense of more fundamental questions such as "*how?*" and "*why?*"

* A tendency to "impose" a rationalistic framework to the concepts of planning and strategy development. Thus when many studies subsequently demonstrate that many owner - managers / entrepreneurs do not "conform" to such a mind - set, they are highlighted in a negative context - specifically in the areas of managerial inefficiency and ineptitude. More specifically, Brytting (1) identifies the tendency on the part of researchers "to separate organisational phenomena in small firms from the thoughts, feelings and lives of the individual human beings involved". This is often reflected on the stress which researchers and authors place on the formal, tangible aspects associated with planning: the documentation, the allocation of management time to the drawing up of the plan and the focus on yearly targets and "bottom - line" figures. By contrast, the literature is distinctly less helpful when it comes to providing an understanding of the internal motivation, leadership quality, personality and decision - making skills of the individual owner - manager / entrepreneur. Thus it is argued that the "softer", more intangible aspects of plotting a firm's growth path are often ignored, at the expense of an over concentration on the "hard", more distinctly tangible issues, such as the production of a marketing planning document. The existence of such a plan in no way ensures that the company is effectively and systematically involved in planning: in the same way that the existence of a marketing department does not guarantee that the company is "marketing oriented".

The gap between theory and practice which has been so clearly identified in the literature focuses ultimately on the twin issues of relevance and realism. Tibbits (2) provides a fuller discussion of this debate, largely relying upon a synopsis of Mintzberg's views. This has been comprehensively addressed in an earlier chapter and it is not proposed that the debate should be "re - visited" at this juncture. It is argued that the preceding observations highlight the dangers associated with designing a research methodology based on a single research technique: be it deductive or inductive. In order to obtain a clear insight into the planning practices and procedures which exist in the evolving firm, it is deemed necessary to construct a multi - stage, multi - method format, consisting of a mixed qualitative and quantitative approach; reflecting the need to achieve a balance between the collection of statistical data (which provides a superficial picture) and an opportunity to go beneath "statistics" and acquire a more insightful understanding of the processes, procedures and internal mechanisms which exist in the smaller firm. This combination of research approaches, it is argued, allows the researcher to explore the planning process of the evolving firm at a number of different levels: on the one hand plotting the systematic, formalistic planning procedures (should they exist in the first place) but also providing the opportunity to gain an insight into the informal, intuitive means by which the owner - manager / entrepreneur may plot the company's development and direction.

5.3. IMPLICATIONS FOR RESEARCH DESIGN

It is clear that the design of any proposed research into the planning practices of the small firm is not a simple one dimensional exercise. Romano (3) argues that the development of small business strategies should adopt an "open - ended approach because each individual small business varies in organisational structure and management control". Stanworth and Curran (4) in an earlier article, put forward the view that in order to more fully comprehend the detailed issues of small business, much greater attention needs to be paid to the social dynamics and character of the owner managers. Although written in the 1970's, the review of the literature in this study reveals that their observation is apposite in the 1990's.

This apparent conflict between the desire for conventional quantitative surveys to collect data which is of a generalist nature, and the perceived need to utilise methodologies which provide an opportunity for the researcher to gain an insight into the internal logic which exists in the small firm (and which shapes the subsequent approach to decision - making and strategy development) needs to be resolved before consideration can be given to the more tactical issues concerned with information gathering. This requires debate on the different philosophies which influence research design.

5.4. THE TWO MAIN PHILOSOPHIES : PHENOMENOLOGY AND POSITIVISM

Traditionally the debate surrounding the most appropriate approach to designing research in the area of the social sciences, has focused on two viewpoints: positivism and phenomenology. Often, much of the writing has portrayed these philosophies as being at opposite ends of the spectrum. However this is not necessarily an accurate reflection of current thinking among researchers. Easterby - Smith et al (5) in an influential review of the debate on the philosophy of research design observe that in practice, even hardened advocates from either side do not hold consistently to one position or another. They further note that while there has been a trend away from positivism towards phenomenology in recent years, it is more common to see researchers in the management field who adopt a "pragmatic view by deliberately combining methods drawn from both traditions".

In order to gain a clearer understanding of both philosophies, the key features of positivism and phenomenology are examined in Table 5.1.

Table 5.1. THE TWO PARADIGMS

	POSITIVIST PARADIGM	*PHENOMENOLOGICAL PARADIGM*
Basic Beliefs:	**The world is external and objective** **Observer is independent** **Science is value - free**	**The world is socially constructed and subjective** **Observer is part of what is observed** **Science is driven by human interests**
Researcher should:	**Focus on facts** **Look for causality and fundamental laws** **Reduce phenomena to simplest elements** **Formulate hypotheses and then test them**	**Focus on meanings** **Try to understand what is happening** **Look at the totality of each situation** **Develop ideas through induction from data**
Preferred methods include	**Operationalising concepts so that they can be measured** **Taking large samples**	**Using multiple methods to establish different views of phenomena** **Small samples investigated in depth or over time**

Source: Easterby - Smith et al. (1991) Management Research: An Introduction. Sage. London. p27.

The positivistic tradition rests on the assumption that the social world exists externally and that its properties should be measured through objective methods. The position is most accurately reflected in the views of the French philosopher, Comte (6) who observed that "all good intellects have repeated, since Bacon's time, that there can be no real knowledge but that which is based on observed facts". This viewpoint has subsequently influenced and indeed guided much of the thinking with regard to research design.

Not every upholder of the positivistic tradition would necessarily subscribe to each and every one. However the central tenet of this philosophy is that reality is objectively determined. What then are the implications for researchers in the management field, should they attempt to pursue the positivistic school of thought ?

Rubenowitz (7) notes that positivism represents the most prevalent tradition in the field of the social and behavioural sciences; consisting of statistical analysis of data by means of descriptive and comparative studies and experiments and more significantly assumes that only knowledge which is obtained by means of objective measurement and objective identification can be considered to possess the truth. He coins the term *logical empiricism* to describe the results of research which have been conducted in this fashion.

However researchers questioned the importance placed on the fact that reality can be objectively determined. Rather they began to argue that the starting point in terms of trying to understand reality, should based on the notion that it is socially constructed as opposed to being determined objectively. Easterby - Smith et al summarise the so - called phenomenological school of thought thus:-

"The task of the social scientist should not be to gather facts and measure how often certain patterns occur, but to appreciate the different constructions and meanings that people place on their experience. One should however try to understand and explain why people have different experiences, rather than search for external causes and fundamental laws to explain their behaviour (8).

Easterby - Smith et al (9) provide a hypothetical example of the two different ways in which a positivist and a phenomenologist would attempt to study the area of managerial stress. Most likely the latter would be interested in the aspects of work that managers consider to be "stressful" and perhaps in the strategies and procedures that they have managed to develop to help them overcome the problem. Thus the researcher would arrange to talk with a few managers about the nature of their jobs and the specific aspects, both difficult and easy. The positivist would start with the assumption that occupational stress exists and would then try to measure the levels of stress experienced by managers and how these levels relate to a number of external variables such a organisational changes, inter - personal conflicts, negative appraisals and so on. These measures might be collected on the basis of standardised verbal reports or perhaps on physiological factors such as blood pressure or glandular secretions.

The kernel of this hypothetical example is that researchers who are primarily influenced by the positivistic tradition, utilise a highly structured approach (e.g. a series of personal interviews) which lends itself to the orderly collection of data which can then be easily analysed by computer software packages such as SPSS or SNAP. However, potentially important considerations as well as useful sources of information are ignored. Gummesson (10) points to non - verbal signs of communication such as body language, the physical environment or unexpected events which may occur during the interview as important influencers on the response of the interviewee and perhaps more importantly on how such a response can be *interpreted.* It is the emphasis on registering such cues and how they are subsequently interpreted which tend to delineate between the positivistic and phenomenological schools of thought. Gummesson focuses on the word "interpret" in his writings and adopts the word Hermeneutic (derived from the Greek word hermeneuein = interpret). This, he argues, is going one step further than the traditional phenomenological approach of attempting to understand the respondent and the physical environment. The Hermeneutic paradigm advocates that the researcher goes further and "interpret the immediate events in the light of previous events, private experience and whatever else they find pertinent to the investigation under consideration" (11)

The preceding discussion provides a level of synthesis regarding the two predominant and largely opposing philosophies of research design. While both appear at opposite end of a spectrum, it would be inaccurate to suggest that researchers are to be found in one camp only. Easterby - Smith et al point to the need for compromises to be made on the part of researchers. This is reflected in the tendency to develop methods and approaches which provide a middle ground between the two schools of thought. The choice of method is further complicated by what Easterby - Smith et al (12) label a number of "political" influences. Examples of this would be the attitude of academic institutions to phenomenological research, and the inherent prejudice of many academic journal editors - it is only recently that many journals in the management area have begun (grudgingly) to accept articles based on non - positivistic research design.

It is however too simplistic to suggest that there are only two broad schools of thought, if there is a tendency on the part of researchers to seek compromises or a refinement in approach to research design.

Thorpe and Moscarola (13) provide an illuminating insight into the various styles which pertain in designing management research strategy. They use the analogy of the great fictional detectives to illustrate the alternative styles and approaches which are possible in research. While this creates (if read quickly) a somewhat whimsical and superficial treatment of what is a complex topic, more careful reading suggests that it provides a good insight into the selection of a research strategy. They identify the following approaches.

1. *The Theoretical, Rational Approach:-* this follows a process of logical deduction. Here the example of Hercule Poirot is used. In the novels, he listens to witnesses of the crime, withdraws and reflects. Then he goes over their behaviour, routines, habits and motives, searching for contradictions. By reconstructing in theory the information, and by deductive reasoning he discovers by logic, the guilty party. In terms of management research this approach would be reflected in collecting all sources of relevant information, having a thorough understanding of the models and theories in the field in which you wish to understand or interpret, applying your own knowledge and expertise and analysing what you find out and deducing answers.

2. *The Scientific Information Approach:-* it could be said that the great fictional detective, Sherlock Holmes, behaved in the true manner of a scientist with regard to the manner in which he solved crime. In his quest for evidence, the instruments of observation and analysis (in the form of test tubes and chemicals) play an important role. It is arguable that without such tools at his disposal, Holmes would be unable to help the clues emerge. In relation to management research, Thorpe and Moscarola use the analogy of sampling methods - where a sample is selected in order that features about the whole population can be determined. This involves in many cases, minute and systematic observation made either by questionnaires or by structured interviews, repeated numerous times so that statistical accuracy can be derived. It also requires the researcher to make use of data processing tools and resultant elaborate statistical analysis.

3. *The Empirical Intuitive Approach:-* Maigret; the detective popularised in the crime literature by Simenon, is used as the example of this approach. In many of the novels, Maigret appears to place great emphasis on discovering the world within which the crime has been committed - a small, rural, French village for example. He meets people in the local hostelry and engages them in conversation. Following this focus on empathising with the people concerned, he follows his intuitions and feelings and begins to advance to an answer to the problem of who has committed the particular crime. This clearly calls for skills which allow him to empathise and gain the confidence of the people concerned. Relating this analogy to the management field, Thorpe and

Moscarola pinpoint the following as being requirements: having physical contact with the field in question, accepting the need to listen to others and see them from their perspective, understand things in depth - without stopping at a prior judgement, give way to one's sensitivity, intuition and instinct and know how to find the real experts in the field so as to be able to benefit by winning their confidence and gaining their experience.

Thorpe and Moscarola (14) argue that the lesson from using the analogy of the different styles employed by the detectives, reinforces the view that there is a need for a range of composite skills in order to be a competent detective and / or researcher. These include the ability to reason logically, acquire a clear understanding the tools and techniques which are capable of collecting the data with scientific rigour, whilst at the same time never losing the quality of empirical intuition that helps to provide some crucial insights into the problem. The television detective, Columbo is cited as a good example of a detective who portrays this amalgam of skills.

As a final contribution towards an understanding of the requirements for detecting a research strategy, the character "Dirty Harry" as played by Clint Eastwood, is mentioned. This individual adopts the view that in order to bring about solutions and resolve problems, the best method is to try something - provoke a reaction and thus, through action, remove the uncertainty and understand or confirm the situation. This style of approach is gaining more acceptance in the area of management research - specifically through the adoption of action research. This approach is based on two premises :-

* a belief that the best way of learning about an organisation or social system is through attempting to change it and that this therefore should to some extent, be the objective of the action researcher;

* the belief that those people most likely to be affected by or involved in implementing these changes should as far as possible become involved in the research process itself.

Thus the researcher actually becomes involved as part of the change process.

The article by Thorpe and Moscarola provides a useful summation of the key issues which need to be taken into account at the outset of the design of a major research study. They reinforce the view that a one - dimensional perspective of how research should be conducted, is at best, simplistic and at worst, wrong. This would also appear to support the conclusions which have been drawn from the extensive review of previous research into small business development, carried out in earlier chapters.

While one might query the rather superficial manner with which they have treated the topic of designing research strategy and the rather whimsical use of "the great detectives" as a basis for drawing an analogy, it can be equally argued that such an approach is effective in conveying the nuances associated with research design.

Having considered the broad issues associated with designing a research strategy, it is now necessary to reconcile the main conclusions of the previous section with the aims and objectives of the study which provides the main focus for this thesis.

5.5. AIMS AND OBJECTIVES OF THE STUDY

5.5.1. Introduction

The rationale for undertaking an investigation into the marketing planning approaches which the smaller firm adopts, is based on the initial prejudice that the prevailing literature and past empirical research do not do justice to the complexity and heterogeneity which exists in such enterprises. In essence it is felt that a large gap occurs between what the literature recommends such firms should do and what they actually do.

5.5.2. OVERALL DESIGN OF THE STUDY

The "gap" between theory and practice clearly presents warnings which need to be addressed when subsequently setting aims and objectives for a study into the approaches to planning which such firms adopt. Thus the following considerations were taken into account when designing the aims and objectives.

1. *The need for a phased approach :-* given the discrepancy between theory and practice, and the questionable validity of previous empirical research, it was felt that a number of cascading objectives should be set in the research design for this study. This led to three phases of the study, each with a distinct objective. Likewise each phase moved from the general to the specific in terms of the focus of the objective. This is highlighted in figure 5.1.

FIGURE 5.1.

Phase One: - Objective. To gain an insight into general planning practices and procedures across industry types.

Rationale. It enhances the preunderstanding about the topic under investigation and provide a broad framework for designing the next stage.

Phase Two: - Objective. To identify parameters of planning practice among indigenous companies in a specific industry sector.

Rationale. It provides a basic assessment of the general principles and procedures of planning within firms in one sector and allows for some general comparisons to be made

Phase Three: - Objective. To isolate specific instances and examine the internal mechanisms and procedures used in the context of planning., thus providing patterns (be they convergent or divergent) for subsequent evaluation.

Rationale. It allows for more closer interaction with the respondent and provides the opportunity for a "richer" depth of information to be collected.

2. *The need for a balanced approach between deductive and inductive research:-* earlier discussion on the opposing philosophies has reinforced the view that the adoption of a purely positivistic or phenomenological approach would be unduly simplistic and ignore the reality of the situation where researchers are beginning to compromise between the two schools of thought. The contrasting properties surrounding deductive and inductive research are highlighted in table 5.2. This demonstrates how both approaches can complement each other and more significantly add to the richness of data collection and provide a clearer insight into the problem.

TABLE 5.2. PROPERTIES OF DEDUCTIVE AND INDUCTIVE RESEARCH

DEDUCTION	INDUCTION
Identify Properties	Isolate instances
Measure	Note sequences and contexts
Specify Population and Sample	
Select Situation to Study	Select special instances to observe
Measure, Compare, Explain Variances	Observe, interview, record
Interpret	Find patterns, sort.
Prepare Tables and Charts	Triangulate, Validate, Reinterpret
Report	Make Case Studies - with emphasis on particular phenomenon
Explanation - emphasising properties	Understanding
Formalistic Generalisations	Naturalistic Generalisations

3. *The need to utilise a number of different methods of data collection and analysis:* - in line with the argument that a balanced approach to research design is required, so too, it is submitted, is the need for *triangulation* - which refers to the use of multiple, but independent measures. The justification for such an approach is summed up by Abrahamson (15) who advances the view that a reliance on one particular tool or technique renders the research method - bound and as a consequence ignores the fact that the strength of each particular method is invariably flawed in some way or another. This means that the researcher can counterbalance the strengths and weaknesses of each method. Smith (16) indeed argues that this use of triangulation can extend beyond the use of data collection methods. It can allow for the borrowing of models and frameworks from different disciplines. Likewise, Todd (17) advocates the use of methodological triangulation - where the researcher uses both qualitative and quantitative methods of data collection. For instance in his research, use was made of questionnaires, in - depth, unstructured interviews, telephone surveys and field studies. This approach, he argues, allows for an imaginative way of maximising the amount of data collected and perhaps more importantly the richness and quality associated with it.

The precise manner of the methods used and the sample selection process is outlined in figure 5.3.

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The precise manner of the methods used and the sample selection process is outlined in figure 5.3.

FIGURE 5.3. METHODS AND SAMPLE SELECTION

Phase One: - Methods Employed. An unstructured depth interview - following a series of broad themes and issues.

Sample Selection. Fourteen companies - selected randomly from a number of business sectors.

Phase Two:- Methods Employed. Hybrid telephone interviews, combining the CATI Approach (Computer Aided Telephone Interviewing) with open - ended questions. All interviews to be taped to allow for more extensive analysis of data.

Sample Selection. 50 indigenous electronics firms participated from 73 invitations.

Phase Three: - Methods Employed. Hybrid - depth interviews, observation, formal and informal interviews, input of a research colleague. Case studies.

Sample Selection. 7 companies which comprise a representative picture of companies at various stages of the company life - cycle.

5.6. THE SELECTION OF THE INDUSTRY SECTOR

In order to allow for some meaningful comparisons to be made between companies participating in the study, it was felt that it would be more appropriate to focus on one industry sector in phases two and three of the project. It also would create a situation where the companies under investigation, particularly in phase three, would be representative of indigenous companies in a particular sector, thus reducing the possibility for major heterogeneity occurring. For example it would not be considered pertinent to include a small indigenous company operating in the services sector with one from the agricultural sector, due to the vast differences which would be likely to be identified in the nature of their operations.

The detailed examination of the history of industrial policy development in the republic of Ireland, combined with an examination and appraisal of the role of the small, indigenous sector revealed that successive governments, since the late 1960's have concentrated on attracting foreign - owned firms to locate and establish operations in Ireland. The electronics sector has been one of the leading areas where US, European and Japanese companies have indeed come to this country. A leading report on this industry (18) has identified the additional emergence of increasing technological expertise and competence from the educational sector as helping to create a conducive environment where an Irish - owned sector can develop.

This study further identified 96 Irish - owned companies in 1989, of whom approximately 55 per cent export their products to overseas markets.

5.6.1. THE STRUCTURE OF THE ELECTRONICS SECTOR

The indigenous sector in Ireland can be sub - divided into a number of categories. Table 5.3. provides a breakdown.

In summary the majority of the more developed Irish - owned electronics companies are concentrated in the following areas:-

* **Automation;** computer based manufacturing automation, process monitoring and control, instrumentation and electronic test equipment

* **Communications;** modems, converters

* **Security;** control panels, sensors.

TABLE 5.3.

1.	**OPTOELECTRONICS**
	- Semiconductor Lasers/LEDS
	- Small Circuits
	- Components for Telecommunications
2.	**SENSORS**
	- Smart sensor components
	- Enhanced capability sensors
	- Colour sensors
	- X - ray detection
3.	**ELECTROMAGNETICS**
	- Electromagnetic components - filters, inductors
	- Motors and Actuators
	- Power Circuit Technology
	- Transformers
	- Electromagnetic compatibility testing / consultancy
4.	**AUTOMATION / MEASUREMENT / CONTROL**
	- Meat Processing (Vision, Sensors, Automation)
	- Vegetables grading(Vision, Actuators)
	- Fish farming - Marine (Vision, Sensors, Actuators)
	- Software and Communications intensive board level products
	- Remote Data Collection Systems - Agriculture and Mariculture
5.	**TELECOMMUNICATIONS NETWORK INTERFACING PRODUCTS**
	- Terminal Adapters for ISDN
	- Advanced Modems
	- Network Terminals for Digital Leased Lines
	- Special Interfaces
	- Digital Multiplexors

5.6.2. Justification for the Selection of the Electronics Industry

This sector was chosen ultimately for a number of reasons. Firstly the report on the electronics industry served as a very useful frame of reference for the identification of suitable companies which might participate in this study. Of the companies covered, most have received help from the various government sponsored initiatives and 93 of the 96 companies investigated were classified as being small or start - up operations. This statistic fitted in very well with the overall aim of the study; to investigate planning practices within the small, evolving firm. The electronics sector itself is characterised typically by being fast - moving, fragmented, open to penetration on a world - wide basis and having products with (relatively speaking) a very short life cycle. These features suggest that this is not an industry where companies, particularly evolving ones, could survive for very long without some conscious attempt to plan their activities and to utilise marketing as a facilitator to their business development. Specifically it would appear to be an industry where companies constantly need to consider the strategic question of new products and new markets, in addition to their existing product / market position.

The question of strategy takes on even greater significance, given that the electronics industry operates in a cyclical environment which is increasingly market driven. The report produced by the (then) Department of Industry and Commerce in 1989 notes that;-

" Companies not only need to be positioned in growth markets if substantial growth is to be achieved; they need in addition strong marketing and technical skills and require the support of a strong electronics oriented infrastructure. Furthermore strong business management ability is a prerequisite to achieve stable growth in companies to a size where profits are no longer ultra sensitive to industry cycles, cost fluctuations and the need to engage in substantial and continuing product development." (19)

While the study identifies a number of potential strengths associated with the Irish - owned electronics sector, such as a large pool of suitably qualified technical graduates, (comparatively speaking) a very advanced telecommunications system - and the subsequent requirement for a range of additional services, and the existence of a large number of subsidiaries of multi - national electronics firms, there are also a number of constraints. These include difficulties associated with acquiring the necessary finance to allow for international expansion, the small scale of the home market and the subsequent difficulties facing evolving firms when it comes to "proving" their products, location and an insufficient number of managers with international marketing capabilities. Thus the priorities which need to be addressed for companies wishing to succeed in this industry revolve around the following areas:-

* market access / market development

* management

* product development

* capital

* better infrastructural supports.

As a consequence of the above observations, it was felt that this sector would provide a valuable backdrop to a detailed investigation of planning practices within evolving firms. Given that the vast majority (as noted earlier) of the indigenous electronics firms are to be found in the micro to small category and combined with the stated objective of successive governments with regard to the need to create a number of large indigenous companies, the strategic importance of this sector cannot be under - estimated.

5.7. SPECIFIC DESIGN OF THE RESEARCH STUDY

A general overview of the design of the study was presented in section 4.5. of this chapter. The rationale for adopting a study consisting of three phases, ranging from the general to the specific, reinforced the view that a multi - stage, hybrid methodology would be most effective in addressing the stated aims and objectives. It is now necessary to consider in greater detail, the justification for choosing the three main techniques for collecting the necessary data - the depth interview, the computer assisted telephone interviews and the case study.

5.7.1. Phase One: The In - Depth Interview.

It will be recalled that in the section detailing the overall design of the study, considerable emphasis was placed on the need, at the initial phase, to gain a deeper insight into the manner in which companies, irrespective of size, length of time in existence, or industry sector, go about the task of developing, implementing and monitoring plans. In order to achieve significant benefit from such an exercise, attention had to be paid to the particular data collection method which would yield optimum results. In order to achieve such a level of insight, it was felt that the traditional structured methods of collecting information such as mailed or personally administered questionnaires, would only succeed in providing a *superficial* grasp of the relevant issues, practices and procedures. Thus, it became clear, from a very early stage, that it would be necessary to employ a method which would succeed in giving the researcher access, in an open - ended manner, to the potential respondent's opinions and attitudes and experiences. this is perhaps best summed up by Burgess (20) who describes the interview as providing an opportunity "for the researcher to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, accurate inclusive accounts that are based on personal experience" (21). This open - ended approach to interviewing needs greater clarification. Burgess argues that such a "qualitative interview" encompasses a broad range of different types of interview covering a totally non - directive or open approach to one where the interviewer arrives with a series of prepared questions or themes. She further notes that the main purpose of such interviews is to "understand how individuals construct the meaning and significance of their situations............from.........the complex personal framework of beliefs and values, which they have developed over their lives in order to help explain and predict events in their world". (22).

The choice as to whether to opt for a structured versus unstructured approach was a relatively easy one to make. Given the desire for a probing, exploratory approach, it became clear that a highly structured approach would be unsuitable because;-

a). it restricts the respondent from talking freely and openly,

b). it forces the researcher to adopt pre - conceptions about the questions which need to be asked,

c). it restricts the open - ended nature of exploratory research.

When the above observations are reconciled against the stated objective of gaining an insight into planning practices and procedures, then the depth interview appeared as an attractive, but more importantly, correct means of generating such information.

A number of companies were identified as being potentially relevant for inclusion in this phase of the study. The criteria used for their selection were as follows:-

* Nature of the product (industrial, consumer, services)

* Size of company (initially defined as number of people employed)

* Nature of company ownership (Foreign - owned, result of a management buy - out, indigenous)

* Propensity to export.

Given that industrial policy emanating from successive governments, since the late 1960's has concentrated on three main areas; overseas industry, medium / large indigenous industry and small industry, the sample of companies chosen was designed to reflect this position.

The Kompass directory was used as the main source for selecting companies which might participate is this phase of the research. Approximately five of the companies chosen were based on business acquaintances which were made through my involvement in the Marketing Institute of Ireland. It was felt that it was necessary to gain full access to a range of managing directors / owners / senior directors, in order to acquire a detailed, "full and frank" contribution. None of the acquaintances could be described as close: rather they were individuals with whom I had come into contact with, on various committees and activities during my time on the executive committee of the Marketing Institute. My contacts eventually accounted for eight of the fourteen companies which participated in this phase of the research.

Fifteen companies were initially contacted by letter - explaining the general background to, and objectives of the study. There were no refusals. Fourteen participated. It proved to be impossible to accommodate the fifteenth company into the schedule of interviews due to the Managing Director being on holiday during the period when the interviews were being conducted. Given that the researcher is based in Scotland and this company was based in Cork, it was not possible to include it within this phase. However the company participated in phase two of the study. The findings are presented in the next chapter.

5.7.2. Phase Two - Computer Assisted Telephone Interviewing - Formulation of Research Hypotheses

The general objective of phase two was one of identifying the parameters of planning as practised by small indigenous companies in the electronics sector. The specific research hypotheses to be tested in this phase were determined from the review of the literature on entrepreneurship and strategy, development and planning carried out in the earlier chapters of this dissertation, and also from the general ideas gained from the interviews in phase one. They were identified as follows:

H1: ***the level of formality associated with the planning process will depend on the size of the customer base held by the individual company***

With the null hypothesis taking the following format:

Ho1: There is no evidence to suggest that the level of formality associated with the planning process will depend on the size of the customer base held by the individual company.

H2: ***the sophistication of the planning process will increase the longer a company is in existence***

With the null hypothesis taking the following format:

Ho2: There is no evidence to suggest that the sophistication of the planning process will increase the longer a company is in existence.

H3: ***as the individual company increases in size, it will be more likely to develop a detailed and formal planning process***

With the null hypothesis taking the following format:

Ho3: There is no evidence to suggest that as the company increases in size, it will be more likely to develop a detailed and formal planning process.

H4: ***there will be a greater propensity for companies to develop formal and detailed plans, as they become more extensively involved in exporting***

With the null hypothesis taking the following format:

Ho4: There is no evidence to suggest that there will be a greater propensity for companies to develop formal and detailed plans, as they become more extensively involved in exporting.

H5: ***companies that prepare a formal plan will be more likely to develop a general business plan rather than a series of functional sub - plans***

With the null hypothesis taking the following format:

There is no evidence to suggest that companies that prepare a formal plan will be more likely to develop a general business plan rather than a series of functional sub - plans.

It was felt that the most appropriate method for accessing these companies (identified in the report produced by the Department of Industry and Commerce) was that of the telephone interview. A number of factors arose which led to this conclusion. Firstly the fact that the researcher lives in Glasgow militated against the possibility of attempting to interview a large number of electronics companies. A mail questionnaire was considered. However it was felt that in addition to the strong likelihood of a very low response rate, it would not be possible to capture information beyond that of a very superficial and basic nature. In this latter regard, the Computer Assisted Telephone Interviewing technique (CATI) was perceived to have a number of advantages. It allows for the integration of data entry and tabulation set - up stages, thus reducing the total survey time. The overall effect is that the fieldwork for a survey of (potentially) ninety companies can be completed far more quickly than is the case with personal interviews or mailed questionnaires.

Traditionally telephone interviewing has been regarded as effective only in situations where the topic under investigation is relatively simple to address and where the resultant information is straightforward and easy to encompass in a highly structured format. Indeed a study which compared telephone and face - to - face interviews (23) produced evidence that respondents tended to give fewer responses to open and unprompted questions over the telephone.

In addition this study pinpointed the limited length of time that a researcher can expect to have with a respondent in a telephone interview. Eborall (24) observes that a maximum of twenty minutes is often regarded as a rule of thumb for UK respondents. However she does note that this varies a great detail; on a country by country basis, the subject matter and the position of the respondent. Other drawbacks include pressure of time on the part of respondents, which may restrict opportunities for access.

However it is submitted that much of the research into the efficacy of telephone interviewing has been carried out in consumer markets as opposed to industrial markets. It is further argued that the telephone can be utilised for acquiring information which can be richer in content than simply standard responses to basic questions.

Therefore when structuring the questions for the telephone survey, cognisance was taken of the need to structure the questions in such a manner as to allow for coding responses. However each interview was tape recorded and each question was asked in an open -ended fashion, i.e. the various options were not presented to the respondent. Instead the questions were delivered to the respondent and the responses were subsequently analysed afterwards and allocated to the appropriate options. The fact that the interviews were taped also meant that I was not distracted from the point being made, by having to take detailed notes, or risk the possibility of losing concentration during the interview.

The researcher was also helped by the fact that he had access to a "state - of - the - art" telephone interviewing laboratory in the Department of Marketing, at the University of Strathclyde. This allowed for the use of a headphone with an attached microphone, together with a tape recorder. While it may not sound very significant, it meant that the researcher could adopt a relaxed posture; not having to hold the telephone handset to my ear and be crouched over a note book, taking down detailed notes. This in turn meant that attention could be focused fully on the task at hand. Arising from these experiences it is strongly advised that anybody who is thinking of using the telephone should only do so if such facilities are available.

While it is acknowledged that a certain element of risk was taken with regard to the utilisation of this method, the experience demonstrated that the perceived weaknesses and drawbacks of the method were unfounded. From an initial list of 96 indigenous companies identified in the report of the Department of Industry and Commerce, 23 companies had either ceased operations, been acquired by other companies or had changed names and could not be traced. Therefore 73 letters were sent out, inviting the managing director / owner manager (or chief executive in cases where the owner manager had left the company) to participate in the study. Exactly 55 companies agreed to co - operate in a telephone interview. this represented a response rate of approximately 75 per cent, and was deemed to be highly satisfactory; given the fact that this was not a standard method for collecting data. A copy of the letter is presented in appendix D.

It subsequently transpired that five companies did not participate in the study. This happened for a number of reasons. A couple of the managing directors had agreed to participate at a certain time. When contact was made with the company, they were out of the country, due to either a crisis or the need to visit an important customer. Five further attempts were made to set up suitable times. For whatever reason, the individual was not available at any of those times. At this stage, a decision was made to leave that company out of the survey - mainly due to the fact that these attempts to re - schedule the interviews were taking place over a four week period and were, as a consequence prolonging the time allotted to this phase of the study. It also had to be accepted that in a couple of cases, it became clear that the individuals were not keen to participate and were using their respective secretaries to maintain their distance from the researcher. Sadly in one case, the managing director had just died.

Therefore a response rate of approximately 69 per cent (50 companies from a total of 73) was achieved. The results of this stage of the study are presented in a later chapter. As might be expected, there was a great deal of variation in terms of the length of each interview. This ranged from a peremptory ten minute interview in a small number of cases (where the respondent gave brief responses to the questions) to one hour interviews in other cases (where the respondent was in an expansive mood and was quite prepared to engage in deep conversation).

While such variation might suggest a weakness in the methodology, in so far as it might be difficult to reconcile the responses and carry out meaningful comparative analysis, it should be remembered that the main purpose of this stage of the study was to gain an insight into the general parameters of planning practice in indigenous electronics firms. It was viewed as a means to an end: where a more detailed investigation of planning practices could be carried out in phase three, through the medium of case studies.

The telephone interviews also allowed me to identify companies which would be suitable as candidates for subsequent case studies. If a particular interview went well - in terms of trust being established at an early stage of the interview, and the respondent was relaxed and in an expansive mood, I would ask that individual on completion of the interview whether he or she would be prepared to take the exercise a stage further by allowing me to visit the company and carry out a more detailed study of their operations and specifically their approach to planning. As an aside, my experience suggested that the participants found the telephone to be a good means of communicating their ideas. While much of the success depends on how the interviewer handles the interview, it became clear that the telephone method was not perceived as being as formal or as time consuming as would be the case where an appointment would be made for a personal, in - depth interview. The latter situation creates the perception that the managing director has to consciously set aside time from a busy schedule, to facilitate somebody who will not offer much in return. By contrast the telephone is a more flexible tool. Respondent can be interviewed at home rather than the office, if required. They can be interviewed at a time which is convenient to them. In some cases interviews were conducted either late at night or early in the morning. In addition what commences as an initial ten minute quick interview, can become a forty to fifty minute detailed sharing of thoughts, experiences and opinions. The interview schedule is laid out in appendix C.

As a result, fifteen companies emerged as candidates for phase three of the research. They formed a basis for the main focus of the project: the case study.

5.7. 3 Phase Three: The Case Study.

The third phase of the study concentrated on an examination of a number of case studies in order to gain a deeper understanding of the process of planning and the differing procedures utilised by the small evolving firm. This met the original objective of the design of the study: namely to move from a general, quantitative survey of the sector to a more detailed and specific investigation. It was felt that the most appropriate research tool for achieving this objective would be the case study method. Given the sharp divergence between theory and practice, allied to the over - emphasis on positivistic approaches to research design, it was felt that there was a need to incorporate research tools which would allow for the development of theory. In this respect, researcher such as Eisenhardt (25) and Pettigrew (26) advocate the adoption of the case study as an appropriate technique. It is therefore necessary to justify the selection of this tool and evaluate its usefulness.

5.7.3.1. The Nature of Case Study Research

Gummesson (27) notes that there are two types of case study: one which attempts to derive *general conclusions* from a limited number of cases and the second which seeks to arrive at specific conclusions regarding a *single case.* A tighter definition is provided by Yin (28) who suggests that a case study is an empirical inquiry that:

*	investigates a contemporary phenomenon within its real - life context; when

*	the boundaries between phenomenon and context are not clearly evident; and in which

*	multiple sources of evidence are used.

Perhaps of more relevance to the researcher is the manner in which case studies can be used for research purposes. Yin (29) identifies three such types of uses: *exploratory, descriptive and explanatory.* Traditionally in the field of business research, researchers have viewed case studies as a pilot study; in order to generate questions for subsequent hypothesis testing in a quantitative survey. By contrast a descriptive case study is an attempt to describe a sequence of events in a particular situation. For instance it can be used to describe how a particular product has been developed and launched in the market place. this is often regarded in low esteem by many people who evaluate it in contrast to predictive and prescriptive methods. This rests on he assumption that the material is generated from simple observation and reporting. However Gummesson (30) quotes the views of one researcher who suggests that in order to make descriptions in the first place, the researcher has to make choices and these choices in turn are based on analysis and interpretation. Gummesson takes the view that case studies can also be used for studying processes in companies and also for explanatory purposes. In similar vein, Kjellen and Soderman (31) suggest that case studies can help to generate theory and indeed as a means for initiating change in organisations. This latter view places great emphasis on the need for the researcher to concentrate on processes that are likely to lead to understanding - *Verstehen* - rather than simply as a search for causal explanations.

Gummesson picks up on this theme and argues strongly in his book that one of the important advantages with the case study (if used correctly) is that it can provide the opportunity for a holistic view of a process. He quotes the views of Valdelin who notes that :-

"the detailed observations entailed in the case study method enable us to study many different aspects, examine them in relation to each other, view the process within its total environment and utilise the researcher's capacity for "Verstehen". Consequently, case study research provides us with a greater opportunity than other available methods to obtain a holistic view of a specific research project". (32)

This is clearly viewed as the opposite of reductionism; where the emphasis is focused on breaking down the object of study into small, well - defined parts. It is clear when looking at the results from the second phase of the study that the process of planning within the smaller firm does not lend itself to a neat delineation of elements. It is much more fluid than that and as a consequence it is submitted that the case study method is highly appropriate in an attempt to gain a clearer insight into the process of planning.

5.7.3.2. Criticisms of the Case Method

It has to be acknowledged that the very nature of case studies as highlighted in the preceding section, has attracted a considerable degree of criticism. Hagg and Hedlund (33) identify three such criticisms:-

* Case studies lack statistical validity

* Case studies can be used to generate hypotheses but not to test them

* Generalisations cannot be made on the basis of case studies

The issue of generalisation is perhaps a critical one. Gummesson (34) provides a persuasive argument to suggest that researchers should be increasingly more dubious about the term. The emphasis on the need to be able to generalise, comes in part from the research tradition in the field of marketing, which has been limited to statistical and mathematical methodologies combined with survey techniques drawn from the behavioural sciences. This is changing somewhat. The influential article written by Bonoma (35) in 1985 for instance argues for greater use of qualitative methods in marketing research. In addition he adopts a pragmatic view by suggesting that while the primary objective of all researchers is to achieve a high level of both data integrity and currency, in most cases they will have to trade off one against another. An example would be where the researcher acknowledges the possibility of some bias, in an attempt to achieve a greater degree of generalisation. While this may appear to be a serious weakness, it is submitted that it is a realistic view of the process of, and outcomes associated with research. Bonoma indeed argues that the cause for this possible trade - off is " the inability of any single research method simultaneously to minimise multiple threats to both data integrity and currency" (36). If this view is accepted, then it reinforce the ever recurring theme which runs through this chapter: namely the need for triangulation.

Gummesson himself states that his views have been heavily influenced by Normann who argued that provided the researcher has a good descriptive or analytical language which allows for a comprehensive grasp of the interaction between various parts of the system, possibilities exist to generalise from very few cases, or even one single case. The key to such a possibility exists in the ability of the researcher to *"reach a fundamental understanding of the structure, process and driving forces, rather than a superficial establishment of correlation or cause - effect relationships"* (37)

Gummesson has refined this view and argues that "science is a journey; not a destination" (38). This is a simple but nonetheless a profound statement because it acknowledges that research should be viewed as a continuing process of understanding that never actually reaches the final truth. This sentiment would appear to be very much a driving force for the objectives behind phase three of the study.

5.7.3.3 Making Effective Use of the Case Study Method

Yin (39) identifies a number of required skills which can help to make the case study a more effective research tool. They include:-

* The ability to be able to ask good questions - and to interpret the answers.

* The ability to be a good listener and not allow predispositions or prejudices to influence the interpretation of the information collected.

* The ability to be adaptive and flexible so that newly encountered situations can be seen as opportunities, not threats.

* The ability to retain a firm grasp of the issues being studied.

* The ability to remain unbiased by preconceived notions.

Yin argues that most of these attributes are remediable and that any researcher who is lacking in one or some of the skills can work on them. However there is a fundamental requirement to carry out an honest assessment before embarking on the case study method.

Leavy (40) makes the astute observation that many of the classical exponents of case - based research (see Mills (41) , Van Maanen (42)) agree on the fact that there is a *craft* process attached to what they do. He also cites the views of Mintzberg (43) who draws the analogy of detective work or the tracking down of patterns as being of critical importance during the development and subsequent analysis of case studies.

The preceding observations reinforce the perception that the case study method should not be viewed as a simple, straightforward exercise. Leavy encapsulates this perception by noting that;-

".......case - based qualitative studies consist of 95% perspiration and 5% inspiration. However that 5% element is particularly critical in qualitative research and is the product of a somewhat mysterious process of the imagination". (44)

5.7.3.4. Justification for the Selection of the Case Method

The purpose and nature of the case study method have been investigated in the previous sections, together with an outline of the criticism which have been made of it. It is necessary at this stage to put forward the main reasons as to why such a method was utilised for this study.

Firstly the case study provides for a situation where a variety of different methods can be used in the generation of data and subsequent analysis and interpretation. This approach ensures that the researcher does not become hidebound or dependent on any one technique. As has been stressed earlier, the case study method calls for a degree of flexibility in the approach of the researcher. While this can create problems, it is argued that it follows a more realistic approach than would be the case where a single data collection method is used. Thus triangulation is achieved through this mixing of methods.

Secondly the case study is viewed as being a suitable tool which allows the researcher to gain access to reality. It means that the level of personal involvement and amount of interaction is far higher than is the case with traditional research tools such as telephone interviews or mailed questionnaires. Thus the case study provides a logical, sequential development from the information gathered in phases one and two of the study. It can be argued that *action research*, where the researcher works in the capacity of a consultant / change agent, with a company or organisation, over a long period of time, provides a much greater level of interaction, understanding and access. However this was not possible from a practical or indeed logistical point of view.

Given that both the review of literature and the results obtained from phases one and two, highlighted the clear deficiencies between current theory and apparent practice, it became clear that there was a need to utilise inductive research. In this respect, the approach as advocated by Gummesson (45) was deemed to be most appropriate. Thus both inductive research and deductive research can work hand in hand. Initially, inductive work can generate data. This data can subsequently generate deductive research in an effort to arrange data in meaningful patterns, followed by new inductions and so on.

It has been constantly argued throughout this work that the study of how the evolving firm utilises planning is a complex one. It therefore behoves the researcher to gain an understanding of the procedures adopted, within a range of different contexts (depending on the stage of the life cycle). It is argued that this cannot be achieved through the positivistic paradigm. Instead it calls for a level of interaction and access which can only be found through the case method.

5.7.3.5. Utilisation of the Case Study Method in the Study

Fifteen companies were identified as being suitable candidates for further, more detailed investigation in the second phase of the study. A rapport had been developed with the managing director from the telephone interview. Therefore it was relatively easy to set up a series of company visits.

The first potential problem which had to be addressed was the question of how many cases should be conducted within phase three? The approach known as purposive or theoretical sampling as advocated by Gummesson (46) was finally adopted. Under this method, the principle of saturation is pursued. This means that the researcher adds cases until the marginal utility of additional cases is small i.e. a new case adds little to the understanding which has been already achieved. Thus while fifteen visits were made, only eight detailed case studies are presented in a later chapter. Arising from phase two of the study it became clear that in order to ensure a representative selection of companies which would reflect the diversity of approaches to planning the following considerations would need to come into play when deciding on the companies. These included:-

* The length of time the company was trading

* The nature of the product offering (high - tech, mid - tech or low - tech)

* The propensity to export

* The management style of the managing director / owner - manager

* The position of the firm on the small firm growth cycle.

It was also felt that the analysis of the material generated from the studies would be improved if a research colleague accompanied this researcher on the visits to the companies. This is a stance which is strongly advocated by Pettigrew (47) who argues that it allows the case under investigation, to be viewed from the differing perspectives of multiple observers. Eisenhardt and Bourgeois (48) have also made effective use of the variation in their research. In this way, a subsequent sharing of interpretation would further add to the richness of the data and the subsequent interpretation. This colleague had been aware of the researcher's work in the earlier phases and was fully conversant with the subject matter prior to the company visits.

Every attempt was made to tape the interviews. For the most part, respondents were happy to comply with this request. The typical interview lasted one to two hours with a detailed tour of the factory. Most respondents provided access to documentation (business plans) so that the researchers could observe the tangible evidence. This part of the case study could be deemed to be the formal interview. Where possible (depending on the time available and the willingness of the respondent) both interviewee and interviewers went to lunch. This part of the investigation was not taped. Rather the objective was to create a relaxed atmosphere where both parties could unwind. It proved to be an effective means of "gaining access" to the respondent because it took place away from the "office environment". This in turn meant that information was shared which may not have emerged in the formal interview.

When the company visit and interviews were completed, both this researcher and his colleague remained in the hotel, where time was spent sharing thoughts and interpreting / summarising the information which had been generated. This was "talked" into a tape recorder; thus providing a further level of data and more importantly ensuring that early impressions or thoughts were captured. It was felt that if such an exercise was not pursued, a number of ideas would be lost, through the passage of time.

This pluralistic view of method adoption and techniques employed greatly enhanced the quality and richness of data and supported the view of previous researchers such as Gummesson that it is better to use a strategy where the "problem recruits methods rather than the method recruits problems." The results of this approach can be examined in a later chapter.

5.8. Summary

This chapter has provided a detailed examination of the research methodology adopted in the study. The review of the literature in the area of small business development and entrepreneurship revealed a large discrepancy between the normative, prescriptive approaches which appear in the literature, and the practices which are adopted in reality. Thus it was of paramount importance that the research strategy developed for this study should take account of this feature.

The first stage of the study involved a series of in - depth interviews with fifteen chief executives / owner - managers, with the overall objective of providing the researcher with a pre - understanding of the converging and diverging approaches to planning which are employed by a broad spectrum of companies located in Ireland. This included fast moving consumer goods companies, services and industrial companies. It also covered multi - national corporations located in Ireland as well as small, medium and large Irish - owned companies. While not viewing this phase of the study as being central to the eventual aims and objectives, it is submitted by this researcher that it provides an initial insight into planning practices. This can subsequently be used to structure the remaining phases of the study.

The electronics sector in Ireland was chosen as the focus for the subsequent stages of the study. Successive governments have sought inward investment from foreign companies since the late 1960's, with the overall objective of persuading them to develop production facilities and later to locate key strategic business functions (such as marketing and research and development) in this country. In the longer term, there was the expectation that a viable, indigenous electronics sector would emerge as entrepreneurs spotted opportunities to either supply the foreign firms which had located in Ireland or started enterprises which addressed unexploited or undiscovered needs in the market place. A study by the Department of Industry and Commerce of 96 Irish - owned companies in 1990, was used as the base from which companies would be selected for this study.

It has been argued that there is a need for a pluralistic approach to be adopted when designing the research methodology to be employed. Because of the lack of understanding of the nuances and processes associated with planning and growth in the small firm, an inductive approach is needed. This would allow the researcher to get closer to the specific environment than would be the case if a purely deductive research design was utilised. Given the idiosyncratic nature of the entrepreneur / owner - manager with regard to business planning and development, it was felt that the case study method would allow the researcher to investigate a number of companies to establish patterns and attempt to improve the level of understanding and generate theory.

Prior to arriving at this phase of the study, it was also submitted that a quantitative survey should be employed. This would allow the researcher to establish a general picture of current practices with regard to the utilisation of planning procedures within the indigenous electronics sector in the Republic of Ireland. This phase also allows the research to identify those companies which could subsequently be invited to participate in the final stage of the study.

In essence, a *cascading* approach to research strategy was adopted: moving a general investigation of planning practices in companies, irrespective of sector or size, to a detailed examination of a limited number of cases. The remaining chapters present the analysis of the data generated with conclusions and recommendations.

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CHAPTER SIX

PHASE ONE: EXPLORATORY INTERVIEWS

PHASE ONE: EXPLORATORY INTERVIEWS

6.1. Introduction

This chapter presents the main findings from the initial phase of the research project. It was argued in the previous chapter that benefits could be obtained from undertaking a small number of exploratory interviews with companies operating in Ireland, with the primary objective of identifying the alternative approaches to planning in these organisations. The main justification for including this stage in the research design was the belief, largely established from the review of the literature in the area (in chapters two and three), that there is a major discrepancy between theory and practice. Given this divergence, this exploratory phase provides an initial pre - understanding of the critical factors and influences which impinge on the design and implementation of the planning process.

6.2. Selection of Companies

The companies which were included in this phase were selected on the basis of the following criteria:

* The nature of the product (industrial, consumer and services)

* The size of the company (number of employees)

* Nature of the company ownership (foreign - owned, as a consequence of a management buy - out, indigenous)

* Proportion of sales coming from export markets.

At this stage of the project, it was felt that the inclusion of a broad base of companies would generate a comprehensive picture of the various approaches to planning, rather than identifying a pattern which might be specific to any one sector or category of company. While the overall focus of the project is on indigenous companies in the electronics sector, this initial phase would help to identify different patterns and perhaps shed some light on why there is a discrepancy between theory and practice.

A number of companies were selected from the Kompass Directory. These companies met the criteria outlined in earlier paragraphs. A small number of companies were included that were known to the researcher, based on his involvement with the Marketing Institute of Ireland. The approach adopted to sample selection could best be described as *convenience sampling*. Such an approach has the merit of allowing the researcher to more readily identify companies that would be appropriate for the particular schedule of interviews. It also allows for the inclusion of companies that the researcher can access more readily, due to prior knowledge of the owner, or personnel from within the organisation. Clearly a form of inherent bias can exist with such an approach: the company may not be representative of the way in which a company which is randomly selected from the population might respond to a request for an interview. However it is argued that the objective of this phase of the research project was not one of arriving at any final conclusions about planning practices in Ireland: rather it was one of providing the researcher with an initial pre - understanding of the critical variables and influences on the planning process. These could subsequently be reviewed and incorporated into phases two and three of the project.

6.3. Nature of the Interview

Because of the exploratory nature of this phase, it was felt that a series of in - depth interviews would allow the researcher to explore a number of themes. In order to identify a broad range of views and practices, it was argued that the interviews should not be undertaken solely with the owner or managing director of the company in question. Thus the interview schedule featured personnel from the following backgrounds:

* Managing Director
* Finance Director
* Group Product Manager
* Marketing Director
* Technical Director

The following major themes were covered:

* The background and evolution of the company
* The organisational structure

* The role, background and responsibilities of the Chief Executive Officer
* The approach adopted to strategic planning
* Level of collaboration between the business functions
* The influence of the marketing plan on the overall business plan
* The performance of the company over recent years
* To probe the respondent on a number of issues (see appendix B)

The average interview lasted between an hour and a half to two hours. An introductory letter was sent to eighteen companies. Due to time constraints on the part of the researcher, a two week time frame was available for the administration of this phase. The recipient of each letter was contacted by phone a week later with a view to arranging for a suitable time for the interview. Due to the heavy work commitments of three of the executives, they could not meet with the researcher during the timetable outlined to them. They agreed to participate at a later stage, if required. One other individual had moved to another company. Therefore fourteen companies participated in this phase. They are listed in table 6.1.

TABLE 6.1. LIST OF PARTICIPATING COMPANIES

Evode Industries
Ashling Electronics
Cornell Electronics
Mohawk Europa
Michelin Tyres
Tivoli Spinners
Datac Electronics
Erictron
Clonmel Chemicals
Nicholas Laboratories
Abbey Life Assurance
Prime Computers
ICL Computers
Memorex Telex Ireland

6.4. Emerging Issues

1. The number of employees in the organisation is not an effective method for differentiating between companies. Of much greater importance was the way in which the company evolved and, more specifically, the manner in which the management structure within the organisation emerged: a large company (in terms of numbers employed and containing a departmental structure) does not necessarily ensure that there is evidence of detailed planning within the organisation.

2. There were clear differences in the approach to planning depending on whether the company was: a subsidiary of a foreign - owned company, an indigenous company, the result of a management buy - out, or based on the nature of the relationship between the subsidiary and its parent.

3. One of the participating companies: Prime Computers, which was a subsidiary of an American company, had the least responsibility for planning activities. It was solely a "box - shifter", responsible for manufacturing product as designated by central office. It was geographically separated from the other two global factories; manufacturing and marketing. It received a fortnightly manufacturing order from the marketing division.

4. Other subsidiaries of foreign - owned firms had responsibility for developing long - term plans, usually taking a three to five year perspective and of a "rolling" nature. However this plan was monitored closely by the parent and in most cases the framework for the plan was provided by them; leaving the subsidiary to enter the relevant data under set headings.

5. The middle point of the extremes identified in points three and four occurred with subsidiaries where they took responsibility only for the annual, activity - based, operational plan.

6. A number of the participating companies emerged as a result of a management buy - out (MBO). They exhibited a degree of proactiveness in terms of planning which did not appear to be evident either in subsidiaries or indigenous start - up enterprises. Perhaps this is not so surprising, given that MBO's typically have to encounter a change in mind -

set from that of a passive, protected subsidiary, to that of an aggressive company which has to survive on market forces alone.

7. The role of the CEO cannot be understated. In nearly all cases, the Chief Executive, consciously or sub - consciously, ends up playing a proactive, strategic role in the planning process. The marketing function, in many of the cases, appeared to be subsumed into the overall strategic plan; particularly in the smaller companies. While many of those interviewed came from a technical or non - marketing background. However the interviews identified with a strong belief that they had an implicit understanding of what the marketing concept means and also that they were adept at implementing it.

8. The smaller company (defined in the context of the management structure and not necessarily the number employed) makes decisions more flexibly and quickly and can adapt more readily to changing market circumstances. It also adopts a more informal approach to the planning process.

9. In small organisations, the Owner / Chief Executive is much closer to the various business functions, the customers and the competition. There is also evidence of a significant level of collaboration and sharing of job responsibilities e.g. marketing taking responsibility for production scheduling.

10. The more successful companies placed a strong emphasis on internal training and staff development.

6.5. Summary

This preliminary phase of the research project has allowed the researcher to develop a clearer insight into the alternative approaches to planning within Irish companies. It reinforced the previously held view that the small company exhibits a number of characteristics which make it imperative to undertake more detailed and substantive research into the planning process (or lack of) which exists in such companies.

The emerging issues identified in the preceding paragraphs suggest that the approach used by the individual company can be placed in three categories: a minimalist approach, where the key structure and framework is provided by the parent company, a proactive, structured planning document (typically generated by MBO's) or an informal approach to planning, where no formal document exists.

Except for those subsidiaries which followed a planning document provided by the parent organisation, most companies subsume the marketing function into the overall business plan.

It was felt, at the end of this phase of the project, that the exercise had been worthwhile. It allowed the researcher to use the information to shape the direction of the research in phases two and three. This is examined in previous chapter and the results are presented in the following two chapters.

CHAPTER SEVEN

PHASE TWO: ANALYSIS OF QUANTITATIVE DATA

ANALYSIS OF QUANTITATIVE SURVEY - PHASE TWO

7.1. Introduction

Fifty companies participated in this phase of the study. Forty seven of the respondents founded the company; three people joined the company at a later stage in its development. Only three respondents achieved an education level below third level. Of the remaining forty seven, three held a PhD, while seven held a masters qualification. Thirty respondents acquired a primary degree in science or engineering. Only one of the fifty people interviewed was female.

7.2. Formation of Enterprise - General Findings

The initial section examined the circumstances which lead to the formation of the enterprise. Table 7.1 shows that the fifty companies which participated in the survey follow the typical pattern experienced in the literature with the identification of an opportunity cited as the most common issue which led to the establishment of the enterprise.

Table 7. 1 Reasons leading to the formation of the company

REASON	NO. OF MENTIONS	%
Identification of opportunities	31	62%
Quest for independence	9	18%
Job dissatisfaction	8	16%
MBO	8	16%
Influence of colleagues	5	10%
Redundancy	4	8%
BASE: 50 COMPANIES		

The initial task of attracting customers in the initial stages of development reflects the importance of personal contacts and networking by the founder of the company. By contrast the role of advertising and other elements of the promotional mix is relatively minor at this stage of development. In addition to the utilisation of such contacts, the role of proactive selling is stressed by many of the respondents. Table 7.2 demonstrates these points.

Table 7. 2 Methods used to attract customers

METHOD	NO. OF MENTIONS	%
customer pledges	31	62%
active selling	23	46%
customer pledges	9	18%
attending exhibitions	8	16%
media advertising	5	10%
offering a new product	2	4%
BASE: 50		

A crucial issue in the development of the small firm is the length of time taken before the founder introduces outside, professional expertise to the operation. This can have a significant impact on whether the company continues to grow, stagnates or runs into difficulties. Table 7. 3 identifies the findings from the survey.

Table 7. 3 Length of time taken to bring in outside expertise

Time	No.	%
colleagues already involved	21	42%
within 6 months	6	12%
6month - 1 year	5	10%
1 - 3 years	15	30%
> 3 years	2	4%
not yet	1	2%
base: 50 companies		

These figures indicate that over 40 per cent of the companies already had brought expertise to the company at the outset: either through partners or by employing colleagues. While this would appear to be a positive finding, it should be borne in mind that 30 percent of the company did not introduce professional expertise until after the first year of operations. The main reasons offered for this were the financial constraints encountered by the company and the need to keep a tight control on the enterprise's activities during that crucial first year.

Table 7.4 reveals that the production, R&D and finance functions were identified as being the most important areas to cover in the initial stages of development. By contrast, the marketing and sales functions were given lesser prominence. This is explained perhaps by the fact that many of the founders undertook these functions in the initial stages and recognised that, as orders began to emerge from prospective customers, it became critical to have somebody else in charge of the day - to - day operations in the factory.

Table 7. 4 Initial functions filled by the company.

Function	No. of mentions	%
production	22	44%
R&D	14	28%
Finance	10	20%
Technical	4	8%
Marketing	3	6%
Sales	2	4%
everything in place	2	4%
	BASE: 50	

Respondents were also asked to indicate if their roles and responsibilities have changed much as the company has developed. This question was designed to provide some evidence about whether or not the respondents encountered difficulties in relinquishing responsibilities as the company expanded. Table 7.5 shows that 70% of the respondents have either relinquished initial areas of responsibility to others or have ceased to become involved in the day - to - day operations of the business. The chief reason proffered for this latter position was the need for the founder to take a more strategic view of the business. If this were to be achieved, then it was perceived as being essential that the operational considerations needed to be devolved to other people in the company. Three respondents had set up holding companies to allow for this desire to only become involved in strategic decision - making.

Table 7. 5 **Have your roles and responsibilities changed?**

	Respondents	%
remained the same	15	30%
relinquished as professional management is introduced	23	46%
ceased to become involved in day - to - day considerations	12	24%
	BASE: 50	

7.3. Approach to Planning: General Findings

This section of the general findings examines the approach of the companies to planning within their operations. The first question asked the respondents to identify the time -period which they consider when mapping out the future direction of their business. The findings in table 7. 6. reveal that seventeen of the fifty companies have a time - frame of less than one year. Issues such as *unpredictability and the volatile nature of the industry* were cited as being reasons for avoiding a longer time period for planning processes.

Table 7. 6. **Indicate the time - frame you apply when planning your activities?**

PERIOD	RESPONDENTS	%
< 1 year	17	34%
1 - 2 years	6	12%
3 years	15	30%
3 - 5 years	10	20%
over 5 years	2	4%
	BASE: 50 COMPANIES	

These figures reveal that over half of the companies take a time span of three years or more when planning their business operations. The need to monitor the longer term trends in the industry was highlighted by many of the respondents as being the main reason for taking such a perspective. The fact that many sectors within the electronics industry are considered to be in a constant state of change was also mentioned as being a critical factor for taking a longer term view of the business. It is interesting to see that this issue of volatility was also offered as a reason for not taking a long term view by seventeen of the companies. It would appear that the attitude / personality of the founder towards unpredictability influenced whether or not a short, or a longer term perspective was taken.

The next question asked if the respondent developed a plan, either formal or intuitive. Table 7. 7. presents the main findings.

Table 7. 7. The extent of planning? Formal, intuitive or none at all.

RESPONSE	NUMBER OF COMPANIES	%
no planning at all	3	6%
intuitive but not written	18	36%
formal, written by founder only	8	16%
formal, prepared by senior management	21	42%

BASE: 50 COMPANIES

The above figures show that the role of the intuitive, informal plan features strongly within the firms surveyed. Interestingly, eight respondents indicated that while they developed a formal plan for circulation amongst the relevant personnel, they prepared it themselves without any formal involvement of such personnel. This would appear to indicate a reluctance to relinquish control over decision - making to colleagues. As might be expected, firms that were longer in existence and which had already brought in outside, professional management, were more disposed to the concept of a formal plan. This will be examined in more detail in a later section of this chapter.

Of the twenty nine companies which indicated that they prepared a formal plan, twenty five (87%) stated that they prepared a single business plan, while the remaining four companies prepared separate functional plans. They included sales, financial and production plans. These, albeit, general findings support the hypothesis that small firms, if they prepare a formal plan, will do so in a general manner, taking a business, rather than a functional approach to the design of the plan.

Table 7.8. examines the content of the formal business plan as prepared by the twenty five companies.

Table 7. 8. **Contents of the Business Plan**

ELEMENT	No. OF COMPANIES	%
Review of current business situation	23	64
Assessment of opportunities/threats	21	58
Mission statement	5	14
Sales objectives	31	86
Market share objective	24	67
profit objective	22	61
Targeted ROI	21	58
Other business objective	3	8
Expenditure - equipment, factory	32	89
Expenditure - promotion	28	78
Expenditure - training, education	8	22
Assessment of competition	13	36
Marketing strategy	8	22
Other	6	17
BASE: 50 COMPANIES		

These figures reveal that the cohort of companies that develop a formal business plan: twenty five out of a total of fifty (50%), include many of the typical elements outlined in the literature. Superficially, it would appear that such companies adhere to a rigid, sequential and logical approach which much of the literature prescribes. The statistics however are deceptive. The open - ended nature of the questioning allowed for further probing, in an attempt to gain a better understanding of how such business plans are utilised by the companies. In this respect, many of the respondents stated that they saw such a planning exercise as useful for focusing either the founder's or senior management's attention on some of the critical issues facing the company over the foreseeable future. Others however saw such an exercise as largely a cosmetic one, designed to attract loans from relevant lending agencies or as a mechanism for getting grants from government agencies such as Enterprise Boards or the Industrial Development Authority. This raises the question as to whether planning is viewed as a process, designed to be implemented within the enterprise, or something which is undertaken for external requirements, but irrelevant for the operations of the company?

It is apparent from table 7.8. that companies take a partial approach to business planning. The most frequently cited elements revolve around one or two business objectives, allied to budget allocations for the coming twelve months.

Table 7.9. provides some evidence as to how the fifty respondents understand the term "marketing concept".

Table 7. 9. **What do you understand by the term "marketing Concept?"**

STATEMENT	No. OF MENTIONS	%
Marketing satisfies customer needs	29	58%
Marketing means selling	20	40%
Marketing means advertising	4	8%
marketing equates to customer service	8	16%
Other	8	16%
BASE: 50 COMPANIES		

The findings indicate that while many companies do not have a formal marketing function, the basic concept is understood by under sixty per cent of the respondents.

The "other" statement is explained by the fact that some respondents equated marketing with the management of quality, or, in some cases, new product development.

7.4. Approach to Planning: Impact of Size of Customer Base

Thus far the analysis has examined the general findings from an analysis of the fifty companies which participated in the survey. It was also felt to be appropriate if a more specific analysis of the companies was undertaken. This section examines some findings which indicate the extent to which alternate hypothesis was supported or rejected. This stated that: ***the level of formality of planning will depend on the size of the customer base.*** In other words, companies which have a low customer base will follow the intuitive approach to planning because of the closeness of the relationships with the customers. By contrast companies which have a broad customer base will tend to adhere to a more formal planning approach in order to maintain control and direction over the business operations. Table 7.10. identifies the breakdown of the fifty companies by the size of the customer base. The **Chi - square test** was applied to determine whether real or significant differences exist among groups of data, or whether the differences are merely due to sampling. The level of significance chosen was 0.05.

Table 7.10. **Size of Customer Base**

SIZE OF CUSTOMER BASE	COMPANIES
< 10 Customers	18
11 - 20	20
> 20	12

The extent to which the roles and responsibilities of the owner have changed are examined in table 7.11. The findings reveal that there is a strong tendency for the roles to remained unchanged if the company has a relatively low customer base. This would appear to support the view that it is easier for the owner of the business to retain maximum control over the direction of the business if there are only a small number of customers to manage. Over seventy three per cent of the respondents with a customer base of under 10, stated that their roles had remained unchanged since the formation of the company. By contrast only one respondent out of twelve companies with a customer base of over 20, indicated no change in the roles and responsibilities.

Table 7.11. Extent of Change in Roles and Responsibilities

	SIZE OF CUSTOMER BASE		
Issue	< 10	11 - 20	>20
Remained the same 15 **Chi: 13.12 (significant)**	11 (73%)	3 (20%)	1 (7%)
Relinquished as professional management arrived 21 **(Chi: 7.6, significant)**	4 (17%)	13 (57%)	4 (26%)
Ceased to be involved in day - to - day operations 11 **Chi: 3.99: not significant**	2 (25%)	4 (37.5%)	5 (37.5%)
Other changes 3 **Chi: 3.70 not significant**	1 (33.3%)	0 (0%)	2 (66.7%)
	BASE: 50 COMPANIES		

The next section examines the level of formality associated with the planning process: whether or not plans are developed at all, intuitively, but not written down or formally prepared and circulated within the company.

Table 7.12. Preparation of the Plan

APPROACH	SIZE OF CUSTOMER BASE		
	< 10	11 - 20	> 20
No planning at all 3 **Chi: 5.67 not significant**	3 (100%)	0	0
Intuitive but not formally written down 18 **Chi: 3.50 not significant**	9 (50%)	7 (39%)	2 (11%)
Formally written by owner only 8 **Chi: 2.92 not significant**	5 (62.5%)	2 (25%)	1 (12.5%)
Formally written by owner and senior management 21 **Chi: 16.56 significant**	1 (4.8%)	11 (52.4%)	9 (42.8%)
	BASE: 50 COMPANIES		

The analysis contained in table 7.12. shows that fifty per cent of the companies with a customer base of less than ten, develop intuitive plans which are not formally written down or circulated to other people in the company. A further three companies in this category stated that they do not undertake any planning activities whatsoever. When the companies in the > 20 customers category are examined, it can be seen that ten of the twelve companies prepare a formal, written plan. This would again appear to support the proposition that companies with smaller customer bases are more likely to rely on the intuitive knowledge of their requirements, both present and future, which the founder holds. Further probing of this issue during the interview revealed that many of the respondents in this category stated that their ability to respond quickly to customer needs, allied to their frequent meetings, ensured that they were fully aware of future trends and developments with each customer. This, in turn, negated the need for any formal written document.

Contents of the Plan

The next section examines the content of the plan, as outlined by the respondents. The first issue to comment on from the statistics presented in table 7.13. is that fourteen non - responses were recorded. While three companies out of the fifty respondents reported that they do not engage in any planning activities at all (see table 7.8), it means that eleven of the eighteen companies claiming to utilise intuitive planning did not engage in any of the activities outlined in table 7.13. The implication arising from this is that companies in this position, whilst claiming to plan intuitively, do so in a very vague and unclear manner. A more cynical interpretation would suggest that they have no understanding of what is contained in the planning process.

Table 7.13. reveals a consistent pattern whereby, on any one of the elements listed (except for three), less than twenty five percent of the companies in the **< than ten customers** category included it as part of their planning activities. By contrast, if the other two categories are considered, it can be seen that the percentage increases substantially: in the case of companies with more than 20 customers, rising to greater than 80 per cent in many instances. This would suggest that the content and substance of the plans varies, depending on the size of the customer base; a company with a low customer base will rely to a much smaller extent on a structured, developed plan. Likewise, the depth of the planning process, in terms of the number of issues included in the plan, is much more likely to increase, as the customer base rises. Additionally table 7.13. shows that of the eighteen companies in the < than ten customer category, eight made no response to the question, indicating that they did not engage in any of these activities.

Table 7.13. **Contents of the Business Plan**

		Size of Customer Base		
Element	**Total (50**	**< 10 (18)**	**1 - 20 (20)**	**>20 (12)**
No reply	14 **28%**	8 (57%) **44.4%**	6 (43%) **30%**	0 (0%) -
Chi: 7.12 significant				
Review of current business situation	23 **46%**	4 (17.4%) **22.2%**	10 (43.5%) **50%**	9 (39.1%) **75%**
Chi: 8.28 significant				
Assessment of threats and opportunities	21 **42%**	4 (19%) **22.2%**	8 (38.1%) **40%**	9 (42.9%) **75%**
Chi: 8.28 significant				
Mission statement	5 **10%**	1 (20%) **5.6%**	2 (40%) **10%**	2 (40%) **16.7%**
Chi: 1.00 not significant				
Sales Objective	31 **62%**	8 (25.8%) **44.4%**	13 (41.9%) **65%**	10 (32.3%) **83.3%**
Chi: 4.75 significant				
Market share objective	24 **48%**	3 (12.5%) **16.7%**	11 (45.8%) **55%**	10 (41.7%) **83.3%**
Chi: 13.47 significant				
Profit objective Chi: 3.07 not significant	22 **44%**	5 (22.7%) **27.8%**	11 (50%) **55%**	6 (27.5%) **50%**
Target ROI **Chi: 8.26 significant**	21 **42%**	3 (14.3%) **16.7%**	10 (47.6%) **50%**	8 (38.1%) **66.7%**
Expenditure / equipment **Chi: 5.66 not significant**	32 **64%**	9 (28.1%) **50%**	12 (37.5%) **60%**	11 (34.4%) **91.6%**
Expenditure / promotion **Chi: 8.63 significant**	28 **56%**	7 (25%) **38.8%**	10 (35.7%) **50%**	11 (39.3%) **91.6%**
Expenditure / training **Chi: 7.87 significant**	8 **16%**	1(12.5%) **5.5%**	2 (25%) **10%**	5 (62.5%) **41.7%**
Assessment of competition **Chi: 4.78 not significant**	13 **26%**	3 (23.1%) **16.7%**	4 (30.8%) **20%**	6 (46.2%) **50%**
Marketing Strategy **Chi: 7.87 significant**	8 **16%**	1 (12.5%) **5.5%**	2 (25%) **10%**	5 (62.5%) **41.7%**
Other **Chi: 1.13 not significant**	6 **12%**	1 (16.7%) **5.5%**	3 (50%) **15%**	2 (33.3%) **16.7%**
		BASE: 50		

This section has demonstrated that the size of the customer base plays an important role in determining the extent to which the planning process is formalised, and within that level of formalisation, the breath of content and structure contained in that process. Put simply, it is clear that companies that have a small customer base rely more on the closeness of the relationship to interpret and understand present and future requirements of the individual customer. This, in turn, suggests that the founder relies to a much greater extent on the intuitive knowledge and understanding of the market place. As the customer base expands, it becomes more likely that the company will engage in formal planning, as it is more difficult to maintain a very close relationship with each individual customer.

It is also evident that companies with a low customer base are more likely to eschew the concept of planning, whether it be formal or intuitive. However it would be dangerous in the extreme to assume that this practice constitutes an incompetent approach to managing the business operations of the enterprise. Closer probing of the respondents revealed that the ability to liaise closely with such a small customer base ensured that the company was capable of acting proactively to the needs and requirements of the customer. This, in turn allowed the owner to project the way in which the enterprise would continue to expand, because many respondents perceived themselves to be working almost as partners with the customer. While there may be a marked absence of a formal business plan, there is a clear understanding, on the part of the founder, as to where the company is going, and how its relationship with the individual customer will evolve.

In addition table 7.12. shows clearly that the roles and responsibilities of the founder has a much greater tendency to remain the same if there is a low customer base. This allows the founder to retain as much control as possible as, in many cases, it was he or she who instigated the initial contact with the customer in the first place. Therefore the null hypothesis that ***there is no evidence to suggest that the level of formality of planning will depend on the size of the customer base*** is **rejected.**

7.5. Approach to Planning: Impact of Length of Time Established

The next section considers the relationship between the length of time the enterprise was established and the approach to planning which is adopted by the individual company. The breakdown of the companies which participated in the survey was as follows:

less than 5 years	**6 to 10 years**	**more than 11 years**
8	**17**	**25**

Table 7.14. shows how the respondents, engaged in the preparation of the planning process.

From the review of the literature and, in particular, the growth models, the following alternate hypothesis was developed in the research methodology chapter:

The sophistication of the planning process will increase the longer the enterprise has been established.

Table 7.14. Preparation of the Plan

	YEARS ESTABLISHED		
APPROACH	**< 5 YEARS (8)**	**6 - 10 YEARS (17)**	**> 11 YEARS (25)**
No planning at all 3 **Chi: 0.70 not significant**	0 (0%)	1 (33.3%)	2 (66.7%)
Intuitive - not formalised 18 **Chi: 1.50 not significant**	2 (11.1%)	8 (44.4%)	8 (44.4%)
Prepared by founder only 8 **Chi: not significant**	2 (25%)	2 (25%)	4 (50%)
Prepared by senior management 21 **Chi: not significant**	4 (19%)	6 (28.6%)	11 (52.4%)
	BASE: 50 COMPANIES		

As to the general question of the general approach to planning, the results from table 7.14. are inconclusive. Two of the respondents who claimed that they engaged in no planning activities at all, came from that category of companies that were in existence for a period of greater than eleven years. This would appear to challenge the traditional view that the more established firms would have, at the very least, some evidence of a planning process in existence. Further investigation revealed that the two companies had a low customer base (< than ten customers), which would suggest that this was a more critical influencing variable than the length of time the company was established.

The extent to which the planning process was intuitive also produced some surprising findings from the survey. Of the eighteen companies which stated that they used an intuitive approach to planning, only two were to be found in that cohort of companies which were in existence for a period of less than five years. It might have been expected that a higher proportion of companies employing this approach would have been located in the more recently established companies. The other sixteen companies were evenly spread between the remaining two categories. This suggests that the length of time that the company is established, has little influence over the general approach to the planning process which is adopted by the companies.

Table 7.15. considers the content and structure of the planning process, as outlined by the respondents. The results from table are again inconclusive. Allowance has to be made for the fact that there are fewer companies in the category of **< than 5 years:** eight, as opposed to seventeen and twenty five, for the remaining two categories. The most frequently mentioned elements cited by the respondents were; sales objectives, expenditure on factory and equipment and expenditure on promotion. The latter two were the most mentioned for the more recently established companies. It is argued that this is to be expected, as companies in the early phase of development have to place investment in facilities at the top of the business agenda, due, in many cases, to the fact that problems of space and inadequate equipment mean that priority has to be given to upgrading these areas. In addition, the need to develop brochures and attend exhibitions and trade fairs plays a critical role in allowing the owner / founder to make contact with prospective customers and engage in an "awareness" exercise.

Sales targets, as an objective, appear to be given a higher priority by companies in all categories, than market share and profit, although it would be unwise to read to much into this statistic as the latter two objectives, were cited by fifty six per cent of those companies which were in existence for over eleven years. The frequency of mentions of these two objectives was lower in the case of the more recently established companies.

The issue of formal development of a marketing strategy also receives a very low frequency of mention. Only eight companies cited marketing strategy as something which was a formal part of their overall business planning process. The surprising aspect of this is that so few companies which have been established for over six years have developed marketing strategies: two in the **6 - 10 category** and six in the **> 11 year category.**

Those elements which received the lowest frequency of mention included; marketing strategy, expenditure on training and education, mission statements and assessment of the competition. It is to be expected that a mission statement might not feature too high an a small company's agenda, and this proved to be the case. However, although only five companies specifically identified it as an element of their plan, two were to be found in the most recently established companies. Closer examination of the responses revealed that the five companies who answered in the affirmative were founded by people who had worked for large multi - national corporations and were clearly influenced by the planning procedures of such organisations, where mission statements feature prominently.

Table 7.15. Contents of Plan

Element	Years Established < 5 years (8)	6 - 10 years (17)	> 11years (25)
No reply 14 **28%** **Chi: 4.8 not significant**	1 (7.1%) **12.5%**	8 (57.1%) **47.1%**	5 (35.7%) **20%**
Review of current situation 23 **46%** **Chi: 1.7 not significant**	5 (21.7%) **62.5%**	6 (26.1%) **35.3%**	12 (52.2%) **48%**
Assessment of threats/opportunities 21 **42%** **Chi: 0.11 not significant**	3 (14.3%) **37.5%**	7 (33.3%) **41.2%**	11 (52.4%) **44%**
Mission statement 5 **10%** **Chi: 2.43 not significant**	2 (40%) **25%**	1 (20%) **5.9%**	2 (40%) **8%**
Sales objective 31 **62%** **Chi: 0.97 not significant**	5 (16.1%) **62.5%**	9 (29%) **52.9%**	17 (53.1%) **68%**
Market share objective 24 **48%** **Chi: 1.75 not significant**	4 (16.7%) **50%**	6 (25%) **35.3%**	14 (58.3%) **56%**
Profit objective 22 **44%** **Chi: 3.06 not significant**	3 (13.6%) **37.5%**	5 (22.7%) **29.4%**	14 (63.6%) **56%**
ROI 21 **42%** **Chi: 4.46 not significant**	3 (14.3%) **37.5%**	4 (19%) **23.5%**	14 (66.7% **56%**
Other business objectives 3 **6%** **Chi: 3.19 not significant**	0 (0%) -	0 (0%) -	3 (100%) **6%**
Expenditure - factory/equipment 32 **32** **Chi: 1.5 not significant**	6 (18.8%) **75%**	9 (28.1%) **52.9%**	17 (53.1%) **68%**
Expenditure - promotion 28 **58%** **Chi: 2.85 not significant**	6 (21.4%) **75%**	7 (25%) **41.2%**	15 (53.6%) **60%**
Expenditure - training 8 **16%** **Chi: 0.1 not significant**	1 (12.5%) **12.5%**	3 (37.5%) **17.6%**	4 (50%) **16%**
Assessment of Competition 13 **26%** **Chi: 3.09 not significant**	2 (15.4%) **25%**	2 (15.4%) **11.8%**	9 (69.2%) **36%**
Marketing Strategy 8 **16%** **Chi: 2.94 not significant**	0 (0%) -	2 (25%) **11.8%**	6 (75%) **36%**
Other 6 **12%** **Chi: 0.98 not significant**	1 (16.7%) **12.5%**	1 (16.7%) **5.9%**	4 (66.7%) **16%**

BASE: 50 COMPANIES

The allocation of expenditure to training and development is low across the three categories. This suggests that many companies do not plan, in advance, to allow for expenditure on activities such as running training courses for their employees or funding, if they wish to pursue studies for diploma or degree courses. Further probing during the telephone interviews revealed that more companies are willing to support employees, as, and when they receive a request for help. it can be concluded therefore that while pre - planning to allow for training is not build into the plan by many companies, this does not mean that the issue is ignored by companies in this sector. However it could also be argued that in a business environment such as that which influences the electronics sector, where the management of quality is consistently stressed as a strategic issue, it is worrying to see that training is not treated as an investment which must be factored into the planning process.

The issue of assessing the competition as a formal element of the planning process also receives a low frequency of mention, with only nine of the twenty five companies established over eleven years citing it. This suggests that companies pay less attention to analysing the competition than they do to internal company - related issues. It also supports the view which is widely identified in the literature; that small companies simply do not know enough about their competitors, thus leaving them vulnerable to competitive moves and developments in the market place.

While superficially these figures suggest that small companies in the electronics sector do not utilise marketing as an intrinsic part of their planning activities it is argued that this is a dangerous interpretation. Further probing during the interviews revealed to the researcher that many companies are ***intuitively*** practising the marketing philosophy as advocated by the theorists: they are customer focused, they do respond to customer needs and requirements, they provide high levels of customer service, they utilise selling, promotion tools, pricing etc., but in many cases it is done in an informal way, which is not laid down in a formal plan. These are issues which are difficult to study in a quantitative survey which is based on a telephone interview. It reveals a weakness associated with using a uni - dimensional approach and supports the view expressed in the research methodology chapter, that there is a need for a more qualitative approach to be included in the study.

In summation, this section of the analysis on the question of whether the length of time a firm is established affects the level of sophistication and structure of the plan proves to be inconclusive. The results show that, irrespective of the number of years in which the company is in existence, the typical plan consists of a limited number of elements: most typically a review of the current business situation, a couple of business objectives and a series of budgets, commonly in the areas of expenditure on the factory and equipment and promotion.

Table 7.16. highlights the number of companies who develop separate functional plans as part of the overall planning process. Only eight companies indicate that they follow this line of approach. Predictably, three quarters of these companies are to be found in the category of companies that have been in existence for over eleven years.

Table 7.16. **Nature of the Plan**

	Years Established		
	< 5	**6 - 10**	**> 11**
	8 (16%)	17 (34%)	25 (50%)
Category			
No planning at all 3 **Chi: 0.69 not significant**	0 (0%)	1 (33.3%)	2 (66.7%)
Overall approach 39 **Chi: 2.92 not significant**	7 (17.9%)	15 (38.5%)	17 (43.6%)
Production plan 8 **Chi: 2.55 not significant**	1 (12.5%)	1 (12.5%)	6 (75%)
Financial plan 7 **Chi: 1.69 not significant**	1 (14.3%)	1 (14.3%)	5 (71.4%)
Sales plan 5 **Chi: 2.94 not significant**	1 (20%)	0 (0%)	4 (80%)
Marketing plan 3 **Chi: 0.69 not significant**	0 (0)%	1 (33.3%)	2 (66.7%)
Other 3 **Chi: 0.77 not significant**	1 (33.3%)	1 (33.3%)	1 (33.3%)

BASE: 50 COMPANIES

The above figures indicate that the vast majority of companies prefer to utilise a general, as opposed to specific functional approach to the planning process. This suggests that the planning process lacks detail and substance, in terms of the content of the plan. However it can be argued that the size of the company will also have an influence on the way in which companies approach the planning task. This is examined in the next section.

In summary it can be stated that the null hypothesis that ***there is no evidence to suggest the sophistication of the planning process will increase the longer a company is in existence*** can neither be accepted or rejected, due to a lack of solid evidence.

7.6. Approach to Planning: Impact of Size of Company

The survey of the fifty respondents identified three categories which were based on the size of the company, as defined by the number of employees: less than 15, 16 - 50 and more than fifty. This section examines the alternate hypothesis that **as a company increases in size, it will be more likely to develop a formal, detailed planning process.** Table 7.17. examines the approach to preparing the plan.

Table 7. 17. **Preparation of the Plan**

	Number of Employees		
	< 15 **18**	**16 - 50** **19**	**> 50** **13**
Approach			
No planning at all 3 **6%** **Chi: 5.67 not significant**	3 (100%) **16.7%**	- -	- -
Intuitive, not formal 18 **36%** **Chi: 5.54 not significant**	10 (55.6%) **55.6%**	6 (33.3%) **31.6%**	2 (11.1%) **15.3%**
Prepared by founder only 8 **16%** **Chi: 1.03 not significant**	3 (37.5%) **16.7%**	4 (50%) **21.1%**	1 (12.5%) **7.8%**
Prepared by senior man. 21 **42%** **Chi: 13.78 significant**	2 (9.5%) **11.1%**	9 (42.8%) **47.4%**	10 (47.6%) **77%**

BASE: 50 COMPANIES

The above figures demonstrate that as companies increase in size, there is less likelihood that they will adopt an intuitive, informal approach to planning. Over seventy two per cent of companies who fall into the "less than fifteen" category either do not adopt any planning at all or do so in an intuitive, informal manner. By contrast, eighty five per cent of companies employing over fifty people adopt a formal planning system which is prepared either by the founder or by senior management. In many respects, this result is predictable as companies which employ more people are also more likely also to recruit and develop professional management structures which lead, in turn, to a formal planning system.

The extent to which the plan is reviewed also shows up some interesting contrasts. This is examined in table 7.18.

Table 7.18. **Reviewing / Monitoring the Plan**

	< 15	16 - 50	> 50
	18	**19**	**13**
Frequency of Review			
No review 3	3 (100%)	-	-
6%	**16.7%**	-	-
Chi: 5.67 not significant			
Annually 3	1 (33.3%)	-	2 (66.7%)
6%	**5.6%**	-	**15.4%**
Chi: 3.24 not significant			
Every six months 0	0	0	0
-	-	-	-
Chi: -			
Quarterly 6	1(16.7%)	3 (50%)	2 (33.3%)
12%	**5.6%**	**15.8%**	**15.4%**
Chi: 1.11 not significant			
Monthly 19	4 (21.1%)	8 (42.1%)	7 (36.8%)
38%	**22.2%**	**42.1%**	**53.7%**
Chi: 3.42 not significant			
Weekly 3	0	2 (66.7%)	1 (33.3%)
6%	-	**10.5%**	**7.8%**
Chi: 1.91 not significant			
Ad hoc 16	9 (56.3%)	6 (37.5%)	1 (6.2%)
32%	**50%**	**31.6%**	**7.8%**
Chi: 6.21 significant			
	BASE: 50 COMPANIES		

A monthly review of the plan is the most frequently mentioned procedure in all three of the categories. However only twenty two per cent of the companies who employ less than fifteen people follow such an approach, in comparison to fifty four per cent in the category employing over fifty people.

Perhaps the most interesting finding from this table is the fact that two thirds of companies employing less than fifteen people review the plan in an ad hoc, occasional fashion, or do not utilise any formal review procedure. It may be fallacious to assume that occasional, informal reviews of the planning procedures indicates an inefficient approach by such companies. Further probing of the respondents elicited approaches such as weekend meetings, away from the office, where senior management would discuss the future direction of the company in a relaxed, informal manner, and where business was mixed with pleasure e.g. rounds of golf. A couple of the respondents also indicated that they brought in consultants, from time to time, to provide an objective assessment of performance. While such approaches were not widely prevalent among companies in this category, it underlines the fact that such informal methods can play a useful role.

Table 7.19. considers how the content of the plan differs, depending on the size of the company.

The findings reveal a high level of consistency in that companies that employ over fifty people score much higher in each of the elements than companies in the "less than fifteen" category. This is specifically highlighted by the following observations: ninety two per cent of companies employing more than fifty people mention the *sales objective* and *expenditure on factory and equipment* elements, by contrast, twenty eight per cent of companies in the less than fifteen category mention sales as an objective and thirty nine per cent mention expenditure on factory and equipment. Less than a quarter of the companies in the less than fifteen category mention any of the other elements; two thirds of companies in the over fifty category mention six of the other elements. Companies in the middle category also show a higher propensity to mention the elements of the planning process when compared to those companies in the less than fifteen category.

What are the implications which arise from these observations? The first overall point to note is that companies which are smaller, in terms of size of employees are far more likely to either not engage in planning at all (fifty six per cent), or do so in a partial manner, with very little content or structure to the planning process. On any given element of the planning process which was mentioned in the question, an average of twenty per cent of companies in the less than fifteen category stated that they included it in their planning process. This rose to just over thirty five per cent for companies employing between sixteen and fifty employees, and to fifty seven per cent of companies employing over fifty employees. It can be seen therefore that there is a steady increase in the likelihood that companies which are larger in size will adopt a more formal, and comprehensive approach to the planning process. This supports the original proposition as mentioned in the research objectives for this phase of the study.

Table 7.19.	Contents of Plan		
	< 15	**16 - 50**	**> 50**
	18	**19**	**13**
Element			
No Response 14	10 (71.4%)	4 (28.6%)	0 (0%)
28%	**55.6%**	**21.1%**	**0%**
Chi: 12.28 significant			
Review of current business situation 23	6 (26.1%)	8 (34.8%)	9 (39.1%)
46%	**33.3%**	**42.1%**	**69.2%**
Chi: 4.1 not significant			
Assessment of threats and opportunities 21	4 (22.2%)	8 (38.1%)	9 (42.3%)
42%	**22.2%**	**42.1%**	**69.2%**
Chi: 6.85 significant			
Mission statement 5	1 (20%)	1 (20%)	3 (60%)
10%	**5.6%**	**5.3%**	**23.1%**
Chi: 3.34 not significant			
Sales objective 31	5 (16.1%)	14 (45.2%)	12 (38.7%)
62%	**27.8%**	**73.7%**	**92.3%**
Chi: 15.12 significant			
Market share objective 24	4 (16.7%)	10 (41.7%)	10 (41.7%)
48%	**22.2%**	**52.6%**	**76.9%**
Chi: 9.31 significant			
Profit objective 22	4 (18.2%)	8 (36.4%)	10 (45.5%)
44%	**22.2%**	**42.1%**	**76.9%**
Chi: 9.21 significant			
Targeted ROI 21	4 (19.1%)	7 (33.3%)	10 (47.6%)
42%	**22.2%**	**36.8%**	**76.9%**
Chi: 9.61 significant			
Other objectives 3	1 (33.3%)	0 (0%)	2 (66.7%)
6%	**5.6%**	-	**15.4%**
Chi: 3.25 not significant			
Expenditure factory/ equipment 32	7 (21.9%)	13 (40.6%)	12 (37.5%)
64%	**38.9%**	**68.4%**	**92.3%**
Chi: 9.61 significant			
Expenditure - promotion 28	6 (21.4%)	10 35.7%)	12 (42.9%)
56%	**33.3%**	**52.6%**	**92.3%**
Chi: 10.8 significant			
Expenditure - training 8	2 (25%)	3 (37.5%	3 (37.5%)
16%	**15.4%**	**15.8%**	**23.1%**
Chi: 0.8 not significant			
Assessment of competition 13	3 (23.1%)	4 30.8%)	6 (46.2%
26%	**16.7%**	**21.1%**	**46.2%**
Chi: 3.8 not significant			
Marketing strategy 8	1 (12.5%)	4 (50%)	3 (37.5%)
16%	**5.6%**	**21.1%**	**23.1%**
Chi: 2.31 not significant			
Other 6	2 (33.3%)	3 (50%)	1 (16.7%
12%	**11.1%**	**15.8%**	**7.7%**
Chi: 0.5 not significant			

BASE: 50 COMPANIES

It can also be seen that very little priority is given to the inclusion of a marketing strategy as part of the overall business plan. This applies to all companies, irrespective of size. Overall, only eight companies mentioned it as featuring in their approach. While only one company in the less than fifteen category mentions it, the other seven companies are spread evenly over the other two categories (twenty one per cent and twenty three per cent respectively). This is somewhat surprising as it might be expected that as a company grows and brings in some form of professional, functional expertise, a distinct marketing strategy may emerge as a consequence. The clear evidence from this survey is that companies tend to adhere to the concept of a general business plan, rather than the inclusion of discrete functional sub - elements. This issue is more closely examined in table 7.20..

Table 7.20. General versus Specific Approach to the Plan

Approach	**< 15** **18**	**16 - 50** **19**	**> 50** **13**
No planning 3 **6%** **Chi: 5.67 not significant**	3 (100%) **16.7%**	0 -	0 -
General plan 39 **78%** **Chi: 3.51 not significant**	14 (35.9%) **77.8%**	17 (43.6%) **89.5%**	8 (20.5%) **61.5%**
Functional plans:			
Sales 5 **Chi: 8.7 significant**	0 **0%**	1 (20%) **5.3%**	4 (80%) **30.8%**
Marketing 3 **Chi: 3.2 not significant**	0 **0%**	1 (33.3%) **5.3%**	2 (66.7%) **15.4%%**
Production 8 **Chi: 12.65 significant**	0 **0%**	2 (25%) **10.5%**	6 (75%) **46.2%**
Financial 7 **Chi: 4.3 not significant**	1 (14.3%) **5.6%**	2 (28.6%) **10.5%**	4 (57.1%) **30.8%**
Other 3 **Chi: 1.3 not significant**	0 **0%**	1 (33.3%) **5.3%**	2 (66.7%) **15.4%**

BASE: 50 COMPANIES

Table 7.20. shows that seventy eight per cent of the respondents adopt a generalist approach to the planning process, with the percentage dropping from seventy eight per cent of companies in the less than fifteen category to sixty two per cent in those companies employing over fifty people. As might be expected, those companies which utilise separate functional plans are to be found in this latter category.

Table 7.21. Time Frame Considered

	< 15	16 - 50	> 50
	18	**19**	**13**
Period			
Up to one year 17	10 (58.9)	5 (29.4%)	2 (11.7%)
34%	**55.6%**	**26.3%**	**15.4%**
Chi: 6.23 significant			
One to three years 21	3 (14.3%)	9 (42.9%)	9 (42.9%)
42%	**16.7%**	**47.4%**	**69.2%**
Chi: 8.92 significant			
Three to five years 10	2 (20%)	6 (60%)	2 (20%)
20%	**11.1%**	**31.6%**	**15.3%**
Chi: 2.65 not significant			
Other 3	3 (100%	0	0
6%	**16.7%**	-	-
Chi: 5.67 not significant			
BASE: 50 COMPANIES			

This shows that companies employing less than 15 employees have a much higher tendency to take a more short term view of their business, with fifty six per cent taking a time frame of less than one year. In addition three further companies in this category made the specific observation that they operated on a day - to - day basis, as the business was too volatile to allow for a longer term perspective. By contrast, almost seventy per cent of the companies which employ more than fifty people adopt a one to three year time frame. The findings suggest that companies with fewer employees and being more likely to be at the early phase of growth and development, are more likely to be preoccupied with immediate issues as they strive to overcome the initial hazards associated with business survival.

The fact that so few companies formally include marketing strategy in the overall plan (table 7.19.), or prepare a separate, discrete marketing plan warrants further investigation. Table 7.22. presents the findings from the question which asked the respondents to indicate what they understood the term "marketing concept" to mean. This question was asked in an open - ended manner, thus reducing the risk of prompting a specific response if alternatives were presented to the respondent.

Table 7.22. **What does the Marketing Concept mean to you?**

Issue (No. of mentions)	< 15 18	16 - 50 19	> 50 13
Marketing means satisfying the needs of the customer 29 **58%** **Chi: 3.95 not significant**	11 (37.9%) **61.1%**	8 (27.6%) **42.1%**	10 (34.5%) **77%**
Marketing equates to selling 20 **40%** **Chi: 2.12 not significant**	8 (40% **44.4%**	9 (45%) **47.4%**	3 (15%) **23.1%**
Marketing equates to advertising 4 **8%** **Chi: 0.3 not significant**	1 (25%) **5.6%**	2 (50%) **10.5%**	1 (25%) **7.7%**
Marketing revolves around customer service 8 **16%** **Chi: 2.31 not significant**	1 (12.5%) **5.6%**	4 (50%) **21.1%**	3 (37.5%) **23.1%**
Other 8 **16%** **Chi: 2.85 not significant**	2 (25%) **11.1%**	2 (25%) **10.5%**	4 (50%) **30.7%**

BASE: 50 COMPANIES

The findings fail to show any clear differences in the interpretation of what the respondents understood the term " marketing concept " to mean, depending on the company size. While a range of different interpretations are placed on the term, the most frequently mentioned issue was that marketing is perceived as satisfying customer needs. Eight mentions were made of customer service as corresponding to the marketing concept. In the "other" category, respondents mentioned marketing research, creating customer awareness, quality management and product development. In two cases the respondent could not explain what the term marketing meant.

The findings suggest that there is a reasonable understanding of what the marketing concept is about among the respondents, irrespective of company size. The typical misconceptions about marketing, such as narrowly defining it as advertising are in evidence, but it is submitted that many studies of companies in other sectors and contexts show exactly the same pattern. It also gives some credence to the view that while marketing does not feature explicitly in the planning process of many companies, there is nevertheless a clear understanding of its meaning and that many owner - managers intuitively practice it in both their day - to - day operations and in the long term considerations for the business.

In summary, this section of the analysis provides a reasonable level of evidence to reject the null hypothesis that ***there is no evidence that as a company increases in size, it is likely to develop a formal and detailed planning process.*** At best, companies that employ less than fifteen people, adopt a partial approach to planning, including a fewer number of elements in the plan than companies employing more than fifty people. At the other extreme, fifty six per cent of the companies employing less than fifteen people (ten out of eighteen companies) either do not undertake any planning at all (three) do so in an intuitive manner with no structure or substance to the planning approach. The reasons for this include the responses that companies were too pre - occupied with day - to day-issues, had a clear understanding of the customer needs and trends or saw no benefits which might accrue from devoting time and effort towards the formalisation of the planning process.

7.7. Approach to Planning: Impact of Level of Exporting

This section examines whether the extent to which a firm engages in exporting influences its approach to planning. Specifically the alternate hypothesis states that ***there will be a greater propensity for companies to develop formal, detailed plans, as they become more extensively involved in exporting.*** This proposition is grounded on the premise that as companies develop their customer base and move into foreign markets, they will need to become more efficient and professional in both their relationships with customers and within their internal operations and procedures.

The general survey showed that of the fifty participating companies; **eight** operated only in the domestic market, **thirteen** had less than twenty five per cent of their sales emanating from export markets, **eleven** with twenty six to fifty per cent from export markets and a further **eighteen** with more than fifty per cent of sales from foreign markets. The time frame which these firms consider is examined in table 7.23.

Table 7.23. **Time Frame Considered**

	Domestic only 8	< 25% 13	26 - 50% 11	>50% 18
Time frame				
Up to 1 year 17	6 (35.3%)	4 (23.5%)	1 (5.9%)	6 (35.3%)
34%	**75%**	**30.85**	**9.1%**	**33.3%**
Chi: 9.1 significant				
One to three years 21	1 (4.8%)	6 (28.6%	4 (19.0)	10 (47.6%)
42%	**12.5%**	**46.2%**	**36.4%**	**55.5%**
Chi: 4.45 not significant				
Greater than three years 10	0 (0%)	4 (40%)	4 (40%)	2 (20%)
20%	-	**30.8%**	**36.4%**	**11.1%**
Chi: 5.67 not significant				
Other 3	1(33.3%)	0 (0%)	2 (66.7%)	0 (0%)
6%	**12.5%**	-	**18.2%**	-
Chi: 5.47 not significant				

BASE: 50 COMPANIES

There is little variation in terms of time frame considered between the different categories. The most notable statistic which emerges is that seventy five per cent of the companies which operate in domestic markets only, take a short term perspective of the business of less than one year. However, by the same token, one third of the companies that have exports of more than fifty per cent, also take a similar perspective. The three companies in the *other* category stated that their business was too volatile to allow for more than a day - to - day overview of their business. It would be dangerous however to interpret too much into this as two of the companies have exports of between 36 - 50 per cent, while one operates in domestic markets only.

Table 7.24. **Preparation of the Plan**

	Domestic 8	< 25% 13	26 - 50% 11	> 50% 18
Approach				
No planning at all 3	0 (0%)	1 (33.3%)	1 (33.3%)	1 (33.3%)
6%	-	**7.7%**	**9.1%**	**5.6%**
Chi: 0.77 not significant				
Intuitive only 18	6 (33.3%)	5 (27.8%)	4 (22.2%)	3 (16.7%)
36%	**75%**	**38.5%**	**36.4%**	**16.7%**
Chi: 8.23 significant				
Prepared by owner 8	2 (25%)	2 (25%)	2 (25%)	2 (25%)
16%	**25%**	**15.4%**	**18.2%**	**11.1%**
Chi: 0.85 not significant				
Prepared by senior management 21	0 (0%)	5 (23.8%)	6 (54.5%)	10 (47.6%)
42%	-	**38.5%**	**54.5%**	**55.6%**
Chi: 7.93 significant				

BASE: 50 COMPANIES

The two most salient findings show that companies operating in domestic markets are more likely to rely on an intuitive approach to planning. This is partially explained by the fact that they are more likely to be in the early stages of development and are consequently smaller, in terms of people resources and market scope than their counterparts in the other categories. The second inter - connected point is that companies who derive over fifty per cent of sales from exports have a management structure in place, which share the responsibilities for preparing the plan.

Table 7.25. Content and Structure of Plan

Element	Domestic 8	< 25% 13	26 - 50% 11	>50% 18
No reply 14 **28%** **Chi: 6.45 not significant**	5 (35.7%) **62.5%**	4 (28.6%) **30.8%**	2 (14.3%) **18.2%**	3 (21.4%) **16.7%**
Review of current situation 23 **46%** **Chi:5.94 not significant**	1 (4.3%) **12.5%**	5 (21.7%) **38.5%**	7 (30.4%) **63.6%**	10 (43.5%) **55.6%**
Assessment of opportunities 21 **42%** **Chi: 5.1 not significant**	1 (4.8%) **12.5%**	5 (23.8%) **38.5%**	7 (33.3%) **63.6%**	8 (38.1%) **44.4%**
Mission Statement 5 **10%** **5.01 not significant**	0 (0%) -	1 (20%) **7.7%**	3 (60%) **27.2%**	1 (20%) **5.6%**
Sales objective 31 **62%** **Chi: 5.97 not significant**	2 (6.5%) **25%**	8 (25.8% **61.5%**	8 (25.8%) **72.7%**	13 (41.9%) **72.2%**
Market share objective 24 **48%** **Chi: 9.72 significant**	0 (0%) -	6 (25%) **46.2%**	7 (29.2%) **63.6%**	11 (45.8%) **61.1%**
Profit objective 22 **44%** **Chi: 7.06 not significant**	1 (4.5%) **12.5%**	5 (22.7%) **38.5%**	8 (36.4%) **72.7%**	8 (36.45) **44.4%**
Target ROI 21 **42%** **Chi: 5.1 not significant**	1 (4.8%) **12.5%**	5 (23.8%) **23.8%**	7 (33.3%) **63.6%**	8 (38.1%) **44.4%**
Other Bus. objective 3 **6%** **Chi: 4.24 not significant**	0 (0%) -	0 (0%) -	2 (66.7%) **18.2%**	1 (33.3%) **5.6%**
Budget - promotion 28 **56%** **Chi: 8.25 significant**	1 (3.6%) **12.5%**	7 (25%) **53.5%**	8 (28.6%) **72.7%**	12 (42.9%) **66.7%**
Budget - factory, equip. 32 **64%** **Chi: 7.15 not significant**	2 (6.35) **25%**	8 (25%) **61.5%**	8 (25%) **72.7%**	14 (43.8% **77.8%**
Budget - training 8 **16%** **Chi: 2.82 not significant**	1 (12.5%) **12.5%**	1 (12.5%) **7.8%**	2 (25%) **18.2%**	4 (50%) **22.2%**
Assessment of Comp. 13 **26%** **Chi: 7.58 not significant**	0 (0%) -	3 (23.1%) **23.1%**	6 (46.2%) **54.5%**	4 (30.8%) **22.2%**
Marketing Strategy 8 **16%** **Chi: 3.37 not significant**	0 (0%) -	3 (37.5%) **23.1%**	3 (37.5%) **27.3%**	2 (25%) **11.1%**

BASE: 50 COMPANIES

A number of issues arise from an examination of table 7.25. Of those companies that operate only in the domestic market, only three indicated that their approach to planning has any specific content or substance. The content appears to revolve around a couple of basic business objectives, such as sales, and a budget or expenditure statement. By contrast, as companies increase their propensity to export, there is an increase in the likelihood that they will utilise many of the listed elements. However, the basic structure of the plan is based on objectives and budget statements. There is a clear lack of depth to the planning process.

Table 7.26. considers the extent to which companies undertake a general plan or a series of functional plans, depending on their level of exporting.

Table 7.26. General or Functional Approach to Planning

Approach	Domestic 8	< 25% 13	26 - 50% 11	> 50% 18
No planning at all 3 **6%** **Chi: 0.77 not significant**	0 (0%) -	1 (33.3%) **7.7%**	1 (33.3%) **9.1%**	1 (33.3%) **5.6%**
General Plan 39 **78%** **Chi: 3.7 not significant**	8 (100%) **100%**	10 (25.6%) **77%**	9 (23.1%) **81.8%**	12 (30.8% **66.7%**
Marketing plan 3 **6%** **Chi: 2.18 not significant**	0 (0%) -	1 (33.3%) **7.7%**	0 (0%) -	2 (66.7%) **11.1%**
Sales plan 5 **10%** **Chi: 1.8 not significant**	0 (0%) -	1 (20%) **7.7%**	2 (40%) **18.2%**	2 (40%) **11.1%**
Production plan 8 **16%** **Chi: 2.08 not significant**	0 (0%) -	2 (25%) **15.4%**	2 (25%) **18.2%**	4 (50%) **22.2%**
Financial plan 7 **14%** **Chi: 0.48 not significant**	0 (0%) -	2 (38.6%) **15.4%**	2 (28.6%) **18.2%**	3 (42.9%) **16.7%**
Other 3 **6%** **Chi: 2.36 not significant**	0 (0%) -	0 (0%) -	1 (33.3%) **9.1%**	2 (66.7%) **11.1%**

BASE: 50 COMPANIES

The analysis of the data presented in table 7.26. shows that there is no clear evidence that companies will be more prone to developing functional plans as they expand their exporting activities. While all of the companies which operate in domestic markets only, prepare a general plan, two - thirds of the companies with over fifty per cent of their sales coming from overseas markets, will develop one or some functional plans.

However there is little difference in the percentages of companies who fall into any of the three categories, with regard to their propensity to utilise functional plans.

In summary the foregoing analysis from tables 7.23. - 7.26. partially supports the proposition that the approach to planning will become more detailed and formal as the level of exporting increases. There is a clear dichotomy between companies that operate in the domestic market only and those that engage in exporting. The former exhibit a much greater tendency to follow an intuitive, informal and unstructured approach to the planning process, the latter are more prone to adhere to some form of structure and content. However there is little variation in behaviour between companies across the three categories of exporting which was identified in the literature: < 25%, 26 - 50% and > 50%. As a consequence, the null hypothesis that ***there is no evidence that there will be a greater propensity for companies to develop formal, detailed plans, as they become more extensively involved in exporting*** can neither be rejected or supported. It should also be borne in mind that the propensity to export is not related to the length of time that a company is in existence. While in some industry sectors, it may be logical to assume that a company will initially begin operations in the local market and move progressively on to opportunities in foreign markets, this is not necessarily the case in the electronics sector. A number of the companies in this phase of the study, because of the nature of the niche or sector concerned, began their operations in export markets.

7.8. Approach to Planning: Impact of Product Category

This final section examines the relationship between the nature of the product that the company manufactures and the approach to planning which is adopted by that company. One of the major problems in this form of analysis is that it is extremely difficult to categorise companies into one or two market sectors on a product basis. The Standard Industrial Classification (SIC) covers a wide range of productive activities ranging from computers through to scientific and industrial instruments, broadcasting and receiving equipment to electronic components.

Given that the number of companies interviewed in this phase of the study was small (although still representing a large percentage from the population under investigation) it was deemed to be inappropriate to develop a wide range of product categories. Instead two classifications were used: components and applications.

The applications grouping deals mainly with the production of electronics goods to particular end user requirements and includes categories such as data processing, telecommunications, consumer goods, and industrial and commercial applications. The components sector is largely dominated by semiconductor materials, semiconductor components (such as transistors and integrated circuits) and passive components (such as resistors, capacitors and printed circuits).

The breakdown of the companies which participated in the survey was as follows: components, **nineteen (38%)** and applications, **thirty one (62%).** It was not anticipated that there would be any significant difference in the approach to planning, irrespective of whether a company was located in the components or applications sector: no a priori evidence is presented in the literature to support such a view. Therefore, although no proposition was formally tested, an analysis was undertaken to see if, in fact, any major differences occurred. Table 7.27. presents the data which was collected on the structure and content of the plan.

As can be seen from table 7.27, there would appear to be little variation in the approach to planning adopted by companies, irrespective of the sector / product category within which they operate. The only exceptions are in the assessment of the competition and the utilisation of a marketing strategy. However it would be dangerous to over - interpret on these issues as no obvious reason comes to mind which might explain why there is variation in these areas.

In conclusion, it appears that the issue of product category does not appear to have any effect on the approach to planning which is adopted by the individual company.

Table 7.27. **Content and Structure of the Plan**

	Components 19 (38%)	Applications 31 (62%)
Element		
No reply 14 **28%** **Chi: 3.03 not significant**	8 (57.1%) **42.1%**	6 (42.9%) **19.4%**
Review of current situation 23 **46%** **Chi: 0.18 not significant**	8 (34.8%) **42.1%**	15 (65.2%) **48.4%**
Assessment of threats and opportunities 21 **42%** **Chi: 1.37 not significant**	6 (38.6%) **31.6%**	15 (71.4%) **48.4%**
Sales objective 31 **62%** **Chi: 0.55 not significant**	13 (41.9%) **68.4%**	18 (58.1%) **58.1%**
Market share objective 24 **48%** **Chi: 0.43 not significant**	8 (33.3%) **42.1%**	16 (66.7%) **51.6%**
Profit objective 22 **44%** **Chi: 0.05 not significant**	8 (36.4%) **42%**	14 (63.6%) **45.2%**
Target ROI 21 **42%** **Chi: 0.0 not significant**	8 (38.1%) **42%**	13 (61.9%) **41.9%**
Other objectives 3 **6%** **Chi: 0.03 not significant**	1 (33.3%) **5.3%**	2 (66.7%) **6.5%**
Budget - promotion 28 **56%** **Chi: 1.48 not significant**	9 (32.1%) **47.4%**	20 (64.5%) **64.5%**
Budget - Factory equipment 32 **64%** **Chi: 0.0 not significant**	12 (37.5%) **63.2%**	20 (62.5%) **64.5%**
Assessment of Comp. 13 **26%** **Chi: 3.84 significant**	2 (15.4%) **10.5%**	11 (84.6%) **35.5%**
Marketing Strategy 8 **16%** **Chi: 5.83 significant**	0 (0%) -	8 (100%) **25.8%**
Other 6 **12%** **Chi: 0.05 not significant**	2 (33.3%) **10.5%**	4 (66.7%) **12.9%**

BASE: 50 COMPANIES

7.9 General versus Functional Plans

Table 7.28. in particular, and previous analysis which presented in tables 7.16, 7.20 and 7.26 show that the majority of companies which participated in the survey undertake a general business plan as opposed to a number of functional plans. Table 7.20, which examines the approaches to planning by companies depending on the number of employees, shows the marketing and financial plan as being significant. This can be partially explained by the view that as companies increase the number of employees, it is reasonable to expect that areas of expertise will be brought into the firm, leading to specialised or functional plans. However a cautionary note has to be made however, as the number of companies using marketing and financial plans represents a very small proportion of the total: three and seven respectively. There is a danger therefore of over - interpreting the significance in the differences. Table 7.16 examines the impact which the length of time a company is in existence, has on the approach to planning. No significant differences were identified.

The general findings which are presented in table 7.28. allow the null hypothesis that ***there is no evidence to suggest that companies adopt a general business plan rather than functional plans*** to be rejected.

Table 7.28. Type of Plan

Category	No. of Companies	%
No planning at all	3	6%
General plan	39	78%
Marketing plan	3	6%
Sales plan	5	10%
Production plan	8	16%
Financial plan	7	14%
Other	3	6%

BASE: 50 COMPANIES

7.10. The Impact of Turnover on the Approach to Planning

The issue of whether the sales generated by a company has an effect on the approach to the planning process was considered in this phase of the study. However only fifteen of the companies that participated in the survey were willing to divulge this figure. The rest either refused or provided an evasive answer which did not appear to be truthful: in some cases two or three different figures were mentioned during the course of the interview. This led to the conclusion that any attempt to analyse such information would be inherently unreliable and with such a low response to the issue, any conclusions would be spurious.

It is submitted however that any attempt to assess the impact of turnover on planning is fraught with difficulties. In the case of the evolving firm operating in the electronics sector, the level of sales generated is not necessarily linked to the size of the company or the length of time that it has been in existence. A number of the companies employed less than five people, yet were generating sales of over 1 million pounds. Others, which had only been in operation for less than two years were also generating similar sales figures, while companies that were around for over ten years may have recorded sales of less than half this figure. A lot depends on the particular sector or niche of the market within which the individual firm competes.

7.11. Summary and Concluding Remarks

This phase of the study set out to examine the overall approach to planning by companies in the electronics sector. The general analysis of the fifty companies that participated in the survey showed that the motives for starting the business, the methods used to attract customers in the initial phase and the ways in which external, professional management was brought into the company, were consistent with other empirical studies which were reviewed in an earlier chapter. Likewise in thirty per cent of the companies, the roles and responsibilities of the founder have remained unchanged. This is also consistent with the literature which suggests that many founders encounter difficulty in delegating responsibility and relinquishing some elements of control over the business.

With regard to the time frame which is considered for planning the future development of the company, fifty four per cent of the companies take a perspective of three years or more.

The role of intuitive, informal planning is in evidence with eighteen companies claiming to use this approach. This is again consistent with the literature which suggests that many entrepreneurs / owner managers fail to adopt a formal, rational and sequential approach to planning.

The size of the customer base of a company appears to directly influence the approach to planning. Companies with a small customer base rely more on the closeness of the relationship with the customer to help them to plan both the present and future requirements. The fact that a company may only have less than ten customers means that many owner - managers see no need to formalise the future direction of the company because, put simply, they have a very clear grasp of what is happening in the relationship and adjust accordingly.

When the length of time a company has been established was analysed against the approach to planning, the results proved to be inconclusive. Irrespective of the number of years in existence, the typical content of the plan consisted of a limited number of elements, mainly revolving around a couple of objectives and a general projected expenditure statement covering issues such as equipment and promotion.

The number of people employed by the company was also examined as a potential influencing factor on the approach to planning. The results indicated that there is a far greater likelihood, as companies increase in size, that they will adopt amore formal, comprehensive approach to the planning process.

The extent to which a company engages in exporting partially supports the proposition that the approach to planning will become more detailed and formal. No evidence was found to suggest that a company's approach to planning will be influenced by the product category within which it is located.

In conclusion, the results from this survey indicate that the size of the customer base and the company itself (in terms of people employed) play a strong influence in determining the level of formality and sophistication associated with the approach to planning. It is also clear that the vast majority of companies think of planning in the context of a general plan, rather than a plan which is made up of a series of functional sub - plans. The role of marketing strategy in the formal planning process is notable for its absence in the cases of all but eight or sixteen per cent of companies. That is not tot suggest that the marketing concept is ignored or not understood. Twenty nine respondents (58%) provided a classical definition of marketing which was unprompted by the interviewer and issues such as quality, customer service and responding to customer's needs proactively were cited by many as being the basis for giving them their competitive edge or advantage. This issue is not adequately examined through the mechanism of a telephone interview and needs to be investigated further in phase two of the research. It also became clear from the interviews that personality, background and outlook of the individual owner - manager has a direct bearing on the approach to planning. It is submitted that a quantitative approach such as that undertaken in phase one of the study does not allow the researcher to probe the respondent sufficiently; thus substantiating the view expressed in design of the project (discussed in the research methodology chapter) that there is a need for further research which would be qualitative in nature and based on the case study method.

CHAPTER EIGHT

PHASE THREE: ANALYSIS OF CASE STUDIES

8.1

THE CASE OF CONNAUGHT ELECTRONICS LTD (CEL)

8.1. THE CASE OF CONNAUGHT ELECTRONICS Ltd. (CEL)

Introduction

Connaught Electronics Ltd was founded by Joe McBreen in 1982. Joe had worked as a Managing Director for a multinational firm in Tuam for a number of years. This company engaged in a rationalisation exercise in 1981 and Joe decided that this would be an opportune time to set up a company to make car alarms, an idea which he had identified from his involvement with the multinational company, but which had lain dormant for a couple of years as his workload increased. During his years with the multinational, Joe had developed over fifteen different projects which he considered to be worth further investigation. He had carried out feasibility studies on many of these ideas, before deciding that they were not worth pursuing any further.

Joe McBreen's prime motivation for starting a business in the car alarm area stemmed mainly from his belief that this was a sector which would develop dramatically over the next decade. Already in Ireland, during the early part of the 1980's, insurance companies were beginning to express the view that the onus was on car owners to be more vigilant about car security in the wake of major increases in car theft in the large cities. This was a trend which was mirrored in most of the European countries, and was also expressed strongly by the Gardai in their crime prevention brochures.

In the longer term, Joe anticipated that car security systems would become an integral item in the design of cars in the 1990's. His basic research of companies currently making such systems was encouraging: there was no company in Ireland and only one small manufacturer in Britain. He identified two companies in Italy, along with a number of Asian companies which produced cheap, low quality product for the self - installation segment.

One of his former colleagues from the multi national company; Frank Clancy also collaborated with him in terms of design and product development. During the period when this company was engaged on its rationalisation exercise, Joe and his colleague worked in a part - time capacity with two operatives who had been recruited to manufacture the product.

In the intervening eleven years, Connaught electronics has grown to a position where over seventy five per cent of business is export oriented and fifty five people are employed at the factory, just outside Tuam.

Phase One:Networking - 1982 - 1985

The company emerged from humble beginnings. In the initial months, following the launch of the company, Joe was faced with the perennial problem of how to generate business from products which were still being developed. He surmounted this obstacle by entering into a licensing arrangement with his previous employer, to manufacture on a sub - contract basis. This deal allowed the company to generate the necessary cash flow while at the same time being in a position to engage in some research and development. Joe quickly realised that defining his business as being exclusively in car alarms was too restrictive: he was actually competing in the automotive security market. In addition to the business generated from the licensing sector, CEL was bringing two other car alarm products to the market in this first phase of its development.

The part - time involvement of Joe and his colleague reflected the level of progress which was being made. The lead time involved from the development of the product to getting it distributed to the after - market was lengthy. During this early phase of growth, Joe McBreen highlighted the problem of being taken seriously by distributors; mainly due to the smallness of scale arising from the modest size of the enterprise (two part - time partners and two operatives).

He had invested a lot of time and effort, along with his colleague in research and development. Although an industrial chemist by training, Joe had always perceived himself as a "technical boffin". Both Frank Clancy and he had analysed the existing range of products which were on the market at that time and they discovered a wide variation in both price and quality.

They recognised very quickly that two main segments existed: a standard DIY car alarm which could be installed by the purchaser, working from an instruction manual and a professional car alarm which necessitated professional installation by an electrical engineer. The main competition for the former category emanated from companies based in the Pacific Rim countries. They specialised in producing cheap car alarms which could be best described as being of variable quality. They benefited from cheaper labour costs and both Joe McBreen and Frank Clancy agreed that a company of CEL's size and cost structure could not compete effectively in this sector. They therefore directed their time to developing products which would be aimed at the professional car alarm sector. Both agreed on the need to concentrate on designing a product which would focus on quality. This segment provided just such an opportunity where customers would be willing to pay for the added value which better quality would bring to the product offering.

Thus, the first three years of the company's existence revolved around Joe and Frank Clancy working in a part - time capacity along with two full - time operatives who serviced the licence arrangement with the company which Joe was still acting in the capacity of managing director. This company was reducing its operations in Ireland and Joe was in a strong position to encourage the company to switch this part of its business to Joe's enterprise. He convinced them that such a licensing arrangement could provide CEL with the opportunity to establish itself and more importantly create employment in an under - developed area. He stressed also to senior management that it would additionally help to improve its public image in the eyes of a small community which was expressing disquiet at the potential loss of employment in what was a geographic "blackspot". Much of his spare time was spent in the laboratory working with Frank Clancy on a number of designs. By the end of 1984, the company had increased its number of employees from four to ten.

In 1985, CEL was in a position to take the designs and prototypes to a number of motor accessory distributors in Britain. Joe realised that in order to combat the perceived lack of credibility which emanated from the small size of the enterprise, it would be necessary to visit a number of influential distributors who would be in a position to open up sales opportunities in an expanding market. Indeed Ireland and Britain mirrored each other in terms of rising crime levels and increased publicity about the need for car owners to be more vigilant about car security.

The response from the distributors was encouraging. They expressed satisfaction with the quality and price of the product and placed orders with CEL. Joe invited a number of the larger distributors to visit the factory in Tuam. He attributes much of his consequent success to these early visits. The distributors were intrigued by the unspoilt nature of Tuam and the surrounding countryside. They enjoyed the hospitality which Joe provided and strong relationships were established at an early stage. Having convinced them of the quality of the product (a less difficult task than had been envisioned, due to the variation in quality standards), orders were secured.

Joe adopted the view that the critical task which had to be addressed during this initial phase of growth was one of "making customers aware of CEL's existence, its products and its ability to supply them." This involved a two - way process: Joe visiting them and then bringing the relevant people back to his factory. This latter exercise alleviated some of the potential doubts and misgivings which they might hold about the viability of CEL supplying the British market from such an apparently inaccessible place as Tuam.

Phase Two: Building the Customer and Product Base 1986 - 1989

The three year period following the initial acquisition of orders witnessed a number of developments within CEL. McBreen realised the necessity of establishing a presence in the British market. It was clearly going to be a growth market and having somebody based there would generate business from new potential customers as well as servicing the existing distributors more effectively. He recruited a marketing graduate from University College Galway and in Joe's words "pitchforked" him directly into the sales area. In 1987, McBreen widened this graduate's span of responsibility by charging him with establishing a base in Holland. The European market was beginning to show evidence of significant growth and Joe acquired an office in Amsterdam from a colleague which served as an initial base. By 1989, five people were employed in the sales and distribution area.

McBreen acknowledged that he took a risk in expecting a raw graduate with no previous experience of working in the industry, to develop a sales and distribution base. However, he reasoned that small companies such as CEL do not have the financial resources available to them to recruit experienced marketing personnel. As a result, he places great emphasis on "growing people with the company" and encouraging them to acquire relevant degrees and diplomas. This, in his view, counteracts the inability to recruit from outside the company.

In 1986 he also recruited two graduates in electronic engineering from the local university. As the manufacturing output rose in response to the increasing demand for the product, McBreen identified the need for managerial expertise in engineering and quality. Because of their background, both graduates also became involved in the research and design process. Over this three year period, the product range grew from the initial two products, to over twenty five. The organisational structure has developed mainly from within. Only the purchasing manager and the accountant have been recruited from outside the company.

McBreen retained responsibility for developing new business along with the graduate who was based in Britain. However on closer discussion in this area it became clear that the graduate, during this phase was dealing to a greater extent with the existing distributor base, while Joe developed new business.

During this period of growth, McBreen instigated a form of planning within the company. As the volume of business grew, he recognised the need for some control mechanism. His approach to planning is based on two contributions: a formal document which is sent out to each of the distributors, whether through the British or Dutch office, and an annual document which sets out budgets for expenditure in a number of areas and which is measured against a three year projection of where the company is going. The document which is sent out to the distributors acts as a guideline for projected sales targets. The distributor fills out the form based on his estimate of sales for the coming twelve month period. Either Joe or one of the five personnel employed in the sales / distribution office would visit each of the distributors twice to three times during the year. This visit is designed to iron out any problem areas which may be occurring with the individual distributor; it also is seen as an opportunity to update the distributor of any new product developments. Sales brochures and sales support material are provided. It also allows the representative of CEL to pick up feedback from the distributors about competitive activities or any local developments which may have either a positive or negative impact on future sales in that particular region or city.

Once these forms have been returned to the sales / distribution offices, they are assessed and fed back to Joe and Frank Clancy. They, in tandem with the accountant take responsibility for formulating the annual budgets for expenditure. The projected expenditures are balanced against the projected sales revenue, which in turn is generated from the sales projections which are submitted by the distributor base.

Joe McBreen assumes responsibility for identifying the long term developments within the industry. He has always taken the view that the car security market can only be assessed over a two to three year planning cycle. He supports this view by observing that the industry has undergone rapid changes, due to alterations in legislation and the influence of strong lobbying by insurance companies.

He has expressed the view that the annual budget acts as a form of discipline on the company: key areas which may require expenditure have to be justified on the basis of their importance to the company's growth prospects and judged against the projected income for that one year period. For instance, he argues that advertising, exhibitions and trade fairs do not figure prominently as areas of investment: of more critical importance is the "word - of mouth" factor which has generated much of the expanded business for CEL during the period to 1989. By contrast, the company has committed much of the available finance to investing in machinery and equipment as it has expanded the range and sophistication of the product offerings.

A three year time frame is employed by Joe McBreen when he reviews the industry. However, this is not committed formally onto any document. The focus is on the annual budget and monthly meetings to review sales and expenditure against the projected targets. Thus, the three year time frame resides in the mind of Joe McBreen, acting as managing director / owner, with responsibility for shaping the long term direction of the business.

It was in this capacity that he foresaw a major change in the nature of the car alarm market in 1988. From monitoring the trade press and speaking to the distributors it became clear to Joe that by the middle of the 1990's, a car security system would become a standard part of the car as opposed to the optional accessory which the car owner might wish to purchase. One of the main features of the automotive industry has been the constant desire on the part of the manufacturers to add on the number of accessories, in an attempt to seek that competitive edge and differentiate the product offerings. While many of these "add ons" might be perceived as being attractive, without necessarily making the model more efficient in the eyes of the customer, any developments which might improve the security of the car would have the effect of contributing positively to its well-being.

In essence, this meant that if CEL wished to remain competitive, indeed survive, as a viable operation in the coming decade, it would have to undertake a radical re - appraisal of its activities and processes. Of more fundamental importance was the fact that the market itself, together with the distribution structure was about to change. Joe reckoned that it was not going to happen quickly. Automotive manufacturers work to a long lead time in terms of car design and ergonomics: typically three to five years (as of 1988). The car of the 1990's would have a security system as a matter of course. Therefore the bulk of CEL's business over the next five years would shift from the *after market* to the *original equipment manufacturers (OEM's).* In the early part of 1988, the main implications of this trends were being evaluated by Joe McBreen.

Phase Three: The Management of Change - 1990 to 1993

The identification of the OEM sector sparked off a number of developments within the operations of CEL. McBreen recognised that one of the critical prerequisites necessary for getting placed on the "preferred supplier lists" was the approach to quality management. CEL embarked on the ISO 9000 process of certification. It did so in the recognition that this was a competitive necessity, not an opportunity for competitive advantage. Certification was received towards the end of 1990.

The OEM sector reflected a number of developments which were taking place in the environment. There was a desire on the part the automotive manufacturers to reduce the number of suppliers with whom they dealt with. They were beginning to focus on *long term arrangements* (LTA's). This in turn placed a great deal of emphasis on relationship management. McBreen held the belief that these developments would favour CEL. The company had originally gained its initial orders in the DIY sector based on its willingness to court the main distributors and establish relationships with them. His extensive experience gained from working with multinational companies and more significantly from the environment within which they operated, also meant that he "knew his way around the system". In particular, he was familiar with the purchasing procedures which operated in such organisations.

He recognised also that a large automotive manufacturer such as Ford, operated its own quality standards (in the case of Ford, it is referred to as the Q1 standard). This requirement of prospective suppliers was of a higher standard than that reached by the ISO 9000 programme of certification. For example it extended into areas such as the sophistication of the equipment used by the supplier. McBreen recognised the limitations of his present operation and in 1991 drew up plans to invest in Computer Aided Design and Computer Aided Manufacturing systems (CAD / CAM). By the end of 1991 these systems were up and running. Apart from addressing the demands of the automotive manufacturers, it also ensured that CEL was becoming more flexible in terms of the products which it could produce. During this period, the company began to develop radio telemetry products which had many applications. CEL received an order from Shell Oil Company for the purchase of such products on the oil fields. Radio telemetry provides a communications link between the oil rigs and the central communications point. McBreen saw many potential areas for development in this area and one of the engineers in the company was assigned responsibility to work on designing systems. This part of CEL's operations however was seen as an area which would in the longer term, provide 15 to 20 per cent of the company's business.

However the major focus during this period (1990 - 1993) was one of "courting" the OEM's and their first tier suppliers. In some cases it was the latter operator which supplied a range of ancillary product to the manufacturer.

McBreen viewed the "sea change" in the industry as one which demanded a culture change in the operations within CEL. The ISO 9000 programme resulted in a clear system of procedures. This could be visibly witnessed on a tour through the plant, where each section of floorspace was clearly labelled and signposted. Weekly production targets and "actuals" were displayed at each point in the manufacturing process. Manuals were also very much in evidence. Although this may sound trivial, McBreen alluded to the discipline which this imposes on the workforce and the resulting pride which they take from reaching production targets and so on.

Perhaps the biggest culture change was demanded from the management team which he had in place. The five key figures: the Technical Director (Frank Clancy), Purchasing Manager, R&D Manager, Quality Manager and Production Manager had joined the company from the beginning or within a year or eighteen months since the company "went full - time". This was an advantage because each of the management team was comfortable with the rate of development and the expected changes demanded of them in terms of their workload and in the achievement of higher quality standards.

Another area of immediate concern to McBreen in early 1991, was the fact that up until now the company had sub - contracted out the manufacturing of the mouldings to two local companies. CEL created the necessary designs but did not feel it necessary to produce the mouldings "in - house." However, from initial discussions with the OEM's, it became clear to him that CEL would have to invest in surface mount technology and bring this aspect of the production process directly under their control. This was based on the observation that the OEM's would view with some suspicion, the capability of a supplier such as CEL to maintain consistently high standards of quality if such an important element of the process were to be placed in the hands of an external, independent company. This again was graphic evidence of the changes which had to be made to the company's operations.

In 1992, McBreen recruited a young marketing executive with experience of working in export markets and who was fluent in German. This latter skill was viewed as being critical in order to make inroads into the German market. Meanwhile McBreen himself concentrated on the OEM's. In this respect he has not limited himself to car manufacturers. He also began to set up meetings with other OEM's which would have a demand for security systems.

McBreen set himself the target of two contracts from OEM manufacturers during the period from 1991 to 1993. In May of 1993 he received his first contract for supplying car security systems for the Mazda 323 range of car. He also had expectations of an order from the Renault company but at the time of interview this was not yet confirmed. In fact on the morning of our visit to his company, he was in the process of preparing for a two day visit from representatives from Nissan.

McBreen also addressed the issue of logistics during this period. Conscious of the need to be able to guarantee reliable delivery of product, he established a forty eight hour policy from receipt of order to delivery to mainland Europe. In cases of great pressure from the customer, CEL would use air freight to meet a required deadline. He was aware of the perceptions which prospective customers might hold about the location of CEL, based as it was on the Western seaboard, with a road and rail infrastructure which might best be described as variable. However whilst acknowledging the possible disadvantages from having a base in Tuam, McBreen stressed the benefits which emerge from inviting representatives to visit the plant and spend a weekend in the area. He takes visitors to the local tourist "haunts" and this creates a positive impression and reinforces the perception which many European business people have of Ireland as unspoilt and environmentally clean.

The question of labour costs posed problems for CEL. A comparative analysis of the cost structure revealed that CEL was returning labour costs which were thirty per cent higher than the competition. Clearly a continuation of this position would leave the company vulnerable in a competitive tendering situation, where the ability to deliver quality product at a keen price would be a crucial determinant in deciding whether or not the order would land in Tuam. A limited number of options were available to McBreen. He realised that if he wanted to operate in a "long term" business he would have to make long term investments. Together with his production manager, he drew up a budget for purchasing more updated, automated equipment. This would necessitate an initial amount of investment, but their analysis showed that there would be a two year - pay back period on this investment.

Consideration would also have to be given to the re - deployment of duties within the organisation and subsequent lay - offs. The latter prospect was not a pleasant task, but McBreen argued that if the company was to survive and ultimately be in a position to recruit more people, it would have to reduce the workforce and drive efficiencies through more up to date machinery. This issue was about to be addressed by him at the time of the interview.

OVERALL APPROACH TO PLANNING

This issue was addressed in some detail in phase two of the case study and it is not proposed to repeat the analysis here. However, some observations are made. It is submitted that McBreen has managed to achieve a balance between formality and informality in the planning process. Close attention is paid to the annual plan, which takes the form of a budget based on expenditure as against projected sales. The latter is formulated from the distributor reports which are submitted to CEL. This component of the planning process represents the formal input in the sense that information is collated, analysed, prioritised and committed to a formal document. Although McBreen does not use the term "tactical" to describe this activity, it is clear from his opinions on this subject that the annual budgetary plan is viewed as something which imposes a discipline on the expenditure of the company. When it comes to the longer term assessment of the company's future direction however, it is not treated with the same level of formality. Instead, this exercise resides with Joe McBreen, who, after consultation with his management team, takes responsibility for implementing the recommended strategy.

It is contended that this approach to planning reflects a position which is common in many small, evolving companies. It can best be described as "planning by doing": which refers to a situation where the apex of power resides with one individual. The short term, operational decisions are delegated to the management team (with a certain amount of indirect influence). Because that one individual is in a position of such power and influence, it is easier for that individual to overcome any latent conflict or frustration which may exist within the rest of the organisation. After all, if that individual has founded the company, provided the seed capital for the enterprise and built up his management team from within, it becomes that much more difficult to demonstrate outright opposition to his recommendations for the future.

If one accepts that the traditional views of corporate planning (such as those examined in chapter five) broadly portray the exercise as essentially objective, sequential and rational, then the process which has been identified in this case study casts some doubt on the efficacy of such a perception. While it can be argued that the annual plan identifies with some of the aspects of such a traditional model, the manner in which the longer term decisions are taken is more difficult to assess.

In the case of CEL, these latter decisions are made by one individual. It is submitted that this allows for quick, incisive decision making. Moreover, there is less risk of McBreen becoming embroiled in much of the political in - fighting which can occur in larger , more complex organisations. In such situations there is every likelihood that agents of change can find their recommendations blocked by other managers and may eventually settle for a compromise decision which may not necessarily be the best outcome for the organisation. That is not to suggest that McBreen is likely to take the correct option in every case (this assumption would apply to any organisation, irrespective of size). Typically however, the number of *critical events* which need to be addressed, are far fewer in the evolving company. These events are outlined in Figure XXX in the case of CEL. Thus, McBreen can drive change through the company by seizing the initiative and activating the *"planning by doing"* analogy. In this case the lead time between analysing the environment, assessing the options, making a decision and implementing it within the company, is very short. When McBreen identified the shift which was going to occur in the longer term, he took stock of the present position of CEL, recognised the clear areas of weakness and set about instigating the necessary changes in order to bring it up to the requirements of the OEM sector.

The "downside" of such an approach is that McBreen leaves the company in a vulnerable position should he be incapacitated for a period of time, or in the worst possible situation, if he was incapable of providing continuing input. It is evident that McBreen has delegated responsibility to his management team in the day to day operations; indeed, he has developed this management team internally. However, he does not appear to have involved them directly in the longer term decisions. It is debatable therefore if he has an organisational structure in place that could have the capabilities to make such decisions.

The personality of McBreen should not be underestimated in his determination to drive the necessary changes in the company as it moves to a position where it can target the OEM sector. He demonstrates a cautious approach to business development, coupled with the ability to analyse the trends and shifts in the car security market. The efficient manner with which he has effected change in the company can also be attributed to the empowerment which he gains from <u>owning</u> the company. It partly explains the lack of emphasis which he places on he need to formalise the long term development of the company.

CONCLUSIONS

Connaught Electronics has been in existence since 1982. During this period it has moved through three definable phases: the "part - time" company, manufacturing on a contract basis, then moving to a stage where CEL manufactured a range of product for the professional car security sector and finally expanding its operations in response to market trends, to the OEM sector.

The company has experienced steady growth. However, it has now reached a stage of development which is difficult to assess in terms of the likely future growth prospects. Effectively, after eight years of trading (1982 - 1990) CEL embarked on a major change of market direction, albeit within the same product category. This shift in focus has called for a fundamental re - appraisal of the structure of the company, the systems and procedures employed and an understanding of the purchase decision- making process which pertains in OEM's.

McBreen has attempted to drive the necessary changes with respect to the organisational structure and the systems and procedures. His own extensive experience of working for multinationals has provided him with an insight into the decision making process within the OEM. A strong argument therefore, can be put forward to suggest that CEL has made the necessary adjustments.

A number of conclusions can be made in respect of CEL's approach to planning. The owner - manager; Joe McBreen, takes full responsibility for the decisions which affect the long term future of the company. He consults with his management team but operates with a fundamental perception of where he wishes the company to be over a three year time frame. This vision is not committed to a formal document. It resides very firmly in the head of Joe McBreen. Critics would argue that such an approach does little for clarity of communication within the organisation. However, his decisions are taken in consultation with his management team during their monthly meetings. The simple organisation structure encourages an such an informal approach as there is a marked absence of layers of management and bureaucracy which tends to exist in larger organisations. A formal mechanism does exist, however, for the operational management of CEL's activities. This takes the form of a "bottom - up" approach, where the relevant information necessary for sales projections and market shares are sent to the sales / distribution offices in Britain and Holland, by the distributor base. This information is then collated and built into an annual forecast which is used for budgeting purposes - where the projected sales are set against planned expenditure for the coming year. The annual projections are considered by Joe McBreen in the light of the next three years: he has stressed continuously in discussions, that the car security market is *" a long term business"*.

It is submitted that this approach to planning represents an effective means of plotting the future course of CEL. It has allowed Joe McBreen to operate on a "planning by doing" basis: where is does not have to contend with lengthy delays and obstacles in his attempts to implement or effect the necessary changes. This ability to act quickly and incisively is helped to a great extent by the fact that CEL is a small company which is not heavily layered in managerial terms. It should be noted that this situation is not unique to CEL: it applies to many similarly evolving organisations. He is also helped by the fact that he is the owner of the company and therefore is able to deal with any conflict which might emerge on recommendations which he brings to his colleagues. Observations have been made in the previous section about the possible dangers which might emerge from being over dependent on any single individual: particularly in the area of long term decision making. However, the evidence to date suggests this is not a problem as long as Joe McBreen retains ownership of the company.

The future prospects for CEL are difficult to determine at this stage of its development. McBreen's target of two contracts from OEM's by the end of 1993 would appear to be accurate. The first order had been placed with them at the time of the visit to the company. It has already been submitted that the essential pre requisites for doing business with these companies has been put in place by McBreen. Therefore, the prognosis is positive about the future.

The issue of the radio telemetry products is also unresolved. This is an area within which CEL have "dabbled": to the extent that they have supplied product to the Shell Corporation, in the oil field sector. There is a recognition from McBreen that significant investment in the necessary radio equipment, will have to be made in this area if CEL is to make inroads. At present, McBreen has "held shy", as he concentrates on the OEM sector. It is argued that the radio telemetry sector is a logical extension of CEL's core competence. Clearly, however, the bulk of McBreen's efforts need to be directed to the OEM sector. This represents the long term future both for CEL and the industry in general.

8.2

THE CASE OF THE CHIP COMPANY

8.2 THE CASE OF THE CHIP COMPANY

Introduction

The Chip Company was established by Gerry Sweeney in 1986. He had graduated from University College Cork in 1983 with a degree in electronics engineering. He initially worked with an integrated manufacturing company for three years, but was keen to establish his independence and establish his own company. As a teenager Gerry had demonstrated an aptitude for repairing radios, television sets and other products which had a technical application. During this period he also started to sell machine tools to local small industry. This lead to the creation of a small enterprise which he operated in a part - time capacity. This continued when Gerry went to university.

When he joined his first company as a recent graduate, he identified a possible business opportunity which indirectly emerged from his continuing involvement in selling machine tools, whereby he could make use of his ability to repair damaged products, by acting in a service capacity. The further development of this idea involved the repair of computer peripheral equipment, where such an enterprise would effectively act as a service provider to the computer industry. As he was based in Cork city, Gerry Sweeney sensed that this was a good location for serving companies such as Apple, Wang and Digital who were all located within a one hundred mile radius. In the longer term, he felt that such an enterprise could attract business from other computer based companies such as those located in Scotland.

During the early to middle part of the 1980's, industrial policy had focused on the development of a strong computer based industry in the Republic of Ireland. The results of this strategy proved to be successful, with a number of multinational corporations locating in Ireland. Sweeney sensed that this would be an opportune time to establish a repair and service provision to the industry. The rationale for developing such an enterprise rested on the belief that companies such as Apple would contract out the repair work rather than maintain an in - house facility. By adopting the former approach, Sweeney would argue that companies would benefits from a cost saving, in addition to any added value which his company would provide. As part of his workload with the integrated manufacturing company, Sweeney had developed some contacts with the Apple company which was based in Cork city. He outlined his business ideas to senior management in the factory and as a consequence received a small contract from them to repair some peripheral equipment. The Apple corporation were located in a small industrial estate on the outskirts of the city, and by a fortuitous coincidence, there was a small unoccupied business unit right beside the plant. Sweeney obtained a lease to this unit at very favourable rates and set up operations. It was in such circumstances that the Chip company was established in the middle of 1986. By the end of 1993, the Chip company employed thirty five people and generated an annual turnover of £1.1 million.

Phase One: Establishing the Company - 1986 - 1988

The first year to eighteen months of the company's existence witnessed a situation where Gerry and his colleagues were "snowed under" with enquiries and orders; mainly based on referrals and recommendations from representatives of the local IDA to companies in the computer industry. The fact that the initial order which Gerry received from Apple was satisfactorily handled, allied to the relatively small number of potential customers in this area, ensured that the Chip Company quickly established a reputation for technical proficiency allied to an ability to meet the customer requirements efficiently and in a reliable manner.

At this stage of development, Sweeney expressed the strong view that there was no need for an aggressive, proactive approach to sales and promotion. He was well aware of the dangers associated with growing the business too quickly: particularly in an environment where most of his initial business was coming from large multinational corporations, who demanded high levels of customer service from their supply base. In essence the success of the business during this phase was down to the technical ability of Gerry and his colleagues to deliver a service at a price which made it attractive for such companies to contract out this aspect of their business operations.

Sweeney originally started with just three employees and himself. As orders began to escalate, he recruited a number of people on a part - time basis to deal with the fluctuations in business. A basic induction programme ensured that they could cope with the routine repair problems which tended to occur with the computer peripheral equipment. More importantly, Sweeney was treating labour as a variable rather than a fixed cost.

Sweeney acknowledged that his competency was to be found in the technical aspects of the business. He had not managed to accrue any direct experience in the area of sales, marketing or indeed overall business development. While recognising that this perceived deficiency would not create problems in the immediate term (where enquiries and orders were arriving in an unsolicited fashion), the situation would occur where there would be a need to be proactive in the area of business development.

In order to redress this potential difficulty, Sweeney consulted a close friend of his from university days: Pat Meehan for advice. Meehan has also graduated as an electronic engineer but had worked for a couple of years in export sales. Meehan presented Sweeney with some insights into the decision making process which pertained in large, multinational corporations such as Digital, Apple and IBM. He argued that the best means of devising a winning sales strategy was to categorise both the individual and the company.

In the case of the former, Meehan expressed the view that typically such a person would fall into one of four categories: *analytic* (with the focus on technical issues), *expressive* (where the emphasis is on pragmatism and a clear view of what is being sought), the *driver* (applying to the managing director or chief executive, where that individual sees himself as being the catalyst for change in the company) and finally the *amiable* individual (who places great emphasis on the social aspects of doing business.

When assessing the manner in which individuals operated in the corporate context, Meehan again suggested four categories: the *gates* (people who tended to be technically focused and acted as major influencers within the company), *users* (of the machinery / product / process, and played only an insignificant role in influencing the decision), *owners* (who by definition had a controlling influence on the purchase decision), and *the purchasing manager* (who sought out the potential suppliers and processed quotations, but had little subsequent influence on the decision).

Sweeney felt that this pragmatic advice which he received from his friend, would prove to be invaluable during the next phase of development when he would have to "grasp the nettle" and actively solicit for business.

During this period, Sweeney also decided to actively pursue the ISO 9000 programme of certification. This stemmed from his own focus on achieving higher levels of technical proficiency and also from his discussions with Meehan, who impressed on him the need to meet the stringent standards of quality and reliability demanded by the multinationals. This programme was introduced during 1988 and certification was achieved in the middle of 1989.

In 1988, Sweeney appointed his second cousin, Dennis, who originally joined the company as a technician, to the post of production manager. This was partially in recognition of the fact that Gerry could no longer expect to retain control over all aspects of the business and also due to the need to have a dedicated person in charge of this are, in order to meet the demands of the ISO 9000 programme.

Sweeney also continued with his original business - Chip Electronic Sales: where he continued to sell machine / power tools from his new premises. This parallel business generated £50,000 worth of business during the first year. By the end of 1988, it had grown to over £85,000.

Over the first eighteen months, Sweeney retained control over all aspects of the operations of the chip company. Due to the ease with which the first order was achieved and the subsequent number of unsolicited enquiries, it meant that he did not have to spend much time "on the road" in a sales related capacity. In fact he was able to concentrate on his technical capability. However as the ISO 9000 strategy was being pursued, he began to put the semblance of an embryo management structure in place, with the promotion of his second cousin to the post of production manager. Thus there is evidence of an "emergent", "natural" organisational structure, as opposed to an imposed, rigid approach.

In summary, this first phase of growth highlighted the unsolicited nature of the way in which enquiries and orders were received. The case highlights the potential dangers associated with growing the business too quickly. However it is argued that Sweeney adopts a pragmatic, common sense approach to this hazard. He also demonstrates an incremental approach to the acquisition of knowledge and expertise which is outwith his current range of abilities. He makes effective use of a colleague to acquire a basic insight into the nature of the relationship between the supplier and customer.

Phase Two: Consolidation and Further Growth 1989 - mid 1990

1989 represented a continuation of the success which was achieved initially. The Chip Company numbered Dell, Apple, Digital, Wang, Compaq, IBM and Bull among its client base. The latter three companies representing Chip's movement away from the domestic market. Over this period, orders were also coming from a number of dealers, who would send damaged or flawed equipment to Sweeney for servicing and repair. He described this segment of the business as the low volume end whereas the corporates provided the high volume sector. An example of this would be the typical order emanating from the Bull Corporation in France, where on average 15 machines per day would be serviced at the factory. This translated into £1000 worth of business per day and provided "the bread and butter" for the company.

During 1989, Sweeney recruited an engineering manager and a financial controller to the company, following a policy of strengthening the management structure as the operations of the company expanded. By 1990, this had evolved into what Sweeney describes as a "board of management". This is depicted in figure one.

Figure One

Managing Director (Gerry Sweeney)

Financial Controller Man. | Quality Man. | Engineering. Man. | Production

The term "sales / marketing" does not appear anywhere on the organisation chart. Sweeney put forward the view that the Chip Company was still in the happy position of being able to attract business and maintain existing customer relationships, without having to actively pursue new business. Following the advice of his colleague, Pat Meehan, Sweeney looked after the personal contact with representatives from the customer base.

Approach to Planning

Since the company was established, Gerry Sweeney adhered to a form of planning which was based on a twelve month perspective and which was driven by financial considerations. In addition he took a three to five year perspective of the business. This revolved around the concept of where he would like to see the company positioned in the market place in the longer term. This in turn concerned such issues as price competitiveness, customer service standards and the category desired customer base. Sweeney labelled this level of planning as being the "strategic three to five year plan". He also made the point that this exercise is not formally written down in documentation format.

During this second phase of development, further refinements were made to the planning process. However the basic structure remained in place: a three to five year strategy plan and a twelve month plan which is reviewed monthly. The arrival of the financial controller had a significant influence on the way in which Sweeney and the Chip Company executives handled the planning process. The input of an individual with financial expertise highlighted the need for a disciplined approach to the assessment of both the existing business operations and future developments. The structure of the twelve month plan based on a projected profit and loss statement and was monitored by the preparation of monthly management accounts statements. Sweeney placed great emphasis on the monthly accounts as "it allows me to make value judgements about the next couple of months". He insists that the monthly accounts are made available to members of the board of management by the 15th day of each month. This allows them to identify the likely cash flow position at the end of the month. Given that customers pay on the basis of a sixty days credit period, this exercise quickly identifies any likely problems which may arise, such as certain customers failing to pay on time or within the agreed time.

Sweeney justification for this focus on financial issues is best summed up in the following quote from the interview.

"Sales orders and deliveries do not necessarily equate to hard cash: particularly for small businesses like ourselves who are dealing form the most part, with large multinational corporations". The monthly management meetings allow us track the state of play with business which we have dealt with in the past couple of months, as well as the likely impact of orders we are currently dealing with over the next couple of months."

Longer term issues are discussed at such meetings where relevant. Sweeney takes the opportunity to "sound out" his colleagues views about ideas or projects which he has been considering. While he takes the final decision on such matters he expresses the view that he works within a "consensus framework" and would be unwilling to pursue an idea without firm support from his management colleagues.

In summary, this phase of growth identifies a number of issues which have relevance for evolving firms. Sweeney adopts a disciplined approach to the implementation of a short term planning procedure. However a number of weaknesses have been highlighted in the longer term strategic area. The initial success which the company has achieved since its inception has been placed in jeopardy by the failure, on the part of Sweeney, to put in place a strategy which is designed to anticipate likely future changes in the computer industry. The company operates in a **reactive mode** as a consequence.

Phase Three: The Struggling Mode Mid 1990 - the Present

The period of sustained and continued growth was punctuated sharply towards the autumn of 1990. The computer industry, which had enjoyed a period of major growth and expansion in the 1980's was beginning to experience problems. Essentially the main players in this industry encountered sharp price competition as the basic personal computer became a commodity product. This in turn forced the manufacturers to re - think their business strategy with an overall focus on providing a quality product at ever decreasing cost. Concomitant to this serious of events was the harsh reality of a decrease in overall sales of personal computers.

The implications for the Chip Company were stark. Compaq, their largest customer cancelled the arrangement whereby they sent equipment to Cork for repair and general maintenance. The Compaq decision revolved around the option of making twenty five of their own employees redundant, or retaining them to service product in - house. They opted for the latter. At the same time, business from the established customer base began to decrease as other companies such as Digital, Dell and Apple assessed their position. Thus from being in a position of strength, the Chip Company slid into a downturn in business which, if not addressed, would lead to its eventual demise. Sweeney downsized the company by taking ten employees off the payroll.

He quickly realised that the company needed to move into a proactive mode within the overall area of acquiring new business. To this end he withdrew his second cousin, Dennis, from the role of production manager and gave him responsibility for sales. At this time he established a facility in Holland to service mainland Europe more effectively. This was something which he had been working on for a number of months during the early part of 1990. He acquired a premises in Amsterdam through his contacts with Pat Meehan. Together with a local businessman and two employees, Sweeney developed a brochure which was designed for the European market. Within six months, this operation had generated £75,000 worth of business.

Sweeney viewed this venture as something which would offer both existing and potential customers a greater degree of choice. The Dutch operation offered quicker turnaround times to customers, but at a higher price (labour costs were estimated to be 25 per cent higher than at the Cork plant. The latter facility was the cheaper option, although the longer turnaround times ensured that inevitably, customer service levels were lower.

His colleague, Pat Meehan had also at this time introduced Sweeney to SICA, a personal computer integration company, who expressed an interest in allowing the Chip company to put together the component parts of the product, under licence. This was a project which was given a much greater level of attention due to the downturn in the core business. This venture was finally established and by 1993 was generating over £200,000 worth of business.

Sweeney explained this shift in approach as follows:-

"The realisation has dawned on me over the past eighteen months..that customers are a scarce commodity and trying to find them is difficult. Marketing is crucial in this respect......I think if you get to the stage, where you are asked for a quotation, and asked to tender for contract work....then....eh.......you've then completed the marketing phase of what you want to do......It's to be known and to be thought of as a company to do business with.....finding customers....eh potential customers is the essence of what marketing is about".

Sweeney placed great emphasis on the collection of information about likely customers, working on the assumption that before any contact should be made with them, it would be beneficial to have a very detailed profile developed which would identify their main operations, strategy, key personnel, current supply base and their customers. Thus the company subscribed to computer magazines such as Byte, trade magazines and the Financial Times. He recognised that the lead time from generating an enquiry to receiving an order could be anything from eighteen months to two years. Thus the value of utilising brochures and establishing close working relationships could not be underestimated.

A chance meeting with Don Kelly, the Director of the Linkages Programme within the IDA, after a presentation which he gave to the local Chamber of Commerce, generated a number of useful contacts for companies in the Far East. Kelly suggested to him that in the long term, the physical assembly of casings and equipment would occur in countries which offered a low labour cost, whereas the servicing and added value aspects of the process would offer opportunities to companies such as the Chip Company. Sweeney decided to check out any potential business from this quarter.

The downturn in the computer industry also forced Sweeney and his colleagues to re - consider their approach to pricing. Prior to the difficulties which the Chip Company encountered, they tended to establish what their costs were; both variable and fixed and then add what could reasonably be described as a reasonable net margin. This approach encouraged a level of rigidity, in Sweeney's view, which worked effectively in a stable business environment, where orders were received from an established customer base, and were predictable. The subsequent pressures placed upon the Chip company by the customers, forced Sweeney to consider a more flexible approach to pricing. This primarily involved the company accepting certain contracts which might be loss - making, on the basis that it might "open the door" to larger and more lucrative business. The corollary of this position is that the company also had to look for new areas or niches where there was the possibility of adding value to the service and where extra margin could be achieved.. This change in direction is summed up in the following extract from the discussion with Gerry Sweeney:-

" Where we do find ourselves in a niche market, we'll try to make extra margin pay for lost leaders....I think that's the difference really.........Up until quite recently, when we saw the business as being very...lively.....and where we didn't have any difficulty in securing business....we looked upon ourselves as a sub - contractor and worked for people as a ....aaaa..........sub - contract hourly rate type of basis. The lesson we learned was that...............there were lots of people willing to work at 50p an hour less than us.......No matter how low you go, you'll find someone..........of it's to find a type of differentiation........technology.......we've become fairly secretive about how we do what we do....and I think in the longer term that this approach is healthier for us".

At this stage in the company's development, Sweeney highlights the importance of diversifying away from a basic dependence on the servicing of computer peripheral equipment. The development with SICA is seen as a positive step in this direction, where it moves the Chip Company into to a related area, but also one where there is an opportunity to add value to the basic product offering and more importantly provide a greater profit margin. He argues quite forcefully that the company has shifted its focus from being a technically driven operation (with emphasis placed on quality control and continuous improvement) to that of a firm which is driven by sales / marketing / customer considerations. This is evidenced by the changing role of his own span of responsibility as well as the deployment of his second cousin from a production role to that of a sales person.

In summary, it can be stated that the Chip Company has made a number of potentially difficult alterations to its operations, in response to the pressures brought about by the decline in business from the established customer base. These changes have not eliminated the difficulties, but have re - oriented the prevailing business philosophy of Sweeney. This has meant that the company has adopted a customer / market focus which has not been prominent during the previous stages of development which have been identified in earlier paragraphs.

The process of effecting change has not conformed to the conventional approach as outlined in chapter four. While the benefits of pursuing such "text book" formulations of strategy should not be ignored, it is argued that the process followed by Sweeney in this case is characteristic of similar enterprises and does contribute towards an understanding of the specific context within which such individuals operate.

Conclusions

The Chip Company has undergone a pattern of development which does not conform to the traditional pattern. Instead of encountering obstacles to growth (resulting in negligible to slow growth initially), the company experiences rapid growth during the initial two years. This in turn shapes the approach to planning and organisational development which is subsequently adopted by the company. Sweeney concentrates on technical, quality and financial considerations. There is no attempt to put in place a sales / marketing function as this is regarded as being unnecessary as enquiries and orders arrive in an unsolicited manner.

The expansion of business encourages Sweeney to develop a management team: production, engineering and financial expertise is acquired. A disciplined approach to planning within a one year time frame is in evidence. The longer term considerations are more problematic: residing for the most part in the head of Gerry Sweeney. The company appears to operate in a reactive mode. While the weaknesses of this practice can be quickly identified, Sweeney circumvents many of the obvious pitfalls by appearing to be mentally attuned to the developments in the market place and the potential opportunities which are presented to him (largely through his business advisor - Pat Meehan). It is argued that the informal and flat organisational structure commonly found in the smaller firm, facilitates and encourages flexibility in decision making.

It is argued that this case provides an insight into the approach to planning and the process through which decisions are implemented. That is not to suggest that conventional approaches are wrong or indeed that this approach is correct. There is no clear evidence that this company can successfully overcome the difficulties which it faces currently. However it does reveal the circumstances and context within which such a process evolves and thus provides a number of outcomes from which students of small business management can learn from.

8.3

THE CASE OF ASHLING ELECTRONICS

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Introduction

The origins of Ashling Electronics can be traced to Gerry Sottle who was engaged in some post graduate work at the National Institute for Higher Education in Limerick (now known as the University of Limerick) back in 1983. While based in the university Gerry was in the process of developing a business idea and approached the local Shannon Development Authority for some advice. This body was placing great emphasis at that time, on the development of local entrepreneurial development and indeed they developed a formal training programme to encourage local entrepreneurs during the winter of 1982 and the spring of 1983: called Entrepreneurship and High Technology. This programme was designed with the objective of stimulating interest among local people. The representative from the Shannon Development Authority advised Gerry Sottle that it was not sufficient to have a product idea and the technical skills to develop it; issues such as finance, experience and marketing were of equal importance. He also advised him to attend their training programme.

Sottle met three other people on this course who were eventually to play a significant role in the formation of Ashling Electronics. Gerry Joyce, a former class mate of Sottle, signed up for the enterprise programme because he had just returned from Germany, where had worked with an engineering company. He was keen to become involved with an interesting project and was prepared to place his savings in a suitable venture. Michael Healy had worked for ten years in the telecommunications industry focusing specifically on telecommunications product development, both in Ireland and in America. He moved to Limerick in 1980 to work for Wang Corporation. He was also looking at a specific project in the electronic mail area. He outlined his idea to some people at the N.I.H.E. who advised him to participate on entrepreneurship and high technology programme. The fourth individual: Brian Lindsay had worked previously in the sales area with International Business Machines.

During the course of the entrepreneurship and high technology programme, the four individuals got together and worked on the preparation of a business plan. Sottle took on board the comments of the advisor at SDA and realised the need to bring in expertise and synthesise the concept into a business strategy, before any attempt would be made to approach potential investors.

What was this business idea ? It was firmly grounded in the microprocessor development systems sector. The idea was not to manufacture such systems but to be viewed as an adjunct to the microprocessor industry. The concept would apply to any design engineer who is involved in designing a product which uses microprocessors e.g. (video machines, personal computers, ATM's electronic petrol pumps). He has to write a software programme and develop a piece of hardware surrounding a microprocessor. This involves a complex sequence; involving de - bugging, development, modification, testing and further refinement. In essence software and hardware tools are needed to facilitate this process. Thus the micro processing systems are a combination of these two components.

Sottle's unique selling point lay in the manner in which the previous generation of microprocessor development systems operated. Since such systems in themselves, do a lot of processing, they could be regarded as computers in their own right. All of the previous generation had been based on each manufacturer of microprocessor development systems (MDS's) effectively developing his own computer. The keyboard, screen and other parts of the MDS were different from each other manufacturer's MDS. Thus MDS manufacturers had of necessity, to be in the computer business also. At this time also, MDS's were regarded as being esoteric and complex. This meant that they were being introduced to the market by companies with a vested interest in their success: namely the manufacturers of microprocessors such as Intel and Motorola.

Sottle's idea stemmed from the belief that it was not a clever idea for MDS manufacturers to develop their own computer. This was because initially Apple and later, IBM manufactured personal computers of common currency. So if a manufacturer was making equipment which involved the computer it would not make financial sense to make his own. It would be far more sensible to buy one "off the shelf".

Sottle saw an opportunity to base MDS's on standard off the shelf personal computers. Originally this was to be based on the Apple ll machine. However as the business plan was being prepared, it became clear to the his colleagues and himself that IBM was going to be the dominant system. This is still the case today where it is common practice to see an electronic design laboratory with numerous IBM personal computers. Therefore this was built into their business plan. There were also tentative indications at this stage, that the semi conductor companies were thinking about leaving the MDS business and leaving it to specialised companies. This would provide the main opportunity for Sottle and his colleagues as they saw themselves as specialists. On completion of the Entrepreneurship and High Technology programme in the spring of 1983, they had refined their ideas into a formal business plan, detailing projected cash flows, levels of investment required and so on, over a three year period. They were thus in a position to bring their idea to the lending institutions.

Phase One: Acquiring Financial Support - 1983 - 1985

The business plan was targeted at a number of potential lending and funding institutions such as venture capitalists, banks and the Shannon Development Authority. The latter institution operated an *Enterprise Development Programme* which was directed towards individuals who had experience of working with multi nationals or in such a business environment, and who needed financial assistance for projects. A major application was made to this programme which was accepted. They also applied for product development finance from the same authority and this was also successful. The initial injection of cash was a sum of £10,000 which was given to them by the Innovation Centre based in Plassey Park. This allowed the company to buy desks and chairs for the business unit which was in the industrial estate in Plassey Park.

The partners encountered a major obstacle however when it came to acquiring major sources of finance. They made a large application to the Enterprise Development Programme. However funding from this programme was conditional on the company being financed as it included a significant guarantee against bank borrowing. This could only happen if the company was actually financed. The banks in turn were unwilling to loan on the basis of guarantees which had not already come into effect. They encountered similar problems with venture capitalists. Typically they were reluctant to invest, unless the company was established; products developed and people in place. This was in stark contrast to the position in the United States, where similar venture capitalists would be prepared to invest, on the basis of a well developed business plan. Therefore the four founders of the company were faced with the classical problem of having identified potential sources of funding but being unable to meet the requirements of two lending institutions who appeared to have incompatible standards.

After some discussion, the two original founders, Sottle and Joyce approached the Bank of Ireland and the Shannon Development Authority and explained the problem to them. An agreement was reached whereby the latter organisation agreed to allow a partial and immediate draw down of the loan guarantee element of the EDP scheme. The Bank of Ireland was then prepared to provide adequate funding for the company against these guarantees, until such time as venture capital was won.

A detailed business plan was prepared and Sottle and Joyce, together with Healy and Lindsay, make detailed presentations to eight venture capitalists during the month of September in 1984. In February of 1985 a deal was signed with one of the venture capitalists which brought £500,000 into the company.. By this stage all of the conditions contained in the Enterprise Development Programme were met.

The company had already commenced manufacturing and marketing and was using the revenue to pursue research and development. The acquisition of the £500, 000 venture capital ensured that further developments could take place quickly.

Phase Two: Preparing for and Sustaining Rapid Growth - 1985 - 1989

Upon receipt of the major capital injection from the venture capitalists, Ashling Electronics set in motion a number of activities which were designed to move the company to a position where it could capitalise on the opportunities which were opening up; particularly in Europe. The key to this route to growth was the establishment of a distributor base. Therefore Ashling signed a distribution agreement with a German company which would cover four markets: Germany, Switzerland, Britain and Spain. In September of 1985, a sales office was opened in North America. Meanwhile back in Limerick, a product development programme was drawn up and implemented. By the end of 1985, mainly driven by the orders which were emerging from both the distributor and the sales office in America, Ashling had moved from one -of pilot manufacturing to, if not quite volume production, then certainly serious manufacturing.

In October 1985, a technical support centre was established in Munich. This was designed to service the distributor and the customers in Germany, which was turning out to be a lucrative market for Ashling.

Throughout the remainder of 1985 and 1986, the focus was on firming up a number of distributor arrangement within every country in mainland Europe. During this period the following additional countries were handled by distributors: Belgium, Holland, Sweden, Denmark, Norway, Italy, Portugal and France.

In 1987, in order to gain more control over the sales operations, a sales subsidiary was established in Britain, which replaced the original distributor. A similar exercise occurred in the French market in 1988. Healy and his colleagues realised from an early stage in the development of the company that there was a critical need to structure the organisation in such a way that it would be in a position to avail of the market opportunities.

From its inception in 1985 through to 1989 the structure of the organisation was put in place. The activities were split into four functions: manufacturing, marketing, research and development, and finance.

The manufacturing team took responsibility for production, shipping, material acquisition and order processing, and certain marketing related aspects such as product testing and sales promotion. The latter two activities referred more to the execution of marketing activities rather than the design / planning components. An example of this would be in the circulation of mail - shots to both existing and potential customers.

The marketing team take responsibility for the design of the adverting and sale promotion programmes and play a strong role in the product specification element of the new product development process. The sales subsidiaries report directly to marketing. This team also take responsibility for motivating, controlling and evaluating the distributor base.

Research and Design take charge of the full new product development process; from product specification to product development, with strong input from marketing at the initial stages. When the product is designed, responsibility is handed over to manufacturing and product maintenance. In Healy's view, the research and design department have the additional responsibility for handling the flow of product ideas within the organisation; whether they may come from marketing, sales, customers or indeed the workforce. This focus on new product development is reflected in the requirement on the part of R & D to hold a "Product Ideas" meeting which is held quarterly. This meeting involves senior management from all areas within the organisational structure. If there are indications that the company needs to move more quickly with the development of a product idea, R & D are given responsibility for raising it on the agenda at the weekly management session. The product ideas meeting has a basic objective to establish whether there are ideas out there and to see how these ideas can be progressed to a business decision. They are held in a informal manner and people are encouraged to contribute their views.

The finance department is charged with looking after the management information system, accounts payable and receivable, and where possible, much of the administrative tasks for the sales subsidiaries and technical support units. These latter assignments would include VAT management, payrolls, invoicing reconciliation statements and ingoing collections. The centralisation of these duties is seen by Healy as being critical to the control of the overall business. Moreover, it reduces the likelihood of delays and errors in the order cycle process. By 1992, the organisation had grown to fifty four employees: twelve of which are based in the foreign subsidiaries in Britain, France and Germany.

As stated earlier, the fulcrum for the management of the new product development process is channelled through the R & D group. It reflects the strategic importance of being at the forefront of developments within the industry. The product ideas meeting which is chaired by the research and development division, effectively decides whether that idea is feasible, compatible with the capabilities of the company and is likely to generate business. If the answer is no. then it is aborted at that stage. If a positive response emanates from these meetings then the idea is progressed to a business decision and a formal process is pursued. Healy and his colleagues designed an approach for handling this product development process at the very beginning of the company's existence. It is a procedure which typically lasts from twelve to eighteen months, although in some cases it has run for a period of over two years. Healy argues that such a disciplined approach to product development means that management have an established system for making decisions. This provides a formal mechanism for assessing the progress of the project from the initial concept through to testing and eventual launch on the market place

The details of this process are outlined in figure 1.

During this phase, Healy and his colleagues put in place a formal mechanism for planning the company's development. A detailed description of this process is outlined in the following paragraphs.

Figure 1

1. New Product Phase One Meeting: where all departments come together to discuss the project which is presented to them by the project leader (the leader is chosen from the R & D team on a project by project basis.

2. Documents are prepared for circulation to the marketing and manufacturing representatives. Questions such as - Will this product sell? What is the likely level of interest among prospective customers? What modifications / changes will have to be made in manufacturing ? How will the new product affect the distributor base / sales subsidiaries ? To what extent are the competition addressing this concept ?

3. New Product Phase Two Meeting: Where the updated assessments from both marketing and manufacturing are discussed in detail. A decision is made at this stage as to whether the projected should be passed or aborted.

4. Review Meeting One: Where the project leader brings a prototype for testing with the customers / distributors. This is then taken by the marketing team and they have responsibility for generating responses.

5. Review Meeting Two: Where the final product is presented for evaluation and discussion among the group. If satisfied the proposal is presented to the senior management team at the nearest available weekly management meeting.

6. Subject to a favourable response to the project at the weekly meeting (usually an automatic exercise, because of the nature of the product development process) it is presented to the board for final approval.

The business plan takes a three year perspective and its sole strategic objective is couched in the following terms:

"The objective of Ashling Electronics is to run a profitable and durable business".

The achievement of this objective is based on three main platforms;-

- Continual reinvestment in new product development

- Development of marketing capability within the major market - to be where the customer is and

- Co - operation with the major semi - conductor vendors (based on the belief that Ashling needs to be closely linked to the main players in this industry)

Healy observes that *"the three year perspective does little more than state the general direction and gives a general indication of the numbers we need to achieve and the numbers we will have to invest to get there"*

This aspect of the plan is by definition general and contains only the basic parameter figures and is designed to provide an indication of what the company is about and where it expects to be in three years time.

The detailed information for the next level of planning is contained in the annual budget. This spells out in great detail, the expected amount of business together with the revenue which Ashling hopes to generate, on a country by country and on an individual distributor / subsidiary basis. The costs for developing new product development are clearly delineated in this document and is heavily influenced by the projected revenue, trends in the semi conductor industry and competitive activity.

The task of putting the annual budget together, commences in December or January of each year with the requirement that it be submitted to the board and put in place for the start of the financial year in April. This exercise is carried out by an integrated management team, composed of representatives from each of the main divisions: marketing, manufacturing, finance and research and development. During the period from December through to March, the plan would typically encounter a number of revisions, before it is finally presented to the Board in mid - March.

The market information which is utilised in the formal planning document is generated from primary as opposed to secondary data. Ashling places great emphasis on three main areas which are, in order of priority: the customers (regularly visited by the subsidiaries and distributors), the large semi conductor companies such as Intel, Motorola and Hewlett Packard, and the semi conductor vendors, who tend to be the small, specialist operators who would be similar to Ashling in terms of size and scale of operation.

Healy places great importance on the need to monitor the developments within companies such as Hewlett - Packard and, to a lesser extent, Intel, who still are heavily involved in t he microprocessor industry, and who show little evidence that they are willing to hand over this area to the smaller, specialist companies.

The interactive, integrated organisational structure highlights one of the main strengths of Ashling electronics. Such an approach was instigated at the very beginning of the company's existence; in the mid 1980's. It is only in recent years that the general marketing literature has recognised the benefits which can accrue to a company which implements this arrangement. This focus has emerged mainly from studies of the Japanese style of management: where the emphasis is placed on inter - disciplinary, multi - functional teams which tackle new product development. It is not suggested that Healy and his colleagues in Ashling, have consciously attempted to replicate the Japanese approach: there is no evidence that Healy is even aware of the marketing literature or a knowledge of Japanese management practice. On the contrary, it is argued that the use of inter - disciplinary "management teams" is based on a pragmatic attempt to remain proactive in the area of project development. It is also designed in the recognition that a small company can benefit from such interaction and integration as it minimises the possibilities of bureaucracy and "functional empires" emerging from within the organisational framework. The channels of communication within the company are also shorter as a result. In essence, Ashling has managed to imbue a culture of co- operation, shared involvement and participation which larger organisations are only now beginning to try and put in place.

Phase Three: Refining the Internal Organisation: Cementing Relationships, 1990 - the Present

Ashling Electronics addressed a number of essential issues at a very early stage in its evolution. Thus, by 1990, a formal procedure for handling new projects had been put in place, the distributor base was established and a technical support service was located in Germany. Healy however was aware of the need to address a couple of other issues in an attempt to improve performance. One such concern lay in the encouragement of self - development among the staff. He recognised that skills are not in ready supply in Ireland. Therefore if a company such as Ashling wants to compete effectively in the international arena, it needs to improve the level of knowledge and aptitudes of its management team. In this respect, three main techniques are used. Firstly, marketing staff are actively encouraged to attend technical marketing courses, or telephone sales programmes, where appropriate. Likewise, the R & D team may spend a week with one of the main microprocessor companies, learning a new computer language. Younger managers are also sent to the sales subsidiaries or distributors to learn "at the coal face". In - house training is also organised by the directors, where appropriate.

Healy sees major weaknesses in the area of technical marketing in Ireland. He draws a very sharp distinction between general marketing skills and those which are required for a specialised, sophisticated such as the one which Ashling operates in. Ideally, it is his opinion that the most suitable technical marketer is someone that has qualified and worked as an engineer, and who has moved into the sales area: thereby combining a good understanding of the technical nature of the product, selling skills and a knowledge of the decision making process and distribution structure of the market. In addition this individual also needs to be fluent in one or a number of the major European languages. Ashling have been luckier than most in the latter area, as two of the founders: Sottle and Joyce worked for a number of years in Germany. This has been put to good effect as Germany is now the major market for its products. In 1990, Ashling recruited a recent electronics engineering graduate who had worked for a couple of years in France, and developed a fluency in that language. He was placed in the French market to develop business there. Another graduate has also been deputed to the German market.

Healy has also targeted the logistics and distribution function for gaining efficiencies. One of the marketing team is charged with responsibility for dealing with the shipping companies and working on the requisite documentation. This can be a problem for shipments to non E.C. countries, where complex documentation needs to be processed. If errors are made during this exercise, then delays can occur, with the result that the order is held up at dockside. The end result is a dissatisfied customer. The marketing individual allocated to this task, has attended a number of courses on logistics and in Healy's view, has reduced the amount of delay and errors in shipping. Cost benefits have also accrued because the shipping industry has itself, become very competitive, with typically over twenty companies tendering for business with Ashling.

During this period, Healy has placed great emphasis on building up strong personal relationships between Ashling and its distributor and customer base. Twice yearly, the *Ashling Sales Meeting* is held at one of the sales subsidiaries offices, on a rotating basis. The Ashling marketing staff are invited to this event. It allows the sales subsidiaries to bring a number of their customers along to meet with members of Ashling's marketing team, thus providing an opportunity to discuss matters of mutual interest.

The company also organises an annual international sales conference in Killaloe, a small village just outside Shannon. This brings together the sales subsidiaries and the distributors and an intensive programme is organised including new product demonstrations, marketing topics, announcements of forthcoming product developments. A social programme is organised over the weekend to provide a relaxed environment which is conducive to the building and cementing of relationships.

APPROACH TO PLANNING

Ashling Electronics has instigated a formal, structured approach to planning from its inception. This has been based on the involvement of the founders in a training programme which was organised by the Shannon Development Authority. Part of this course covered planning issues for would be entrepreneurs in the high technology sector. The subsequent need to have a plan in place to attract venture capitalists to invest in the project also helped to create an environment whereby the founders were comfortable with a structured approach to planning.

It is submitted therefore that this represents a proactive approach which is in direct contrast to many similar evolving enterprises which operate on an ad hoc basis initially and eventually move to a reactive approach to planning.

The focus of Ashlings' planning is driven by the need to develop new products and projects. This reflects the nature of the microprocessor systems development industry;

where specialist high technology companies need to be constantly at the forefront of product innovation and development.

The interactive nature of the involvement of executives from a number of different business functions is another observation which is worthy of comment. The participation of marketing, research and development and manufacturing personnel in the new product planning process is something which larger companies are now attempting to introduce to their organisational structures. Healy concedes that it is easier for small companies such as Ashling to implement such a structure. The benefits of such an approach extend to the situation where the internal communication structure is shorter; which facilitates quick decision making and also to the external customer who, upon encountering a problem, can gain easy access to the person who has actually designed the system.

In addition to the formal tiered approach to planning: ranging from the three year, indicative business plan down to the annual budget, it should be noted that Ashling has put in place, an organisational structure to implement and co - ordinate the plan. This is a critical issue when it comes to determining the success or otherwise of such a formal plan. Some companies pursue the notion of developing a plan: indeed many do so; however the question of implementation is not considered to any significant extent. The result in such cases can lead to companies paying "lip service" to the plan, at best, or in the worst possible case, conveniently ignoring it. One of the key lessons to be learnt from Ashling's approach is the *interdependence of planning and structure.* Without the latter, the former cannot be effectively implemented. Healy's approach indicates that a considerable amount of thought has been given to designing an organisational structure which is compatible with the desired approach to planning. This was achieved very early in the development of the company and it is submitted that the subsequent success of its operations can be attributed to such a proactive stance in the area of planning.

CONCLUSIONS

Ashling Electronics represents one of the few indigenous electronics companies in Ireland to have made a significant impact in the high technology sector of the industry. Many local companies having entered the low technology to mid technology sectors. The sophisticated nature of the high technology sector combined with the requirements of such a customer base, partially explains the proactive approach to planning which has existed since the formation of the company in 1984.

The company has a sharply defined customer focus and attributes much of its success to the fact that tries to establish a direct presence in the key European markets. This is reinforced by the practice, where possible, of centralising all of the administrative aspects at the head office in Limerick. This ensures that the personnel are not caught up with such bureaucratic details and can devote much more of their time to sales and marketing issues.

New product development plays a central role in the company's stated objective of "running a profitable and durable business". Indeed it can be said that it is the main driving force behind the planning process; forming one of three main platforms on which such profitability and durability can be attained.

This provides for a very clearly articulated development of the various levels of planning which exist in the company: from the mission statement, through the three year business plan and down to the detailed annual budget. Much of the information comes from the "bottom up", via the distributor base and the sales subsidiaries in the relevant key markets. In addition, the phased approach to the new project development process provides further structure and formality to the process. Healy perceives a number of advantages to the development of projects which are tightly organised and well run". They have been identified in the preceding sections, and in summary they allow the company to react quickly to customer demands; thus providing better levels of customer service, and can allow the company to get a project more quickly through the stages of development.

The above approach has worked well for Ashling. That it may continue to do so in the future is dependent to some extent on the company being in a position to retain the "flat" organisational structure: thus minimising the potential for bureaucracy. This is a worry to Healy and his fellow directors. However they counter this by arguing that the team approach to management which has been inculcated into the corporate ethos of the company, provides the flexibility and sharpness in decision making that is absent or less in evidence in similar companies. The nature of the company is such that it is not heavily labour intensive, as much of the work revolves around product design and development.

In summary, Ashling Electronics achieves a good balance in the formalisation of its planning process, where much of the detail is channelled upwards in the organisation, from the distributors and the senior management team: thus providing the essential material for the directors to base their decisions. In addition, Healy and his fellow directors have provided the necessary organisational structure to ensure that the plan is fully implemented. This latter issue is one which a number of similarly evolving companies fail to consider to any significant extent.

8.4

THE CASE OF E.I. ELECTRONICS

8.4 THE CASE OF E. I. ELECTRONICS

Introduction

E. I. Electronics was originally set up by the General Electric Company in 1963. Based in Shannon, this company represents one of the oldest established companies in the electronics sector. Indeed it was one of the "first wave" companies to emerge from the emphasis on attracting foreign investment by the government of the day. Originally this company produced electron guns for the parent company in the States. Virtually all of its output was directed towards General Electric, with a limited number of orders manufactured for other companies. In the mid 1970's, the company also began to make smoke alarms for the North American market.

During the period from 1963 to 1987, the company proved to be a major employer in the Mid - west region, with numbers fluctuating from 150 to 350.

Throughout the 1980's the parent company- General Electric was experiencing a number of changes to its global operations. In 1985, it purchased RCA, and this prompted a radical re - appraisal of its broad network of companies. This inevitably included a review of the E.I. company. In November of 1986, senior management from General Electric, on one of their regular visits to the plant, informed Michael Guinee that they would be closing the plant at some point over the next year or so. Guinee, who had worked in a number of sales and marketing positions for other multi national corporations was under no illusions about the future prospects both for the company and for himself.

He realised that the present set up would struggle to survive in a competitive market - place. The company had to all intents and purposes operated as a "box shifter" for the parent company. Orders for production schedules were sent over from the States, and subsequently were shipped back. These were guaranteed orders and more importantly, the local plant in Shannon had no proactive responsibility for seeking orders or marketing the end product. Inevitably, this led to a complacent attitude among the work - force.

However despite these reservations, Michael Guinee identified a number of opportunities. Firstly the company was well equipped (by international standards), had a well trained, experienced workforce (if not necessarily that motivated), had just invested in injection moulding facilities and had established a strong reputation for reliability and quality. The smoke alarm product, in Guinee's view, represented strong possibilities. E.I. had been manufacturing a range of these products for General Electric since 1975, and was one of only five or six such manufacturers world-wide. Of more significance was the fact that the only market for such products during the 1980's was North America. Guinee reasoned that with tighter impending legislation and pressure from insurance companies, this market would open up; particularly in Europe over the next ten years. The company had also aced in the past as a contract manufacturer. This was a trend which he perceived would continue, as companies would see benefits from "farming out" this function.

He spoke to two of his colleagues in the company: the engineering manager and the operations manager, with a view to seeking their attitudes to the possibility of a management buy - out. General Electric had been negotiating with potential international buyers, but had been unsuccessful to date. However tentative opening discussions with General Electric suggested that they would be predisposed to the idea of such a buy - out.

Armed with this knowledge and the fact that he would be given a reasonable period of time to put the financial package together, Michael Guinee approached a number of lending institutions. He encountered a number of negative reactions, which annoyed him intensely, as he was bringing a well established and profitable project to the table. Eventually he acquired a bank loan, but only when the proposal was accompanied by a loan guarantee from the Shannon Development Authority.

On the first of February 1988 the factory closed as a General Electric subsidiary. On the third of February, however, it reopened. Although it had a different legal identity, the company retained the same name in order to capitalise on its previous reputation in the market place.

Phase One: Rebirth and Regeneration

The initial challenge facing Michael Guinee as the managing director of the new company was the management of change. Whereas heretofore a paternalistic, comfortable structure pertained, a new dawning (in more ways than one) was about to occur. The removal of guaranteed orders and the need to actively solicit business could not be underestimated. The fact that General Electric did not rush the management buy out meant that Guinee could communicate to the workforce the changes which would occur under the new regime. The redundancy payments (relatively speaking) were generous at the time and ensured that employees did not harbour any strong bitterness to General Electric or to the existing senior management. Those who wished to leave the company were allowed to do so. When they had left, it meant that 99 per cent of the existing workforce were invited to remain on in the new structure. However a different wage structure would have to apply. In a highly price competitive sector such as the smoke alarm market, it would be impossible to maintain the same wage rate as before. This was pointed out to the workforce. The generous redundancies meant that all of the remaining workforce were prepared to take a "leap into the unknown" and support the new company.

The management structure which pertained in the "old" firm was effectively delayered. The three individuals who organised the buy out - Michael Guinee, Mick O'Brien and Declan Murphy carved up the key business functions. Guinee remained as managing director and also assumed responsibility for marketing and sales. O'Brien had already responsibility for manufacturing and likewise, Murphy retained control over the design and engineering functions. Middle management, which existed in the previous company were dispensed with. Apart from the added costs which they would bring to the payroll, Guinee felt that a "leaner and meaner" organisational structure would be more appropriate.

The opportunities in the smoke sector lay in the export markets. The first decision which Guinee made was to seek ISO 9000 approval. He reasoned that this would be a prime pre - requisite in the medium term and might indeed give the company a competitive edge in the short term. This certification was awarded towards the end of 1988.

E.I. also benefited from orders which were still placed with them by General Electric. This in effect provided a cushion effect and allowed a lead time for Michael Guinee to chase new business. This should not be underestimated in terms of its contribution to the smooth manner in which the company moved through the first phase of development. Most companies in such a situation are under extreme pressure to bring in business and thus ensure that cash enters the company. The orders from General Electric made sure that the company avoided any cash flow problems in the first year.

Guinee's anticipation that the European market would open up were justified. In 1988. various newspaper articles highlighted the benefits of smoke alarms. The government of the day began to instigate legislation and insurers were also putting pressure on householders to purchase smoke alarms. In short, orders began to appear from the UK. Guinee was proved right. More importantly the loan which he had secured to enable the buy out to happen, was cleared within six months of trading under the new format.

Phase Two Redirecting the Business 1988 - 1990

At the end of 1988, the company was in a stronger position than it could have anticipated. The upsurge in demand from the UK market ensured that the bank loan was cleared within six months. Thus the company was not dependent on outside lending institutions and was free from the constraints of having to answer to an external owner. On the other hand investment had to be made in the area of product design and development. Likewise the company had to address the question of improving customer service levels to the large DIY operators in the UK which were proving to be the main source of business.

Guinee continued to act as managing director with overall responsibility for the direction of the company. He also assumed responsibility for finance, human resources and sales. The first two areas came under his span of control during the preparation for the management buy out, when he negotiated with each member of the workforce individually. Likewise he was fully responsible for negotiating with the Shannon Development Authority and the lending institutions. On the resumption of trading under the new ownership, he simply retained control over personnel and financial matters.

Guinee was faced with a critical decision at an early stage during this period of growth. The initial orders placed by the parent company for the North American market began to dissipate. This was mainly due to the highly price competitive aspect of this market. Quite simply, General Electric was in a position to source its supply from a local company. Guinee had, through his own efforts, secured some orders with one of the large DIY retailers in the U.K. - Texas Homecare. This could generate much larger orders, provided E.I. could demonstrate the ability to meet the demands of this company. It would require the company to become involved in research and design in an attempt to stay ahead of the latest developments in this sector. Another option was for E.I. to strengthen its position in the sub - contract market: where it would manufacture products to order for customers, without having to worry about developing new smoke alarm products.

Guinee was of the firm opinion that it would be a mistake to concentrate on the sub - contract sector. While financially less risky, it would make the company very dependent on one or two large customers, who could withdraw their business at a moment's notice if a better deal was presented to them by a competitor. Previous business with Black and Decker in this area, still remained a possibility. The injection moulding facility also presented opportunities with IBM: with whom they had supplied on a contract basis previously.

After a careful analysis of the respective sectors, Guinee made the decision to attack the retail sector and keep the sub - contract side of the business to between 15 and 20 per cent. This is a policy which he has retained to the present moment in time.

Larger orders were secured from Texas Homecare and other players in the DIY sectors in the U.K. - such as Wilkes. The customer service levels demanded from these companies was high. Guinee established a warehouse facility in Liverpool to service the individual stores throughout Britain, on a daily basis. This means in effect that orders are received from the central offices of the large DIY retailers and are shipped on a daily basis, with an order cycle (as of 1989) of forty eight hours.

Guinee recognised that the orders from this retail sector provided for large volumes, but relatively low margins. As a consequence, he decided to address the semi - professional sector of the smoke alarm market. This would involve investment in R & D: specifically in the area of infra red technology. Products which would emanate from this area would open up opportunities in sectors such as commercial offices, small factory outlets etc. It would also mean that it would not be possible to supply directly to these organisations. The channel structure for this sector was longer; involving selling to electrical wholesalers and installed by builders. He also recognised the need to branch out further from this area to the professional segment. This would bring airports, hotels, banks and rail stations into the picture.

He saw this strategy as "sticking to the knitting" and remaining within E.I.'s core area of business, but at the same time taking cognisance of the wider scope for defining this market and more importantly moving into areas of technology which would be indicative of where the competition would be adopting in the near future. In line with this approach, Guinee added products such as fire extinguishers and fire blankets to the range. These latter products were sourced from the far east and were not manufactured at the Shannon plant.

During this period, over 70 per cent of E.I.'s business was emanating from the British market. While recognising the vulnerability which might occur from such a position, Guinee realised that the rest of Europe still had not become fully "smoke alarm" aware". Countries such as Germany and Scandinavia were predicted to expand dramatically as impending legislation would force both the home and commercial segments to adopt smoke alarms.

It would not be possible however to simply transfer the same product offering to these markets. Different technologies existed in Germany as opposed to Britain. In the former country, because of stricter environmental legislation, it was anticipated that an optical technology would be the most acceptable one. By contrast, in Britain the accepted technology was based on ionisation.

The company was in a strong position to develop products within these technology - based areas: it has already acquired surface mount technology, was largely automated and injection moulding facilities were in place.

For much of this period therefore, Guinee spent his time monitoring developments in Europe and essentially steering his company in the R & D area. This meant that he needed to "get the organisation structure in place". One of his fellow directors, who had taken charge of the design and engineering had argued for the need to "beef up" the number of personnel in this area. Over a six month period during 1989, Guinee, together with him, recruited six individuals to the company. Two supervisors were promoted from within the company to take responsibility in managing the production line. Three people were recruited to the financial section. They were charged with clerical and book - keeping responsibilities, with Guinee retaining control over the key decisions in this area. A personnel administrator was put in charge of payroll and personnel liaison. A marketing manager was charged with responsibility for liaising with the main retail customers and monitoring competitive activities in this area. Guinee retained power to make long term decisions in all of these areas.

As stated earlier, Guinee did not adhere strictly to the formal three year plan which was developed in conjunction with the Shannon Development Authorities a couple of years earlier. Instead, he placed a great deal of emphasis on regular meeting of management. This was particularly the case in the area of new product development where the focus was on a multi - disciplined effort: with design, engineering and marketing coming together to progress planned new product for the coming year. These meetings would refer to the new product statement which was contained in the plan and discussion would always be focused on the longer term i.e. going through the exercise of examining whether the company should stay within the smoke alarm sector or move into the broader security sector. Guinee advocated a cautious approach in this area and this view has influenced the decisions at this meeting, with his managers tending to be guided by his advice. All along, Guinee has felt that the main strength of the company lies in its technological competencies: both from a people and equipment point of view. This has been the main influence on the business philosophy which he has expounded to his management team.

His reluctance to adhere rigidly to a detailed, long term formal plan stemmed from his experience with the original parent company; General Electric. He argued that such a formal approach was not appropriate for a developing company which needed to be able to make decisions quickly and flexibly. When taking such a strategic focus, Guinee uses the word "positioning".

This is perhaps best summed up in the following extract from the interview:-

"You would.....you could get very inflexible. I believe that we are positioning ourselves....as I say, for the professional sector.....using our technology...and we will have for Europe (sic) a slightly different technology than is generally used in the U.K.......... The U.K. is mainly ionisation technology......So we use a different technology for Germany - an optical technology........I am not a believer in having a very tight five year plan.......and if I presented the thing in the morning and said, look we're going to be...I don't even know if Germany is going to open up in smoke alarms...and eh....I don't know whether legislation is going to change in Britain next year. But we are positioned financially, to invest in technology."

Guinee also adopts a policy of "management by inspection". Every morning he quickly moves through the plant, meeting the supervisors individually and picking up on problems and issues as they arise on a daily basis. Likewise he operates an "open door policy" where colleagues call in with specific queries and questions which may need quick answers.

He supplements the formal review meetings and the informal daily "management by inspection" by circulating a weekly newsletter to all employees - management and those on the factory floor. This is designed to keep everybody abreast of the latest developments and to clarify decisions which have been made at the formal meetings.

Phase Three: Continuous Improvement: Storms in the Wind ? 1991 - 1993

The last two years of the company's evolution have primarily focused Mick Guinee's attention on refining operations within the organisation, with an overall objective of driving a policy of continuous improvement. This latter term was not consciously articulated by Guinee in the interview. However it is an ever present message which comes through. The following passage in indicative of his business philosophy:-

"......quality of product and quality of service is very very important. Again we measure ourselves on the quality of service as much as on the quality of our product....Quality of service is where you can slightly differentiate yourself. If you can, right through the organisation. We go out of our way and incur expense in terms of freight costs, where necessary, if the customer demands it".

In this two year period, E.I.'s involvement with the large DIY retailers has continued to develop. However the company has been obliged to improve its lines of communication with them. Specifically it has invested in an electronic data interchange system in response to Texas Homecare's avowed policy of reducing paperwork and speeding up order cycles and lead times. The adoption of this system has led to significant improvements in the level of service provided. Orders from Texas Homecare are received overnight and are immediately inputed into E.I.'s system at 9.a.m. each morning. The order is delivered to the individual store within forty eight hours of receipt of order. Guinee acknowledges that the company had no choice in the matter as Texas Homecare were operating a penalty clause with its suppliers if they fail to comply with their demands.

While it cannot be argued that Guinee has been proactive in the adoption of EDI, it has led to improvements in the level of service provided. More significantly has improved the company's competitive capabilities with respect to tackling new customers / markets.

Another key preoccupation facing Guinee has been the need to prepare for the European markets, as they begin to open up. In this respect, he has recruited two international marketing graduates from the University of Limerick who have competencies in languages and marketing skills. Germany is the targeted market as Guinee anticipates that it will open up over the next couple of years. He has recently started to learn German in the belief that this will help to cement relationships with prospective German customers in the middle to long term. Likewise his design and engineering team are working on product developments which will comply with the legislation in that country. He has also targeted the North American market for future development.

At the time when this case study was being researched, E.I. was experiencing some difficulties with the high value of the Irish pound relative to the British market. He estimated that over a four month period (with 70 per cent of the business going through the U.K. market) a loss of £500, 000 was incurred due to the currency fluctuations. This dependency on the British market was acknowledged by Guinee but he pointed out that the European markets had not opened up sufficiently to allow E.I. to expand its operations.

His disregard for planning is evidenced by his observation that during the period from September 1992 to February 1993, the company has experienced major downswings and upswings in business orders for its smoke alarm products within the retail sector. He argues that the efficacy of preparing a five year plan is tarnished by the unpredictability of such factors as fluctuations in the currency. His ability to adhere to a rigid plan is also severely handicapped by the fact that Texas Homecare only gives him forty eight hours notice from order placement to order fulfilment. Thus he has to comply with their policy. At the beginning of this period eighty people were laid off due to cutbacks in orders. However in January, he had to recruit ninety people to handle a large upsurge in orders. He is in a position to handle this cyclical aspect of the operations because of the ready availability of a local workforce.

The dependence on the British market and in particular a limited number of DIY retailers has forced Guinee to expand the semi - professional and professional range of smoke alarms. They have tentatively moved into this area in the second phase of development, but have failed to significantly develop opportunities in the area, because of the success which they have experienced in the retail sector. The former two sectors at present only account for 12 per cent of total turnover.

In summary this present phase of development reflects a policy of refinement and improvement within the organisation. Guinee has continued to retain control shaping the long term direction of the company, whilst at the same time recognising the need to restructure the marketing section and penetrate the European and North American markets.

OVERALL APPROACH TO PLANNING

It must be stated at the outset that Mick Guinee is not a strong proponent of the belief that a formal, long term plan is central to shaping the direction of E.I.'s future. Surprisingly this attitude has been formed *because* rather than *in spite of* his experience of working with a large multi - national corporation such as General Electric. His unease with the rigidity of applying a five year perspective to business operations is evident from his perception of E.I.'s business operations as being cyclical and unpredictable in nature.

In common with many evolving companies: particularly those which are in the early stages of growth or (in the case of E.I.) rebirth, a formal three year plan is a necessary pre - requisite if a cogent case is to be presented to the lending institutions or state agencies. During the buy out phase which was examined in greater detail at the beginning of this case study, it was clear that the formal plan was designed for external consumption only. Mick Guinee pursued his own agenda for internal corporate renewal and change.

This is not to suggest that he did so in a haphazard, ad hoc manner. On the contrary, his experience and knowledge of the market place, helped him to identify the critical tasks which had to be addressed in order to place the revamped company on a sounder footing.

It is further submitted that Guinee had a clear strategy in place for the company, although this was not formally articulated in documentation form. Instead, his colleagues were fully consulted and briefed about the proposed developments: ISO 9000 approval, proprietary product development and management delayering. His ability to implement these proposals was helped in no small measure by his decision to delineate between the day - to - day operations of the business and the long term decision which had to be made.

It is argued that this approach could be described as the adoption of an *informal, parallel plan.* In other words, the notion of a explicitly stated plan which is acted on and implemented at all levels of the company is eschewed; mainly for the rigidity which it imposes on personnel. However a clear course is plotted and implemented by the chief executive and majority owner of the company: Mick Guinee. It is also discussed on a regular basis with the management team and moreover is communicated to everyone working in the organisation through a fortnightly newsletter which is circulated to each individual.

A superficial appraisal of Guinee's views would suggest that this company is typical of many evolving firms who do not plan their business: because they do not have a formal planning document. A more detailed examination reveals however that *informal* planning takes place: more critically, it is implemented.

Another feature of this process is the holistic manner in which the critical decisions are made: in this case the main areas being technical, financial and quality. The decisions which were made in these areas were in turn heavily influenced by the long term direction which has been mapped out by Guinee. The long term direction in turn focuses on the product(s) - market (s) relationship and the manner in which Guinee wishes the company to be positioned vis - a - vis the competition. It can be argued that Guinee implicitly utilises core marketing strategy concepts such as positioning and a product - market focus.

Mick Guinee's personality and leadership abilities cannot be understated in any assessment of the planning approach. He quickly established a level of trust with the workforce during the buy - out phase: to such an extent that workers voted against having a union under the proposed new structure. While Guinee expressed the view that he personally did not worry about this issue, he did make the point that this vote was a complement to the competent and equitable manner in which the negotiations were handled.

Guinee frequently refers to the informal lines of communications which exist in the company. The following passage illustrates this point more graphically:-

"It's a very short communication cycle: everybody in the place (sic)...anybody can wander in to me and say "Mick, what are we doing?....And that's the way we run it, maybe it's a bit paternalistic and maybe it's o.k. for 200 odd people, and maybe it wouldn't work for 500 or 600, but it works. We enjoy it.....It's not easy, but we've had no regrets".

The above excerpt from the interview is revealing in that it highlight the "father figure" role which Guinee perceives himself to be projecting to everybody within the organisation: a structure which employs close to two hundred people. While much of his power resides in his majority ownership and his virtually single-handed development of the management buy out plan, it still requires a strong and determined personality to drive the necessary changes in the company. This is a common theme within many of the companies under investigation in this section of the study.

CONCLUSIONS

E.I. Electronics has been forced to re - orientate its operations from that of a passive supplier of product to its parent company - General Electric to a self - sustaining, independent company. It was initially aided by the parent company through a number of orders. This provided a buffer for Mick Guinee and his colleagues during the crucial first year of trading following the management buy - out. The company also benefited from the assets which it acquired from the parent company in terms of a modern factory, advanced technology and a well trained workforce.

Over the intervening five years since the buy out, Mick Guinee has overseen the transition and for the most part has succeeded in putting in place the necessary requirements for capitalising on opportunities which have presented themselves in the market - place.

Hr has resisted the idea of running the new company along the same lines as those which operated during the General Electric era. His approach to planning has been assessed in some detail in the previous section. An *informal parallel* plan was identified.

Guinee has consistently put into practice the belief that there are strong merits in "running a tight ship". This means that he retains a very control over the critical decision areas which are likely to impact on the future direction of the company.

This ubiquitous presence of Guinee in all long term issues, and his apparent unwillingness to strengthen the management team; particularly in the marketing area does highlight potential problems which might arise during the next phase of development: as E.I. seeks to reduce its dependence on the large volume, low margin DIY smoke alarm segment. More specifically he has demonstrated a reluctance to delegate responsibility. More significantly, he has not "trained up" people from within the organisation to take on added responsibilities: they remain essentially "good housekeepers", capable of implementing and administering "tried and trusted" systems and procedures. In the worst possible scenario, if Guinee were to die suddenly, it is very doubtful if the present management team could make the transition from being efficient administrators to strategic thinkers. In essence there is a void which needs to be addressed.

It is submitted that the company demonstrates some weaknesses in the marketing area which will need to be remedied sooner rather than later, if opportunities in the European markets are to be grasped. Guinee has recruited two international marketing graduates but he recognises that it is unreasonable to expect them to contribute directly to generating customers. He expressed the view that their initial contribution has been disappointing as they have struggled to make the transition from the classroom to the market place. While Guinee can be expected to make the necessary negotiations with European distributors, his areas of responsibility continue to widen. Likewise his management time is further diluted.

In summary, Guinee has overcome many of the difficulties associated with change. Much of this has been driven along by his own efforts. He has achieved sales of £10 million and the company is trading profitably. However during the next phase, careful consideration will have to be given to the problems which can accrue from being over dependent on a single large retailer. These problems are compounded by the amount of power which resides at this source. The technical capabilities are within the company to produce a range of products for the European markets and for the semi professional and professional sectors. At the time of the interview, these products were already in production. The reluctance of Guinee to delegate responsibility may lead to difficulties in terms of exploiting these markets. Although it must be said that he has not made many mistakes to date.

8.5

THE CASE OF EUROPLEX TECHNOLOGY

8.5 THE CASE OF EUROPLEX TECHNOLOGY

Company Background

Europlex Technology was formed by two brothers; Paul and David Tatterstall, in 1977. The company's initial product was an intruder control system. This was a hard wired system designed for houses or small businesses. It functioned by controlling various zones in the building, bringing that information back to a central controller, which activates the alarm if one of the zones is opened or penetrated. The company operated from an attic over an office in Dorset Street in Dublin, during the early years. One of the brothers (Paul) had a marketing / sales background. The other, David had a background in engineering, and was the technical "boffin" within the partnership. Faced with constant pressure from Paul about the need to constantly improve the design of the product to meet the ever - changing demands of the customer, he decided that it was necessary to develop a new technology. This led him into the area of multiplex technology. In essence this approach meant that the designer did not have to wire each individual detector - infra red, magnetic contact etc., back to the control panel. Instead one ring main is employed and modules are subsequently joined into that one ring main. This allows for one cable covering the building which feeds back to the controller. Because multi - plex technology is based on a two way communication system, it facilitated the concept where at the control panel end, it could be software driven. David devised a system whereby the control system was developed with a software base. This could subsequently be modified and customised, as the needs of the customer changed e.g. if the building was extended. It meant that each individual controller did not have to be wired separately.

This development led to the launch of the world's first range of multi - plex control panels in the early part of the 1980's. Thus, it represented a unique breakthrough in the field of intruder alarm systems. It also meant that Europlex moved very rapidly from being an insignificant player in this market to a position where the prospect of rapid growth was likely to ensue. The company currently employs 130 people worldwide - 100 of whom work in the Republic of Ireland.

Phase One - Coping with "Rapid Growth Syndrome"

The unique nature of the product meant that Europlex Technology could brace itself for an initial period of rapid growth. In the space of the first two years the company moved premises on two occasions as the demands of production meant that it quickly outgrew its existing premises. The "leading edge" nature of the product led to Europlex addressing the niche, upper end of the market. This meant that instead of addressing the domestic house / small business sector, the company had to consider the demands of the financial services sector (large banks, building societies, insurance companies), the airport authorities, railway stations and post offices. Given the sophisticated nature of the product allied to the ability to customise and upgrade existing features on the control panel, there was clearly a big potential demand at this end of the market.

Paul Tatterstall (the marketer) took responsibility for establishing contact with the relevant organisations. The superiority of the product, (when compared to competitive product offerings), ensured that orders were placed with Europlex. In order to cope with the rapid growth, David and Paul invited their sister, Pamela to join the company and act as production manager. Although she had no direct experience of handling production, it reflected the desire to keep the company within the family. At the same time, Cyril Tatterstall, the father also joined and acted as the financial controller. This was the management structure which was employed in the early 1980's and continued throughout that decade.

In 1986, Paul reactivated contact with some business colleagues he had met when he had worked in Canada. As a result of discussions, a subsidiary office was opened in Canada. Further offices were opened in the U.K., in 1987 and in America in 1988. During the last three years of the 1980's European countries such as Germany, Holland, Italy, Spain. France and Portugal, were penetrated. Two methods of market access were used: distributors or joint ventures.

The company also established a computer distribution company in 1984. This came about through the fact that Pamela married Jed, a computer expert, who was working for IBM at the time. He convinced the other family members that there was an opportunity to be seized through the setting up of a distribution company.

However, despite the rapid success experienced during the 1980's, problems were gathering on the horizon. Paul had acted as managing director throughout this period: David was content to work away on the technical issues in the background. As the number of foreign offices and representatives grew, Paul realised that the existing family structure could no longer hope to manage the business in a capacity commensurate with the increasingly complex demands being placed on it. Cyril had given way to a professional accountant. An outside production manager quickly followed and they in turn put pressure on Paul to employ a marketing person.

At this time also, Paul was becoming restless and uncomfortable with the pace of change which was taking place. He began to make serious noises about leaving the company. Clearly his shares would have to be bought out. He was never a person that responded easily to systems and procedures and the arrival of outside, professional managerial expertise exacerbated this perceived problem.

Phase Two: Managing the Internal - External Influencers

Malcolm Lewis (the present Chief Executive of the company) had been working for a number of years in Ireland with multi national companies. In the course of this period, he had liaised on a number of occasions with the Industrial Development Authority (IDA) on issues such as grant - aid and so on.

The period from mid 1989 to mid 1990 witnessed a number of clashes and conflicts within Europlex Technology. The position was exacerbated when Paul stormed off and ceased his involvement as managing director. This left the company in a quandary. David took over as managing director, but it was clear from early on that he was uncomfortable in this position. He had always acted as the technical person, quite content to operate in the background and free of the constraints of having to make decisions and management.

The IDA had some indirect involvement with the company during the past two years. However they had many unhappy experiences with the "mercurial" Paul Tatterstall. They advised him to attend a number of courses and workshops which would provide him with an opportunity to take a more strategic, longer term view of the company's operations. He persistently refused to become involved in any of these activities.

At this stage external investors had joined the board. Faced with the need to raise substantial finance which would allow them to invest in the company and buy out the shares of Paul Tatterstall, the company approached a corporate finance company. This company subsequently put together a package which led to them taking a place on the board. Thus the combined pressure of an external investor plus the involvement of the IDA ensured that the board were forced to look for someone who would act as a non - executive chairman.

They approached Malcolm Lewis, with whom the IDA had built up a strong working relationship over the past decade. He got permission from his company and joined the board as a non - executive chairman, with responsibility for advising the company on its structure and long term strategy.

After three months it became clear to Lewis that David was not up to the task of acting as managing director. Quite simply, in his view, the company was going nowhere...fast! The company was stagnating in its own growth. While it was achieving ten per cent growth annually, it was little more than just inflationary growth. The R&D function had stalled: no new products were coming out. The company was not being managed correctly at the operational level. It certainly had no strategic thrust in his view. Faced by these problems, he strongly urged that the company appoint a managing director / chief executive.

The company advertised extensively but failed to find someone who could meet the demands of the situation. Having acted as non - executive chairman for the past nine months, the rest of the board approached Malcolm Lewis and encouraged him to take the position. After much deliberation, he accepted the position and started in August 1991.

Phase Three: Management of Change - the First Nine Months

Malcolm Lewis realised at the onset of his appointment as Chief Executive Officer in August 1991 that the company had to shape a strategic plan which would provide guidance for its future development. Due to the family influence which predominated the company in its previous form, there had been no attempt to address the long term issues which might affect the company. In addition, it was also clear that the company would have to address operational issues. Quite simply there had been a haphazard approach to the management of new product development, quality control and at a more basic level, simple systems and procedures for production scheduling.

Malcolm Lewis embarked on a three year strategic plan for the company. Apart from the impact which it would have on the personnel, it was also designed to attract the IDA to put together an investment package. Without evidence of a plan, it was unlikely that they would provide such help to Europlex.

The first task was to bring the executives together: the marketing director, the financial controller (who also acted as company secretary), the production director and the technical director (Paul Tattterstall, who had resumed this position after Lewis took over as Chief Executive). This involved the company preparing a detailed plan which included an analysis of present performance, a mission statement, detailed sales and market share targets (by country) and financial projections and capital investment requirements over this period. His experience with multi - national corporations and his past involvement in negotiations with the IDA for grant packages, heavily influenced the structure and format of the business plan.

This exercise proved to be a difficult one. The other executives had not experienced this level of formality before and tended to regard such brainstorming sessions (of which there were plenty during the first six months of Lewis's appointment) as a meaningless exercise which took them away from the "nitty - gritty" aspects of running the business. It required Lewis to drive on regardless and eventually they had a three year plan in place. Although it covered a three year perspective, the company used a one year focus as the operational aspect of the plan.

The two key weaknesses which Lewis identified as being critical and in need of direct action during the first twelve months were the lack of any systematic approach to new product development and the lack of any formal quality control procedures. The first problem arose because Paul Tatterstall was never formally encouraged to develop new products as the company had prospered on the strength of the original technology developed a decade earlier. This was not an easy task and is encapsulated in the words of Lewis when he stated that:-

It's been very tough trying to get procedures working in an....essentially non - proceduralised company"

As a consequence, the plan instigated the launch of a programme which was called *Management Control of New Product Introduction Procedure.*

This involved Paul Tatterstall and his team of ten engineers working towards a planned launch of a number of new products over a three year period. The nature and direction which such product development would take, would be identified in the overall strategic plan.

At the same time, the company embarked on the acquisition of the ISO 9000 quality standard. This was deemed by Lewis to be an essential pre requisite for doing business within many market sectors, over the coming years.

Lewis spent the first six months engaging on a range of meetings with personnel and establishing the steering committee to implement the plan (made up of the team of executives as discussed earlier). The next three months involved travelling to the subsidiary companies, joint venture partners and distributors throughout Canada, The U.S. and the European countries. This allowed Lewis to get valuable feedback from people at the "coalface". On a more pragmatic level, it allowed him to gain a sharper insight into an industry which differs dramatically on a country by country basis (there is a veritable raft of differing standards and legislation, both existing and pending, within different geographical regions).

Nine months into his appointment, Lewis had put together a plan. This attracted the necessary finance from the IDA which allowed the company to move to a larger plant on the outskirts of Dublin Airport. This was a significant move because it took the company from a run down factory to a "state of the art" layout, on a prestigious industrial estate. This ensured that many of the demands of implementing the ISO 9000 programmes were easier to address in such a facility.

Phase Four: Management of Change - the Last Nine Months

Malcom Lewis realised that if the recommendations contained in the plan were to be implemented, he would have to make changes to the management structure. The Production Director and Quality Control Manager were phased out of the company. Lewis shunted them sideways in the hierarchy. Both executives took the hint and left. Lewis who holds a production engineering degree, took over responsibility for production management, scheduling and the implementation of the programme for gaining ISO 9000 recognition. His rationale for taking over these functions was grounded in the belief that if the inherent weaknesses were not addressed, the company, in the longer term, would not be a viable proposition. His training in the area also meant that he had a clear grasp of the nuances, methods and techniques associated with production management.

During this period Lewis was also pursuing an MSc degree in management (by research), at Dublin University. This course was designed to allow practising managers to engage in a form of action research - whereby they could use their own company as a framework for research: company analysis, strategy development and so on. As part of the programme, Lewis attended various seminars, lectures and workshops. These sessions exposed him to strategists such as Michael Porter, Kenichi Ohmae and Larry Greiner. Thus, he was in a strong position to implement some of the theories covered on the course and apply them to his direct work within Europlex Technology. His views on the relevance of such theories and concepts is revealing.

" I thought it was great (Porter - Competitive Advantage) and in the multi - national environment, I felt it worked extremely well. Coming to a .....em..less organised arrangement in Europlex, it was initially I think, less useful. In the early stages there were so many things wrong, that it was very difficult to concentrate on the strategic issues. It was sort of keeping the finger in the hole of the dike to stop the water coming out. And a lot of time was spent doing that. However, in putting the plan together , the things I learned helped......It's only useful if you've got other people around you who can talk the same language. Eh....because I don't think anybody really puts a strategic plan together themselves. Some, certainly in coming to the company for the first time, just don't know enough about the product range, the market, the people involved, the culture....."

His interpretation of the Porterian concept of sustainable advantage forced him to concentrate on the future manner in which Europlex might retain its edge. This led to a critical strategic decision which involved the reduction of its total dependence on the niche market, and a movement downwards to the professional domestic area. This did not move the company into the "cheap and nasty" segment; it still required professional installation.

The rationale behind this shift in strategy was twofold. Europlex was experiencing formidable competition in their traditional sector. Companies were introducing multi - plex products that were more powerful in terms of their capabilities. Europlex, by contrast, had not really maintained its edge and needed breathing space necessary to "leapfrog" the present competitive offerings and bring out the next generation of multi - plex products. In order to do this, manufacturing costs had to be kept in line and the necessary volume to achieve these economies could only come from a movement into the larger segment of the market. The second reason emanated from the fact that there was an indigenous company in Ireland - Stoketronic which produced this portfolio of products. It was ripe for acquisition. The assets of this company were purchased by Europlex. Of the 34 people which were employed in Stoketronic, 24 were retained.

The move to this sector of the market would entail major changes in marketing strategy. Whereas hitherto sales and distribution tended to be direct to the ultimate customer, the professional domestic segment was based on the classical distribution system: manufacturer to distributor to installer to end user.

This move caused some conflict in the company: David Tatterstall, the technical boffin was horrified at the thought of the company moving into the less sophisticated, cheaper end of the market. However, Lewis convinced the Board of the need to move in this direction.

During this period, Lewis felt that there were a number of weaknesses within the marketing department of Europlex. This was evidenced in the lack of market information and market research about the competition. The Marketing Director in his view essentially acted as a Sales Manager: with two people in customer services, they would spend their time visiting customers and ensuring product availability and co-operative advertising and so on . They would also visit customers on site, if there was any problem with product. These areas tended to be operational aspects of marketing rather than strategic in nature. The latter issues, such as the move to the "professional domestic" end of the market, would be discussed at the weekly management meeting, which would be chaired by Malcolm Lewis.

He expressed the view that ultimately he puts forward the ideas and recommendations for the strategic development of the company. However he recognises potential dangers in his approach to running the business. They are summed up in the following quotation:

"......I suppose I am involved in everything, because we do have weekly meetings and I insist on a weekly meeting where everybody sits down. So things do tend to get put on the table . But eh.......we serve a very wide area, and.....although I am involved and I do direct I guess what the major decisions are.....the executive

does report to a board and I'm the chairman of the board as well, but there is a board which sits......and so we do have to justify where we are going, strategically, and we get the opportunity to ...eh.....discuss that. Em..but...at the moment I think I'm spending far too much time on the operational issues - trying to get the company running....in manufacturing for instance is more than a full time job."

THE APPROACH TO PLANNING BY EUROPLEX TECHNOLOGY

Four phases were identified during the course of this analysis. The initial phase of development mirrors the experience of many similar enterprises: an opportunity is spotted, the skills of the people involved, technical and sales, are capitalised upon, and the company achieves a limited level of success - relying on personal contacts. The rapid growth phase commenced when David developed a break through product. The resulting success experienced by the company can be attributed to the uniqueness of the product and the "hustling " style of Paul Tatterstall, as he set about establishing contacts with the main potential customers in the sector: banks, airports and rail stations. He must also be given credit for identifying the opportunities in both the rest of Europe and Canada. Utilising contacts and establishing relationships with distributors, he ensured that Europlex, within a short period of time, had achieved a "critical mass" in terms of market penetration and coverage.

In common with similar enterprises, there was no attempt to formally or informally develop a plan for the business at this stage in its development. It could be argued that the ability to satisfy demand for the product superseded the need for planning. In other words there would be no time on hand for both brothers to "take time out" to appraise the company's future. The development of the organisational structure happened in a "piecemeal" fashion: family members were recruited as the need for certain skills arose - the father taking responsibility for book - keeping and their sister acquiring responsibility for the production function. However the growth rate of the company, combined with the family frictions which were beginning to emerge, led to a situation where the company could no longer hope to function effectively, unless some attempt was made to implement systems and procedures.

It is debatable if the company could have survived without the arrival of an outside person who could provide the required objectivity and judgement. Malcolm Lewis was that person. It is at this stage of the company's evolution that the first attempt is made to develop a plan. Lewis employed what might be described as a "textbook" approach to this particular task. This occurred because of his ongoing studies for the award of an M Sc degree. Participants on this course were required to use their companies as a focus of study for their dissertation. Lewis utilised the opportunity to design a strategic plan for Europlex while at the same time basing his dissertation around the company.

This represents an unusual situation, where the chief executive has both private as well as corporate motives for establishing a business plan. The remaining two phases of the company's evolution (to date) present a revealing insight as to whether such an approach can be translated into an implementable set of actions which are acceptable to the executive.

The management of change is portrayed as being a difficult exercise for the chief executive. It is not sufficient to put forward a basis for a three year plan. It requires a strong "championing of its merits, over a prolonged period of time, in order to gain its acceptance. It demands a great deal of the "champion" in that harsh decisions have to be taken quickly and executed in a clinical fashion. In the case of Europlex, Lewis had to move aside two members of the executive - in the manufacturing and quality control areas.

During the eighteen month period whilst Lewis has been in charge, he has managed to effect many of the actions which have been detailed in the plan. Progress has been slower than first envisaged - due in the main, to the difficulties in bringing the rest of the executive around to his way of thinking. His own assessment of the usefulness and relevance of the approach to planning which he adopted, is contained in the following quotation:-

" My own feeling is that there is a need for a plan. But only as a ....sort of route map. It shouldn't...eh.....your plan shouldn't show you one road. You know.....your plan is going to be like a map of the country.....it's got roads all over the place. And you continually have to be checking it out, to make sure whether you turn left or whether you turn right, or whether you could go straight on. So you have something to measure it by..."

The key to the success of his approach to planning lies in his strong attempt to get <u>the basics right first.</u> This means that before the strategic change in direction towards the "professional domestic" segment can be effected, it is necessary to address the fundamental problems which existed in both manufacturing, quality control and product development. Once procedures and systems were instigated, then, and only then, could the longer term issues be addressed with any confidence.

Conclusions

The case of Europlex Technology presents an opportunity to chart the development of the company's progress over a couple of critical phases. This company has been in existence for sixteen years, so it cannot be categorised as a start - up enterprise. On the contrary, it is a well established operation, which has experienced a large measure of success - particularly in its formative years. In this respect, it mirrors the experience of many similar firms in the electronics sector. A successful development of a product concept can rapidly move it into the rapid growth syndrome. The company came through this phase, but eventually ran into a "stagnation" phase, brought about by the complacency which such success can create. It was also exacerbated by the "cosy" family controlled nature of the enterprise - until, inevitably, friction emerged between the two principals.

The case study then traces the influence of the external investors and the arrival of Malcolm Lewis. Much of what emerges subsequently can be examined under three headings: the management of change, the development of a business plan and the attempt to implement it.

Credit must be given to Lewis for the forthright manner with which he drove change in this company. Without this input, it is submitted that the company would have continued for a while longer, but due to competitive pressures and the lack of substantial investment, it would be an unlikely candidate for survival. Lewis was the "catalyst" which spawned the subsequent re- direction of the company.

Despite the success achieved by Lewis, a number of weaknesses need to be addressed. The main area of concern would appear to surround his reluctance to relinquish control of what might be termed "the day to day", operational aspects of running the business. Although it is logical that he should have taken command of the manufacturing function (due to his background in this area), and while it can be argued that during the initial nine months of his tenure as chief executive, he adopted the correct course by taking responsibility for strategy marketing, and financial matters, it is submitted that he should now relinquish control of the operational aspects. Otherwise, his efforts will be diluted, at a time when there is still a need for him to act as a champion. This is evident in the rather muted response of David Tatterstall to his decision to re - direct the company to the broader segment of home security. Clearly, latent conflict still exists from this quarter. This is a potentially dangerous scenario - at a time when David Tatterstall will need to be strongly motivated to develop further "leading edge" products which will allow Europlex to "leapfrog" the ever threatening levels of competition. Lewis is aware of the dangers of retaining too much control. He does need to act upon this matter however.

In summary, Euoplex Technology has overcome many of the problems associated with the management of change. It has emerged from an organisational structure (family - based) which was singularly inappropriate for its continued success (survival?) to one which provides a solid basis for future growth and development. Much of this success can be attributed to the efforts of Malcolm Lewis. However, weaknesses have been identified which need to be addressed.

A "text - book" approach to planning was adopted by Lewis. However, he quickly realised that there can be a large gap between theory and practice. In particular, problems revolved around the question of implementing the core components of the plan - in an environment which was initially hostile to change, and which still harbours some resentment at the direction in which the company is going.

It is submitted that the case highlights the difficulties of attempting to provide a level of formality (in terms of a business plan and systems and procedures) in a "non - proceduralised" enterprise. This in turn reinforces the notion that the "hard", rational, sequential approach to planning, as advocated in the textbook, needs to be weighted against the softer, more intangible aspects of implementing the plan. It can be argued that for the most part, Malcolm Lewis has succeeded in this delicate balancing act.

8.6

THE CASE OF MIDLAND TELECOMMUNICATIONS

8.6 THE CASE OF MIDLAND TELECOMMUNICATION

Introduction

Midland Communications was founded in 1982, by Gerry Griffin. Gerry had previously worked for a number of large companies in England; the main one being General Electric. Subsequently he joined Telectron, a company which was originally based in Dublin. He was initially employed as a test engineer (by training he is a radio officer). Over a fourteen year period, he moved into a number of positions within this company - commissioning manager, contracts manager, and finally working as the production controller. This company grew from a workforce of around eighty people to eight hundred and fifty, with four factories in Ireland. The company encountered cash flow difficulties due to the rapid growth rate. The managing director was also reluctant to relinquish control over certain business functions. The company eventually was taken over by an American company - AT & T.

During the period when the company was running into difficulties, Gerry Griffin was becoming restless. He was particularly frustrated by the fact that he had little opportunity to influence the direction in which the company was going. He knew that he had a contribution to make with regard to the products that Telectron should be involved with and market sectors which were not being currently addressed. Thus numerous clashes occurred with the managing director. When AT & T took over he stayed on to see if there was any perceptible change.

This company encountered a problem which was common to many operating in Ireland in the 1970's: the power of the trade unions. This led to situations where orders were not being delivered on time, due to the bureaucracy which existed in the company, based on the demarcation lines which were drawn up by the unions. This situation created innumerable delays in order processing. As contracts manager, Gerry found it to be very frustrating.. He would fill out the necessary forms for ordering various materials, only to find that a week later they would still be lying on somebody's desk. Matters came to a head one weekend, when the factory was broken into and his office was wrecked. When Gerry went in the next day and began to re - arrange the office, he was informed by a union official that it was not his job and to wait until he organised somebody to take charge of the situation.

This experience prompted Gerry to consider the possibility of starting his own business- where he would be in charge of his own destiny and free from such restrictions and petty bureaucracy. He discussed the possibility of manufacturing transformers with a colleague of his at A T &T - Nick Delaney. At this time, a number of executives, including Gerry, were offered a redundancy package. He decided that this was a timely offer and fitted in with his ambitions to start up his own enterprise. He accepted the package, handed in his resignation and immediately contacted the IDA and various other lending authorities about possible grant aid and loan facilities. He received a negative response from the IDA; being told that there were companies already supplying such a product. It was not the policy of the IDA to provide aid in such unpromising circumstances. At that time the main focus of the IDA was on helping companies which had products which would replace imports. He was undeterred by this setback and purchased second hand machinery, moved to Athlone and moved into his mother's news agency business. He made his first transformer in the back garden shed. Mick Delaney gave him some help. For the first six months Gerry and his wife lived on a barge just outside the town on the river Shannon. They developed a couple of products and began to make some coils for a couple of contacts which they had made the acquaintance of, during their time at A T & T. It was from such an unpromising beginning that Midland Telecommunications emerged.

Phase One - Developing an Initial Customer Base : 19981 - 1983

During the summer of 1981, another range of redundancy packages was offered to employees at Telectron. Mick Delaney and Pat Doyle invested their redundancy in the transformer business and joined Gerry Griffin who had left earlier. They moved the manufacturing operations to a cheap site which they acquired from a contact in Dublin. However, Gerry Griffin was in negotiations with the Westmeath County Council. They had already built a number of business units in a small industrial estate outside Athlone. In November of 1981, Gerry and his colleagues moved into one of these premises. Their three wives helped out and a couple of local girls were taken on to handle basic clerical duties.

Gerry Griffin quickly realised that they needed to build up a customer base which would place the company on a more comfortable footing. A list of potential customers was drawn up. The Golden Pages provided the main source, and a couple of trade directories were acquired from the local IDA representative. Contact names were drawn up from the county councils and a systematic telephone exercise was undertaken by Gerry, Mick and Pat. From this, a "hit list" of companies was established. This was based on the perceived reception which they received from the contact name during the telephone conversation. The companies on this list were subsequently visited by either Gerry, Pat or Mick.

Thus, a number of contracts were received and the company was on its way. At the end of the first year, the company generated £40,000 worth of business and fifteen people were employed. Gerry Griffin was quite happy during this period to expand the company's involvement into other areas. Frequently, both existing and new customers were also asked if they made coiled, cables, telephone filters and so on. Likewise, as small indigenous, niche operators went out of business or struggled to provide the required level of service, Midland Telecommunications would move into these areas. It has been a conscious decision on Gerry Griffin's part, to spread the product mix from the very beginning. He reasons that it is dangerous for a small indigenous company to "lock itself " into a niche market. In the event of a downturn in business or the loss of a major customer, it leaves such a company in a circle of vulnerability. Provided the opportunity is there and it falls within the company's capabilities, then Gerry will "go for it".

In the first two years of operations, the company experienced the problem of out - growing their existing premises. They were lucky in that the adjoining unit became available and they simply knocked out the wall and doubled the capacity.

Gerry operated on a basic division of labour between the three founder members during this period. Mick Delaney had worked as an after - sales manager with Telectron and he assumed responsibility for sales operations and customer development. Pat Doyle acted as general manager - with responsibility for ensuring that production schedules were maintained and met the demands placed on it by the customer. Gerry Griffin acted as managing director, with responsibility for making the long term decisions for the company. Having experienced the difficulties associated with outgrowing the business premises, he realised that growth would have to be tackled in a planned manner, as opposed to allowing uncontrolled growth to occur, without having the required infrastructure. The fortuitous manner in which they acquired the adjoining business unit did not hide the fact that no thought had been given to the implications of growth. Thus at the end of 1983, Gerry began to address the question of a business plan. In his view he saw this exercise as being essential if the company was to achieve growth in subsequent years. During this early stage of growth, Gerry also addressed the issue of quality.

Phase Two - Planning Growth: 1984 - 1987

Gerry Griffin recognised two areas which needed to be addressed: the preparation and implementation of a business plan and the management of quality. Having received little or no encouragement from the first person from the IDA with whom he dealt with, Gerry subsequently received a more favourable response from the new local representative. He advised Gerry of the need to develop a broad business plan. Which would be a necessary prerequisite if the company wished to be considered for grant aid or employment grants and so on. Griffin had consciously eschewed the option of seeking loans from the lending authorities. He believed that all growth should be funded internally through profit generated. and has maintained this policy to the present day. However he did recognise the need to recruit employees into the firm as it expanded. In order to qualify for the employment grant (approximately £5,000 per person), he realised that a plan would be essential.

In this regard, the influence of the IDA on the format and content of the plan cannot be underestimated. The plan adopts a three year frame of reference and is finance driven. The growth of the company is measured in terms of turnover targets, profit targets and employment targets. It is presented to the IDA and agreed by them. While Gerry Griffin outlined its usefulness to the company, it was also clear that the main initial motivation for going through with such an exercise was the money which could be generated from the employment grants.

He encountered many difficulties with the local IDA representative when developing the plan. He referred to the bureaucracy and "paperwork" mentality which appears to permeate throughout the IDA. This was at odds with Gerry's view of the entrepreneur as:

"someone who likes to be generating ideas and who likes to be doing things, whereas they (the IDA) insist on putting you through the hoops".

The guidelines and layout were provided by the IDA, the input by Gerry Griffin. As stated earlier, the major focus is on financial matters. A full - time accountant was recruited to the company in 1985 and Gerry credits him with putting a semblance of structure and order to the plan. The operating plan is driven by monthly management accounts which are presented to the four partners at their monthly board meeting. In Gerry's words, this puts down on a document every month:

" all of the activities - the income coming into the company, and the cash going out. These can be compared with the previous month's figures and indeed corresponding figures for the same month in previous years. This eliminates the opportunity for surprises at the end of the financial year (July - July). This tended to happen in the early years, where we could go through the year without really assessing monthly sales or where the revenue or costs were coming from. Thus we could be left in a quandary, wondering where some of these surprises were coming from and trying to guess why certain things were happening. The monthly management accounts impose a certain level of discipline".

Griffin places great importance on the monthly accounts. It allows him to maintain a strong control over the activities within the company. In particular, the monthly accounts pinpoints in a graphic fashion, the current trading position. Unexplained increases or decreases in sales for a particular month are analysed at the monthly meeting and may be explained either by seasonal influences, or the acquisition of a new customer. In any event, the directors address the issues.

The other strategic issue which Gerry Griffin addressed during this phase of development was *quality management.* One of the positive learning outcomes from his time spent with large multi - national corporations such as GEC was the concentration which they placed on systems and procedures for managing quality. Although not enamoured with formality in general, Gerry recognised the benefits from having a systematic approach to managing quality. Having dealt with a number of small, indigenous companies, he realised that this was a major weakness within Irish industry. Midland Telecommunications was one of the first Irish companies to go through the ISO 9000 approval exercise. This was achieved in 1987. In addition to making the company more professional in its systems, the exercise also identified a number of weaknesses in the area of product development and record keeping. In response to this, Griffin commissioned Eolas, the Science and Technology Board to carry out a technological audit of the company's operations. This involved an assessment of all the business functions within the company: research and development, finance and sales. The fee which Midland paid to Eolas was recouped in the first month of operations after the exercise. This further improved the professionalism within the organisation in Gerry's view. Above all else, it raised the awareness level of the employees and management within the company.

As stated earlier, a conscious decision was taken by Gerry Griffin to fund growth internally. A profit has been made in each year of the company's trading. These profits have either been invested or ploughed back into the company in terms of machinery, training etc. This allows a certain "amount of fat" to be built around the company. Thus in times of recession, Midland can absorb reductions in margin more comfortably than similar sized competitors who may have relied to a greater extent on external borrowing. He cites the fact that a number of such companies have ceased trading and Midland has been in a position to pick up their business.

During this period, the company also moved into the cable harnessing market, ironically as a result of an indigenous company going out of business. Due to their lack of expertise in this area, Griffin recruited an engineer to the firm. He was given responsibility for overseeing the development of this line of product and the development proved to be successful.

Despite the sound state of their finances, Gerry Griffin outlined that Midland still face difficulties in getting credit and so on from the banks and the larger companies. Despite the flexibility which comes from being small, the credibility factor still poses problems.

Stage Three "Copper - Fastening" Systems and Procedures: 1987 - 1993

The third phase of development which can be identified, effectively seeks to build on the successful outcomes from the decisions taken in the previous stage. During phase two, the company increased its workforce from around twelve to twenty five people. From 1987 to the present, this number has further increased to the extent that at the time when the company was visited, the forty eighth person had just been recruited. In line with these developments the organisational structure has also changed. In addition to the three original partners another couple of layers of management have been added. Peter Doyle has changed his role from production manager to that of general manager and now has four people reporting to him directly, including a quality manager and a training manager. Also reporting to him, is the administrator, the product manager (recruited in 1987) and the cable products manager. Interestingly, Gerry Griffin also reports to him in his second capacity as design engineer.

Gerry Griffin also decided to split the company into two sections: the production facility which remains at the plant in Athlone and the trading / sales company which is based in Dublin. Mick Delaney, as Commercial Director, runs this second operation. The rationale for creating two divisions was based on taxation advantages which could accrue. In the case of the manufacturing plant, they benefit from the 10 per cent corporation tax.

In an effort to drive "continuous improvement" throughout the company, Gerry Griffin embarked on the ISO 9002 qualification programme. This is a follow on from the first programme and is designed to further refine and upgrade the systems and procedures within management of the quality function. In order to expedite this exercise, he recruited a quality manager to oversee the implementation of the programme. In order to attract the right individual, Gerry Griffin offered a salary which was £5000 more than that which he earned as managing director / chief executive. This is reflective of the approach to salaries which pertains in Midland Telecommunications. The focus is on the value which an individual can add to the company's operations; not on the perceived status which one might associate with a specific job title. In this respect, there is little emphasis placed on the perks, style and trappings; rather it is on the tangible contributions which people can bring to the company. For instance, no person within the company has a company car.

They achieved ISO 9002 certification in 1990. In further pursuit of continuous improvement within the organisation, Gerry has set in motion procedures which will lead to the next level of standards which can be achieved under this programme. The company has also achieved the Underwriting Laboratory Certification as well. This represents further tangible evidence that total quality management is both actively pursued and achieved.

There is a strong emphasis placed on employee empowerment and flexibility. These are related issues which Gerry Griffin has worked on over the period 1987 - 1993. He has stressed the need for all employees, from the telephone receptionist right through the organisation, to be "customer focused". Thus, if an emergency order comes through at five past five on a Friday evening as Gerry and the workers are about to adjourn to the pub for a pint, people will have no qualms about spending an hour or so preparing the order and if necessary, coming in on Saturday morning to expedite the order. Only a week previous to the order taking place, this had in fact happened and Gerry loaded the order into the boot of his car and delivered the product to the client by noon on the Saturday. On the Monday morning, Nick Delaney would contact the customer to see if there were any problems. This approach has been a constant "maxim" which Gerry has instilled into the workforce:-

"People have to be available, at all levels in the company, to the customers"

He is helped in this regard by the fact that no union exists in the company. Given his own experiences with large companies, most notably at Telectron, it is not surprising that he has pursued this policy. Employees are paid bonuses as and when sales and profit targets are achieved.

Open lines of communication are encouraged by Gerry Griffin. He insists on first names within all sections of the management and workforce. He encourages freedom of thinking. This is exemplified by the tendency for workers to keep newspaper cuttings on articles about companies which may turn out to be potential customers. If that company has not been approached before, then it is targeted for a visit.

Gerry and his partners also make a point of visiting other companies who have been highlighted in the media as exponents of world class manufacturing techniques. By walking through the production lines, they can often gain ideas which they might incorporate into their operations.

His utilisation of marketing is worthy of examination. Although by training Gerry Griffin is a radio officer, he has become an active member of the Marketing Institute of Ireland and sits on the Midlands Regional Committee. He identifies two aspects which are fundamental to the marketing function: a customer focus and promotion. He argues that while there is no formal marketing function within the company, he takes responsibility for product design and development and everyone has the customer focus maxim at the forefront of their activities. As stated earlier, this extends to identifying potential customers, through to coming in on Saturdays to fulfil an emergency or unexpected order. Great emphasis is placed on sales visits and trade fairs and exhibitions have been used extensively to promote the company's product range. The company has also allocated £500 to develop a series of poster boards which depict the company's offerings.

His perception of marketing therefore can be assessed as tactical in nature: with the major focus on sales / promotion. This apparently narrow view is defended by him on the grounds of pragmatism: *"you can have a well designed product, but without a professional sales approach, it will stay on the factory floor."* The question of "customer focus" is more difficult to identify from interviewing Gerry Griffin. However he justifies this approach by citing the open communications which can operate in a small enterprise. In terms of the long term strategic decisions, Gerry makes little distinction between overall business and marketing issues. This is symptomatic of many evolving enterprises where functional activities tend to merge into overall business considerations.

For instance, in the recessionary climate experienced by the company during 1991 and 1992, serious attention had to be given to the question of dropping prices in order to retain business. Griffin cited the example where recently Midland had absorbed a drop of 10 per cent on a contract worth £80,000. This in essence represents a loss of £8000. However, Midland is still making a small profit on this order and the savings which have been invested by the company (during the "good years") has cushioned the loss in revenue. The main competitors by contrast, have pursued a "suicidal" policy of below cost selling in an attempt to attract business.

The question of export markets was an issue which was addressed by Gerry Griffin during this phase of growth. As of 1991, 97 per cent of Midland's business was based in the Republic of Ireland. Within the business plan, it is a stated objective to move export sales from its present share of 4 per cent to 15 per cent over the next three year period.

The small proportion of sales coming from the export area can be partially explained by two factors: the opportunities to satisfy the home market have been large and lack of importance which has been placed on attending U.K. trade fairs by Midland. The fact that an advanced level of certification has been acquired by Midland means that it is beginning to appear on lists of "approved suppliers". He instanced the fact that representatives of Ferranti Aerospace were due to visit the plant to gauge the capability of Midland to act as a supplier. The development of sales in the export area, therefore, is seen as a key priority for the company over the next three year period. Gerry argues that the objective of 15 per cent of overall sales is achievable on the basis that the fundamentals have been put in place: quality standards, (ISO 9002 and the Underwriting Laboratory Certification), and a flexible and proven management structure. This commitment to the cultivation of export markets has witnessed Midland attending trade fairs at Reading and at Birmingham at the National Exhibition Centre in 1992 and early in 1993.

THE APPROACH TO PLANNING BY MIDLAND TELECOMMUNICATIONS

A number of observations can be made about the planning procedures as implemented within Midland Telecommunications. Firstly, the company *appears* to conform to the stereotypical approach as outlined in many textbooks, namely the adoption of a three year rolling plan which is driven by the annual budgetary component. However, a closer examination reveals that Gerry Griffin, as the majority owner / chief executive, selectively focuses on a limited number of aspects of the plan: mainly in the area of finance and in particular, the monthly accounts. This reflects the preoccupation which Griffin holds about the need to internally fund future developments. This, he achieves, through a tight control over expenditures.

The company focuses almost exclusively on the operational component of the three year plan: namely the annual budget. Thus, while reference is made to sales targets and projections over a three year period, the rationale for taking the company in a certain direction, e.g. ISO 9000 certification, resides for the most part, with Gerry Griffin. He uses the monthly management meetings to inform his fellow partners of strategic decisions which he is about to make. Thus, the personality of the majority owner / chief executive cannot be underestimated when it comes to assessing the approach to planning in this company. The potential dangers associated with such a stance have been examined in a preceding section. As long as Gerry retains his influence over his fellow partners then all is well. However, the potential threat of conflict is likely to arise should a particularly contentious decision appear on the horizon. The uncompromising nature of Griffin's approach is reflected in his statement that he is **"responsible for taking the hard, long term decisions for the company, and that if push comes to shove, I am the one that calls the shots".**

However, it would be wrong to categorise Midland Telecommunications as a company which is run in a dictatorial manner. Griffin encourages flexibility and freedom of thinking within the organisation. For example, employees are encouraged to keep newspaper cuttings from the business press about new companies which have recently entered the market or about those who are expanding their product portfolios and which might prove to be potential customers for Midland. If they are recognised as likely prospects then they are marked down for contact, either by Griffin or one of his partners.

Griffin also exhibits a level of cynicism about the potential benefits which might accrue from a three year business plan. It is clear that he has only prepared such a document due to pressure from the local representative of the Industrial Development Authority. The actual influence of this document on the future direction of the company is negligible. In reality, the business plan is tailored for external consumption rather than as a conduit for internal change or development. This is a feature of many similar indigenous companies and raises questions about the rationale for undertaking such an exercise in the first place. It also highlights the gap which can exist between formulation and execution. Clearly the funding agencies and lending authorities demand a business plan encompassing a three year time frame. Thus a plan is formulated: in many cases it goes no further. In the case of Gerry Griffin, this time frame is used as an indicator of targets (such as sales revenue) which the company attempts to achieve over that period. The responsibility for major decisions which will have a long term effect on the company (such as a move into a new product area) rests with Griffin. The rationale for making such decisions is not explicitly articulated in the planning document: it resides in the mind of Gerry Griffin.

CONCLUSIONS

Midland Telecommunications has grown from a £40,000 business, operating out of a garden shed, to a £1 million operation as of 1993. Griffin identifies three basic issues which have contributed to this success: a commitment to customer service, a competitively priced product range and a focus on quality. It has funded its operations internally, from its profits and has not over extended itself with the lending agencies. This has meant that Midland has been in a stronger position than many of its competitors in recessionary times, where the pressure has been placed on margins.

Griffin represents the "implicit marketer" which has been identified in the literature. That person intuitively addresses the fundamentals such as customer service and quality, which form the basis for effective marketing in the first place. Griffin has received no direct training in the area of marketing. However, he has learned from his experience of working with multinational corporations. When asked what he understood by the term "marketing", he focused on the end objective of selling the product. However, a study of his company identifies a much broader embrace of the marketing functions, reflecting a situation where he may not be able to demonstrably identify the main characteristics of the marketing concept, but is adept at practising the fundamentals.

The approach to planning has been analysed in preceding sections. It is submitted that the mechanisms employed by Griffin are typical of many similarly evolving indigenous companies. It is selective in its content, focusing in this case on the monthly management accounts as a mechanism for providing a discipline within the company. The three year business plan is designed for the external audience. However, it would be erroneous to assume that the longer term "strategic" issues are ignored as a consequence. Griffin has succeeded in delegating responsibility for the operational management issues to his two junior partners (supported by a number of executives) and has taken full responsibility for mapping out the strategic vision of the company. This clear delineation between strategic and operational considerations allows Gerry Griffin to devote his energies to the former issues.

It is submitted that this has played a considerable part in the subsequent success which Midland Telecommunications has achieved. It is unusual to see a chief executive being in such a position. Typically he or she is inevitably caught up in a number of day to day issues, which have the unfortunate effect of deflecting attention away from the long term developments in the business environment, and which may influence the company's future position. In other cases there may be a reluctance on the part of the chief executive / owner manager to delegate responsibility to other people. Griffin has managed to avoid both of these situations.

In summary, Midland Telecommunications, by focusing on central issues such as customer service, finance and quality has maintained its competitive position in this sector. While potential problems may occur as a result of Griffin retaining full responsibility for the decisions which affect the long term future of the company, they have yet to emerge. Despite using a selective approach to planning and retaining a cynicism about the merits of a formal three year business plan, the company has achieved success.

8.7

THE CASE OF WESTERN AUTOMATION

8.7 THE CASE OF WESTERN AUTOMATION LTD.

Company Background

Western Automation was established by Pat Ward in January 1985. The company currently employs 26 people. It has specialised in RCD technology and specifically designs products which help to detect electric currents and thus provide protection against electric shock or electrical fires. Pat Ward had worked for a multi national company which had specialised in RCD technology and he spotted the need for an independent design house which could provide the appropriate technology to firms. When he assessed the market and the potential competition, he found that the existing products were weak from a technology viewpoint. Most were based in the electro mechanical area, whereas the coming technology - RCD, was very much an electronically based product. Pat's initial entry into the market revolved around the design of a customised microchip, which contained the specific design for an individual customer. This provided two benefits: protection from possible copying by competitors, and an overall reduction in package size. This latter feature ensured that the technology would fit into very small spaces in the factory. In essence, therefore, the technology is the same, but many variations could be built into the microchip which would reflect the differing standards throughout Europe, America and Asia.

Phase One: Developing an Initial Customer Base

Pat Ward adopted a very pragmatic approach to seeking potential customers for his business. He quickly recognised that his business offering was one of providing solutions to individual problems experienced by companies in the area of current detection. Therefore, when he had developed the initial prototype, he identified six U.K. companies in the RCD sector. He approached each one and outlined the benefits which would accrue to them, if they adopted his design. One company had a very large dependence on RCD products and was sufficiently impressed to give Western Automation an initial prototype order worth £60,000, leading to a full scale production order worth £660,000.

In adopting this approach, Pat followed the principle of firstly spotting an opportunity, developing a product to meet the requirements of the perceived customers, and then visiting them to convince them of the benefits. In many ways he exhibited the typical characteristic of the inventor or "technological boffin" - a preoccupation with all matters to do with the product, with little or no thought given over to the demands which would be placed on the company, upon receipt of an order. In his defence, he exhibited the "street wise" approach to marketing which is to be found in many similar owner - managers. Pat refers to this as the displacement principle: where weaknesses in the existing product offerings are identified, improved prototypes are developed, a prospective customer is approached and shown how the improved product can benefit their operations. If successful, then a competitor is displaced in the market place. In essence, this means that the company focuses on the need to convince potential customers of the benefits and the fact that Western Automation would be bringing solutions to problems. At this stage of the company's development, no plan either formalised or intuitively derived, existed.

Phase Two: The Valley of Death

The acceptance of the full scale production order of £660,000 created enormous problems for Pat Ward. He fully recognised that such an order would generate cash which would help to clear a lot of the initial investment costs which had already been incurred. It would also provide the basis for further investment in new designs, leading to new customers. The downside was that the order was given on condition that it was an exclusive - Western Automation could not supply anybody else with the RCD technology. This meant that Pat would be dependent for his survival on a single customer. He was fully aware of the potential dangers associated with this position, but felt that the benefits outweighed the disadvantages. In addition, because he had incurred high levels of debt already - his house was in danger of being re - possessed, in the event of the business not succeeding, he felt that such an opportunity may not present itself again. This was an important consideration because typically companies in this sector can take months to make up their minds about changing suppliers. Here, Pat reasoned, was a company with a contract on the table, requiring only a signature to generate business. He signed the contract.

The first problem arose because Pat Ward did not have a manufacturing facility to handle the order. This meant that he had to sub - contract this task to three sub - contractors. All three let the company down very badly. Orders consistently arrived late, quality was variable and the sub - contractors on many occasions, shoved Western Automation's products to one side, while they fulfilled larger, more profitable orders. This meant that throughout 1986, Pat Ward was living on a knife edge. The customer was becoming more and more angry with the situation. A massive debt loss was incurred in that first year of trading. In October of that year, he realised that the company was in grave danger of going out of business. A critical decision had to be made: whether to remain as a design house and rely on sub contractors to assemble the printed circuit boards or to set up a manufacturing facility. There really was no choice. In January 1987, the company purchased a soldering machine and commenced manufacturing in a small business unit in Bridge Street in Ballinasloe.

Over the course of 1987, the company moved through the learning curve of production very effectively. There were some minor quality control problems, but orders were being delivered on time. They were still in serious trouble however. The British customers' sales took off because of the technology designed by Western Automation and on the back of much favourable publicity in the trade journals. This ironically created problems for Pat Ward. From a position where they were projected to produce around 200,000 per year, they were now producing 500,000. The customer at the same time began to exert pressure on Pat Ward to drive the margins down. Because of his dependence on this company, he was forced to adjust the prices accordingly. The compensatory effect of higher volumes did not eliminate the losses. They were just making more product - at a small loss.

However, a far more serious problem was about to occur. In December 1987, the BBC programme, *Watchdog*, ran a feature on current detection products and identified the U.K. customer's product as being flawed. This was because in the event of a faulty reverse wired socket, the product was only disconnecting one pole of the mains - the live one. This would be acceptable if the socket was wired correctly but in the event of faulty wiring it would not provide any protection against electric shock. This programme went out in early 1988. The company's sales dropped dramatically as a result.

At the same time, this company was working on a redesign. They found an American company which could provide a triple mechanism. This was an area which was outside the domain of Western Automation as it concentrated on the electronics only. As part of the deal, the American company insisted that the U.K. customer also would have to buy their electronics as part of the overall package, along with the triple mechanism. In May of 1988, Western Automation was dropped. This left it with a mountain of debt and unused stock. They were firmly trapped in the "valley of death".

Phase Three: Survival - Retrenchment

In July 1988, all 25 employees were made redundant. Pat Ward decided that the only way to approach the situation was to be open and honest with his creditors. Over twenty companies were owed £150,000. He visited each company to explain the situation. He found that this proactive approach was well received. Their experience was that a managing director in such a perilous position would simply disappear or make no attempt to contact creditors. Each of the companies agreed to support Pat Ward - except for one. This company was owed £400. They took Western Automation to court. However, Pat's solicitors succeeded in delaying the action for over a year.

Bolstered by the encouraging support which he received from his suppliers, Pat Ward called back to the original five companies he had approached in 1985. One of those companies remembered him. The timing was fortuitous because they realised that their product was becoming obsolete and they needed a.......solution! An order was received and in the middle of 1989, Western Automation was back in production.

The company recruited people again. It was in a good position because it had a large amount of stock. It was possible therefore to get "up and running" quickly. As cash came into the company, suppliers could be paid, credibility restored and thoughts could be given to the possibility of seeking new customers.

The personality of Pat Ward contributed in no small measure to the survival of the company during this phase. This was also combined with an element of luck: it is unusual to encounter a situation where virtually all of the suppliers continued to support him, running the risk of receiving no payment in return.

Pat still exhibited the characteristics of the street fighter - reacting intuitively to the unravelling chain of events. The objective here was simply survival- nothing else. The lack of planning, vision and deliberation about what the company was about and where it was going created this situation in the first place. Pat Ward, with no basic business training, was learning the hard way. On the positive side, it could be argued that there was still a need for an independent design house. The customised microchip which Pat had developed, clearly did offer a viable solution for many companies. Through a combination of "error and experience", the company had survived a couple of potentially crippling obstacles. However, it was still bedevilled by the lack of any formal attempt to place the organisational structure of the company on an "even keel". This, allied to the absence of any kind of planning, needed to be addressed immediately.

Phase Four: Sowing the Seeds

As the company responded to the requirements of the initial customer, Pat began to recognise that he had severe limitations when it came to the question of whether or not the company could continue to survive. His experiences over the past two years convinced him that he was deficient in a number of critical areas. He had no knowledge of even the basics of finance: cash flow projections, balance sheets and profitability. Apart from a fundamental belief in his product offering and a tremendous desire to survive, he had no other skills which would help the company to grow.

On the advice of a colleague, he enrolled with the Open University. They offered a number of course modules for managers. Pat initially took finance and accountancy for managers. Immediately he was able to transfer the skills and knowledge to his company. On completion of this module, Pat quickly moved through five other courses; including marketing for managers. This latter course forced him to prepare a business plan. This addressed such fundamental questions as where was the company going to go in the future? What changes would have to be made to the organisational structure? The management of existing customers? The approach to acquiring new customers? The management of employees?

This series of modules moved Pat from a position where he was literally managing by "the seat of his pants" to a situation where he was beginning to acquire a semblance of control over his actions. It is encapsulated by the following transcript from the interview:

"I almost couldn't learn fast enough. There was that kind of situation where I needed the information now, but I had to wait six months to finish the course".

The first decision he made was to divorce himself from the day - to - day running of the company's operations. This effectively meant that he delegated responsibility for all aspects of production to a colleague of his, who had joined him at the beginning. Pat looked after three areas: *product development*, *customer acquisition* and the *monitoring of international standards*. He recognised in addition that being small meant that the company was going to struggle on two fronts. It needed expertise in a number of areas: production, inventory management, supervisory management and electronics engineering. However, lack of finances meant that such individuals could not be recruited - particularly in the managerial area. He resolved therefore to establish a policy whereby such skills would be acquired through internal staff development. When he completed the Diploma in Management, Pat registered to do an M Sc degree through the auspices of the Irish Management Institute. His production controller registered for a B Sc in electronic engineering. Other employees registered for studies in the areas of quality control and supervisory management.

The initial business plan which he developed, focused on the need to only produce product which would generate profitability for the company. In the previous phase, loose profit projections were made which indicated that a profit of around eighty per cent could be achieved. In the event, the order generated a potentially disastrous loss. The plan identified a targeted gross profit figure of forty per cent as the minimal position. Under the detailed projections, developed by Pat, this would allow for a net profit margin of approximately fifteen per cent. This has continued to be the position for the company.

Phase Five: Planned Growth

Subsequent to the completion of his Diploma for Managers course, Pat registered for an MSc. This programme of study was particularly suitable as it forced the course participants to relate the theories and concepts to their own companies and industry sectors. He quickly foresaw the need to plan for growth. This need to identify the best routes for growth was driven by his experiences when the company was small. This led to vulnerability, particularly if the major / only customer does not pay on time. Thus, planned growth can reduce this level of encumbrance. His attitude to growth was not one which was consumed by the need to establish an "empire" or "feed" his ego.

He therefore took a three to five year view of the business. Over the initial three year period he set a sales target of £3 million. This would represent, (if achieved), a doubling of turnover. He anticipated that a doubling of the workforce from twenty five to approximately fifty, would be needed to achieve this target.

The need to strategically develop a limited number of customers was viewed by Pat as central to the success of the plan. In the period since he acquired the initial customer which allowed him to survive, the company established business relationships with five others. The interesting aspect of Western Automation's approach is the focus on the ***existing*** customer base. Initially a strong focus is placed on establishing a comfort factor with each one. He describes two aspects of this strategy which in his view relates to the essence of marketing.

" It's vital that customers never feel nervous about doing business with us....that they feel very comfortable........to the extent that it would break their heart to leave us....We've got to try to engender that kind of feeling amongst customers. And we have it...with the exception of that one customer that dumped us back in '88, we've never lost a customer"......

" The other thing that's come out of this is that I identified an avenue of growth for them.....I was looking for increased sales (from them) and one of the avenues I felt was that if you had a very great satisfied customer...eh......you were supplying him with a specific product, then....if the comfort level was very good, you could tease out the possibility with that customer that you could supply other products....in the product range....and use that as an avenue to get into other areas".

" Amazingly this is happening.............we are seeing an actual explosion in our product base, without seeing a similar explosion in our customer base.....The great thing about coming from being a small company is that we are still dealing with the same number of customers, so we are not over stretched, in terms of customers, but are getting all the benefits of growth".

This ability to grow with the customers was helped by the fact that the customer tends to provide the direction as to where Western Automation was to spend the money on research and development. In addition, Pat's involvement on the international standards committee meant that he too could be proactive in terms of providing advice to the individual customer. Thus, high risk, speculative product development can be avoided.

Pat adopts the attitude that there is no need to seek new customers at present; despite many knocking on his door, due to the reputation he has developed. The reinforcement of the comfort factor is accentuated with frequent visits to each customer - at least quarterly. In addition, the German customer comes over to the new factory which Western Automation has recently moved into.

THE APPROACH TO PLANNING BY WESTERN AUTOMATION

Five phases of development were identified during the analysis of this company. In the start - up phase there was no conscious or sub conscious effort to map out the direction which the company should be following. It was simply a case of identifying an opportunity and then seeking to attract interest from potential users of the technology. Here was someone with an idea, a belief that there was a market for it, a determination to follow it through from conception to birth, the propensity to take a risk and invest in the necessary research and development costs, and above all else a strong, forceful personality to drive the idea through. During this phase, Pat Ward worked on the principle of displacement. This concept was borne from the realms of intuition and past experience rather than the application of any pre - learned theory or training.

Phase two was labelled the "valley of Death". It can be argued that the series of drastic problems which ensued as a result of locking into one customer can be attributed to one major factor: the lack of any managerial expertise. Above all else, this explained why there was no semblance of a plan in place. The consequences of this are depicted in figure b. This phase is characterised by a total lack of control over events, a movement away from a position where a customer has been acquired, to a position where Western Automation is working exclusively for the customer - at a loss! The key decision which saved the company was the move from sub - contracting the manufacturing function to the setting up of such a facility in - house. This meant that the customer was retained, quality problems were redressed and delivery dates began to be met. It is submitted that two critical decisions had to be made in this phase. Firstly where Pat had to decide whether or not to accept the large order and supply exclusively to the one customer and secondly, the decision whether to manufacture or not.

This raises interesting issues for the evolving business. Because of the limited size of the company and the limited nature of its business operations, (particularly at such an early phase of development), such firms typically are faced with a very small number of *critical events* which have to be addressed. The management of such critical events can be handled more effectively if some pre - planning exists. However the existence of such a plan or strategy does not give any firm guarantee that the correct decision will be made. In this case, Pat Ward presented some compelling reasons for locking into an exclusive arrangement with one supplier. He did not have the luxury of time to dwell on the possibility of waiting for other potential customers to put business contracts his way.

It can be argued that if Pat apportioned a better balance of time between developing the technology and considering the practical problems of establishing a business, he may have eschewed this offer and developed other customers. It is submitted that this view is not all that convincing, however, when placed in the context of this case study and particularly in the light of the views expressed by Pat Ward about his commitments to the banks and other creditors.

The strong personality of Pat Ward, combined with the positive response from the creditors to his "open and honest" stance, and of course luck (in attracting the interest of a company which he had contacted a couple of years previously) allowed the company to continue.

This phase of evolution reflects the classic ***"reactive", "fire fighting"*** approach to business which is evident in the case of many entrepreneurs / owner - mangers. What they lack by way of managerial skills and expertise, they make up for by their ability to respond quickly, decisively and intuitively to events. Three critical events can be identified here: the closure of the plant (and subsequent lay - off of all personnel, visits to the main suppliers and visits to potential customers with whom previous contact had been made. There is simply no time for planning at this stage. Survival and retrenchment are the key objectives.

Phase four - "Sowing the Seeds", represents the first time that any semblance of emergent planning appears on the horizon. Pat has learned from the past experiences and recognises the folly of not having addressed some of the fundamentals. He focuses on financial issues initially, understanding terms such as profitability, cash flow, balance sheets etc. He explicitly recognises that he does not have the pre requisite skills which would allow him to make decisions in these areas. Therefore, he embarks on a course of study which will help him to develop this expertise. At the same time, he makes another crucial decision: to relinquish control over the day - to - day management of the production scheduling and quality control functions. This frees him to plan the longer term aspects of the company's business operations. These twin developments represent the first occasion where Pat Ward begins to move into the ***proactive planning mode.*** Although he focuses on only one aspect of the business, namely, financial matters, it is contended that this is appropriate. He only has one customer. His immediate requirement is to fulfil an order for this customer at a profit. He therefore has to construct a detailed costing of the process involved in meeting such an order. Likewise, he has to address the implications of taking on other orders and the demands which this will place on the manufacturing facility, the purchase of raw materials etc. The completion of such an exercise gives Pat greater leverage and confidence when it comes to negotiating contracts with customers. More strategically it presents a clearer picture of the *capability* of the company.

The role which marketing plays in this exercise cannot be underestimated. It should be highlighted, however, that such a function plays no visible, direct role in Pat's planning activities. His plan is concerned solely with financial issues. It is developed partly with the banks and financial institutions in mind - (they have put pressure on him to develop such a plan). However, the management of the relationship with the initial customer and the other customers which he acquires is within the bailiwick of the contemporary understanding of the term "marketing". However, Pat does not explicitly use such a term - until it is used by me in the interview. He applies the broad principles of marketing in an intuitive, pragmatic manner.

The present phase of evolution - the planned growth stage, represents a continuation and expansion of the business plan which Pat Ward has instigated. He has reached a stage where the company is on firmer ground. He has grown the company to six customers. He recognises that there is no need to expand this customer portfolio as there are opportunities to grow with the existing customer base through product development. This can be referred to as **strategic customer management.** He has broadened the planning horizon from the initial one year, financial focus, to that of a three to five year perspective. He has set a target of doubling the turnover of the company, and has set a ceiling for expansion by not wishing to move beyond fifty employees.

This phase of planning can be best described as *contextual*. It adopts a flexibility and fluidity which is notably absent in the rational, textbook approach to such an exercise. There is a level of focus, tied into a longer - term perspective. which none the less would appear to have a narrow content - strategically managing the customer base. There is an absence of rigidity and structure which may not meet with the approval of the theorists. However, it is submitted that it is precisely such an approach which has allowed Western Automation to enter a **planned growth phase of development.**

CONCLUSIONS

The future prospects for Western Automation are more difficult to assess. For now, Pat sees the route to growth as being one where he can grow with the existing customer base. He acknowledges that at some stage in he future, he will have to consider broadening the base of customers. The possibility for moving into related technology areas also may loom large on the horizon.

Western Automation has arrived at a stage in its evolution where it has some degree of control over the pace of development. The inherent strengths associated with being a small company are still in evidence: it responds quickly to customer requirements, it is proactive in putting forward ideas for further improvements to the existing product offering, it is flexible and able to take decisions quickly. Pat Ward's continued presence on the standards committee means that the company can pick up the "winds of potential change" and react to these expeditiously.

More significantly, the company has moved through a number of stages with respect to its approach to planning: non - existent to emergent to contextual in nature. This clearly does not follow the conventional, rational manner in which the planning process is represented in the literature. There is a degree of flexibility and fluidity associated with Pat Ward's approach that is not easy to describe.

It should be stressed that the inherent weaknesses of his attitude to planning cannot be understated. Put simply, he has approached the planning process in reverse: only adopting a minimalist stance based on the sharp lessons he learned from phase one and two. This can be mainly attributed to his complete lack of managerial understanding and expertise. It is clear that he moves swiftly and proactively to redress this imbalance when he enters the survival / retrenchment phase of the company's evolution.

This case highlights the potential grave consequences which can accrue from such a lack of prerequisite training and development in the fundamental functions of running a business: financial knowledge, production management skills, resources management etc. Many companies in a similar situation would have undoubtedly folded in such adverse circumstances as those faced by Pat Ward. Due to a combination of tenacity, perseverance and luck, he managed to save the company from going under. The lessons learned from this experience moved him to adopt a different approach in phases four and five.

It can be equally argued that Pat Ward represents much of what is positive about entrepreneurship. The basic belief that he had a product offering which could provide solutions to problems still lives on. He has a pragmatic understanding of the marketing function which is not so clearly as evident in many larger companies.

CHAPTER 9

CONCLUSIONS

CONCLUSIONS AND RECOMMENDATIONS

9.1. Introduction

The previous two chapters presented the main findings from the quantitative phase of the research and the analysis of the seven cases which were undertaken in the qualitative phase. The results from the former indicate that the size of the customer base and the size of the company (based on the number of people employed by the company) influence the extent to which companies will adopt a more formal, structured approach to planning. It is also evident that the majority of companies which participated in the survey, utilise a general business plan as opposed to a series of functional plans. The explicit role of marketing strategy in the formal planning process is absent in all but sixteen per cent of the companies. It was submitted at the end of chapter six that a reliance on such a quantitative survey at best, only sheds partial light on planning practices within indigenous electronics firms in Ireland. It was also argued that far more probing on the part of the researcher is needed if a greater insight is to be presented on the factors which impact on the planning process.

This chapter attempts to synthesis the main findings from the case studies which have been analysed in some detail in the previous chapter. The main issues which arise are set out in appendix E (see part 2, page 416). It also discusses the main themes in relation to the conclusions which were derived from the quantitative survey. From this analysis, a framework for assessing the main approaches to planning within the evolving firm is put forward. In the final sections, the limitations of the research are examined and some areas for future research in this area are identified.

9.2. Managing Critical Events

It became clear from the case studies, that in every case, a small number of *critical events* occur as the company develops. Typically these incidents have a considerable impact on the future of the company and they require a decision to be made on the part of the founder and / or partner(s). The net effect of this decision may be positive or negative: a wrong decision can lead to a disastrous situation, a successful outcome can produce a period of sustained or rapid growth for the company. The ability of the owner - manager to take the correct decision was a common feature. This was not dependent on the existence of a formal approach to business planning, except in the case of Ashling Electronics; instead it was influenced by the knowledge of the market and the ability to understand future trends in the industry. In all of the cases, but one, the founder was in a position to retain control over the strategic decisions; those issues which affect the long term direction of the business.

The number of critical events facing a small firm are typically few in number. Thus by a combination of knowledge, anticipation and monitoring of the business environment, the founder can make a quick, incisive decision. The evidence from the case studies and the results from the survey suggest that formal planning does not influence or play any significant role in this exercise. That is not to suggest that if a company has such a formal process of planning in place, it will not be of any use to the company. Rather it acknowledges that the ***informal*** approach plays a very significant part, although it is not formally committed to a document. It also supports much of the literature on small business growth (examined in chapter three) which suggests that the intuition is a critical factor in decision - making.

9.3. Contextual Planning and Selective Focusing

The case studies also reveal that the approach to planning is influenced by the ***context* or *specific situation*** facing a company at a particular point in time. This is at odds with much of the prescriptive literature which assumes that a company or individual adopts a constant view of the efficacy of designing and implementing a planning process. In other words there is an unspoken assumption that planning, by definition, is intrinsically "good" for a company and that it should be undertaken at all times in its development.

The cases show that the reality may be different. In the majority of cases the attitudes and approach to planning is determined by the specific situation facing the company at a particular point in time during its development. For instance, in the cases of the Chip Company, Europlex Technology and Western Automation, the period of initial rapid growth meant that the owners were far more pre - occupied with addressing the immediate issues and problems caused by such a situation. Due to a lack of resources and / or lack of expertise, there was simply no time available to consider the preparation of a plan to deal with the future direction of the business. The context or situation then changes as the company develops: it can be seen that much greater focus and attention is paid to managing the financial position of the company. In the cases of Western Automation, CEL, the Chip Company and Midland Telecommunications, there is a need to address the budgets and monthly cash flows. This then typically shapes the approach to planning. Put simply, a certain formality is introduced to the approach, with the development of monthly financial reviews. A number of the owners cited the focus on financial matters as imposing a discipline on the organisation and making people accountable for their activities or expenditures.

In addition, it is evident that the attitude of the founder to the potential benefits of engaging in planning varies during the evolution of the company. In the early phase of development, the majority of the owners in the case studies eschew planning; arguing that as orders appear, either from referrals, networking, contacts and so on, the immediate task is to address and satisfy these demands, rather than worrying about the future. There is a tendency to adopt the attitude of "let's worry about the present and let the future take care of itself". While this is at odds with the traditional view that companies must actively plan for the future, it is understandable in the context of the specific situation and context facing an individual at that point in time.

By contrast, as the organisations moves through the initial phase of gaining a customer base, the focus shifts to specific issues such as quality management, relationship management or new product development. These may or may not be incorporated within a formal planning context.

There is also a tendency on the part of some of the owner - managers to treat the formal part of planning i.e. committing the contents to a formal written document, both for internal and external consumption. This was most evident in the case of Midland Telecommunicatrions, where Gerry Griffin was quite candid in his comments. While the company has consistently funded its development from internal resources, he had to produce a business plan for the local agencies which were responsible for providing employment grants: without the submission of such a plan, an application would not be considered. An accountant was employed to develop such a plan, but it was purely for external consideration: little, if any use was made of it within the confines of the organisation. Further probing during the first phase of interviews also revealed that a number of owners held similar views about the role of a formal business plan. Where funding from state agencies or lending institutions was sought, a "text - book" plan was prepared. It is a moot point as to whether, in such circumstances, the lending institutions have an understanding of how the evolving firm operates in practice: rather they appear to be applying the same principles and criteria for funding such companies, as they do in the case of large corporations.

9.4. Relationship Management

Perhaps the most significant finding which has emerged from both the quantitative and qualitative phases of the study has been the focus placed on managing relationships between the evolving company and its customer base. The survey of fifty companies showed that companies which had a low customer base were much more likely to rely on an informal approach to planning. Further examination of the seven companies in the case studies provided a more detailed picture of how such relationships are managed.

In the case of Western Automation, Pat Ward stated clearly that, at the present stage of development, he preferred to "grow the business" with his existing customer base, rather than seek additional customers. He justified this on the basis that it was easier to gain more lucrative contracts from such customers as the level of trust and confidence was built up. This in turn allowed for greater profitability to be generated by his company, which could then be re - invested back into the business. The customer also gains by being able to operate in a much closer way with a company that can provide a personal and flexible level of service, and where there is high, indeed almost constant contact with the owner - manager: not a middle manager, or not with a company that is continuously changing its personnel.

The focus on building customer relationships is further emphasised by Joe McBreen of CEL, when he makes a strong point of inviting over both existing and potential customers to visit both his factory and the hospitality on offer in the surrounding area (the west of Ireland). In his view, this plays a strong role in breaking down any initial misconceptions which a company might have, about doing business with a small company in a geographically isolated part of Europe. In essence it helps to break down any credibility gap which might exist. Subsequent visits cement the relationship.

This focus on relationships is not just at that point of external contact between the owner and the company. The Midland Telecommunications case study demonstrates the emphasis which is placed by Gerry Griffin on the need to have a fully motivated, competent and customer - focused employees. This creates an environment where the employee "will go the extra mile" for the customer, by coming in on a Saturday to meet an emergency order for instance.

The ability to react quickly, incisively and in a flexible manner is also an issue which emerged as a critical area where a competitive advantage can be gained by the company. This also reinforces the trust factor and can lead to long term relationships.

The emphasis on managing relationships supports the view which was identified in the literature review in earlier chapters that many owner - managers inherently practice marketing within their organisation. The results from the survey showed that a low level of priority was attached to the formalisation of marketing within the planning process. The case studies have demonstrated however that, almost without exception, owners proactively adopt the most basic tenets of marketing as identified in the literature.

9.5. Strategic and Operational Decisions: A Dichotomy

The qualitative phase of the study revealed that in all cases the owner - managers successfully addressed the question of how best to manage decision - making. This is a critical issue because, as the company moves through the various phases of growth, the roles and responsibilities of the owner are likely to change. In the early stages, the cases demonstrated that the owner tended to take responsibility for almost all of the decisions, whether they be day - to - day, operational issues, or those most likely to affect the long term direction of the business. The possible exception to this pattern was Ashling Electronics, where four partners carved out responsibility for the various functional activities and long term issues were decided more formally, at management meetings.

As the company continues to grow however, it becomes evident that the owner can no longer maintain control over all activities: they simply become to many and varied and also, professional management may be recruited.

In the specific cases of CEL, Midland Telecommunications, EI Electronics, Western Automation and Europlex Technology, the owner - manager quickly delegated responsibility for operational decisions to other partners or managers. Typically this revolved around responsibility for daily production schedules. This freed up more time for the owner - manager to concentrate on the critical strategic decisions which would have to be made: either those with a longer term perspective, like how the company might be positioned in the market place in three years time, or the management of those activities involved in gaining ISO 9000.

In some cases it appeared as though the respondent was actually taking on a broader range of activities: Mick Guinee (EI Electronics), Malcolm Lewis (Europlex Technology) and Gerry Griffin (Midland Communications). In the specific instance of Malcolm Lewis, the case study identified that in addition to acting as Managing Director, he also took over responsibility for production and quality management. While he acknowledged the dangers of such a pursuit, it was also clear that he undertook such activities because, in his view, they were pivotal to the future direction of the company: if they were badly managed then the company would run into difficulties in the market place.

In the cases of Mick Guinnee, Joe McBreen Gerry Griffin and Pat Ward, it was also clear that although they delegated the operational decisions to others, they still retained control over the strategic issues. Although they claimed to consult, make decisions by consensus and be open to the views of others, it is a moot point as to whether they allow others to usurp their authority. This suggests that a possible conflict can occur, particularly in a situation where the owner - manager attempts to steer the company in a direction which is not supported by other members of the management team or the partners concerned. In the cases which were investigated, the personality and leadership qualities of the owner overcame any potential opposition.

9.6 "Emergent" Structures and Planning

With the exception of Ashling Electronics which put a coherent structure in place at the commencement of its activities, the other companies provide strong evidence that structures tend to emerge rather than be imposed. Functional areas evolve in response to either internal or external developments. Likewise, the approach to planning is likely also to emerge in response to specific conditions which face the company. This was demonstrated clearly in the case of Western Electronics, where Pat Ward put in place a production manager and started to develop a limited business plan in response to the need to provide "planned growth" for the company.

This further reinforces the view expressed in section 7.2. that planning is contextual in nature and flexible, in that responds to situational influences. It does <u>not</u> follow a pattern of consistency with regard to planning activities, as advanced in the literature.

9.7. Developing the Customer Base

Both the quantitative and qualitative phases of the study highlighted the importance of contacts and personal networks when gaining initial customers to provide a starting point for the companies. The case studies demonstrated that, in addition, five companies proactively developed the customer base in the early stages by using a series of pragmatic, but effective methods. Pat Ward (Western Automation) identified weaknesses in the existing products on the market, developed a prototype and made a series of presentations to a small number of likely customers. In effect he operated on the "principle of displacement": where by demonstrating the superiority of his designs over the competition, he displaced the existing supplier. In the case of Midland Telecommunications, Gerry Griffin made extensive use of cold telephoning calling, leading to a personal call to a number of companies (based on the level of interest encountered on the telephone). Likewise, in the case of CEL, Joe McBreen made a number of sales presentations to likely customers in the OEM sector.

These observations partially support the literature which contends that networking plays a significant role in the early stages of a firm's development. The Chip Company, EI Electronics and Europlex Technology come into this category. However the role of "cold calling" cannot be underestimated either, as witnessed in the cases of Western Automation, CEL and Midland Telecommunication.

In none of the cases, with the exception of Ashling Electronics, was there any evidence presented which suggested that activities such as networking and proactive selling, were pre - determined or identified in a plan. Typically the owners followed a consistent pattern whereby:

* an opportunity was identified

  ⇓

* a product was designed and refined

  ⇓

* potential customers were identified

  ⇓

* orders were generated either through contacts, referrals or sales presentations / demonstrations

This approach is notable once again for the *implicit* manner in which it follows the traditional marketing- oriented approach which is highlighted in the literature. The main areas of divergence would appear to be the absence of any formal marketing research undertaken by the founders of the potential customers. In the majority of cases, the owner - managers carried out a review of existing products which were on the market (Pat Ward - Western Automation), or relied on the fact that there was no competitive product currently on the market (the Tatterstall brothers - Europlex Technology), or an absence of any competitor (Joe McBreen - CEL). In the cases of the Chip Company and EI Electronics, referrals and orders placed by the old parent company provided the initial stimulus for the first phase.

It could also be argued that the initial impetus for starting the business was grounded in a "product - led" approach: where the product was developed and then some thought was given to the potential market / customers. However it is submitted that this is an unduly simplistic perception. The fact that the opportunity was identified in the first place meant that virtually all of the respondents in the case studies engaged in some form of assessment.

9.8 Internal Development and Action Learning

A recurring feature which was observed in the case studies was the strong emphasis placed by the respective owner - managers on the need to develop the skills and competencies of the employees and managers within the company. This was somewhat at odds with the survey of the fifty electronics companies, where only a small percentage stated that they explicitly set aside funding for training employees. This inconsistency may be explained by the phrasing of the question in the latter survey: where respondents were asked if they directly set aside funds for training. The case studies reveal that investment, by way of subsidising employees on various courses, is provided when the need arises. Five of the companies studied in the qualitative phase strongly articulated the importance of development and training. Joe McBreen and Pat Ward argued that by *investing* in the workforce, a company could prevent valued workers / managers from moving to other companies. In both companies people were actively encouraged to further their studies on diploma or degree programmes. It was also seen by them as a visible indicator that their efforts were recognised. It also meant that the lack of financial resources which was preventing them from recruiting skilled staff in various functional areas could be overcome to some extent, if existing personnel acquired extra skills as the company continued to develop.

In two of the cases: Western Automation and Europlex Technology, the owner - managers participated in programmes of study which they were directly applying to the problems encountered in their respective companies. Pat Ward enrolled for an Open University programme because the early disasters which he experienced, highlighted his total lack of knowledge about fundamental business principles such as book - keeping. Malcolm Lewis was pursuing a Masters degree in Dublin University and used his company as a focal point for his dissertation: in effect a form of action learning and research.

The inception of Ashling Electronics was to be found in a programme on enterprise development in which the four founders were participants. The business plan was conceived and developed throughout the duration of the course. Thus, it could be argued that this was the most extreme and successful form of action learning.

The ability of the owners to engage in such a learning environment in these three cases highlights the role of internal development and shows how it can act as a *catalyst* for shaping the future direction of the business. Firstly it improved the competencies of each individual and allowed them to redress some of the obvious weaknesses which they were experiencing (Western Automation).

In each case also, it allowed the owner to get the benefit of third - party objective opinions and perspectives (fellow students and lecturers) and incorporate these ideas into their own thought processes.

It has to be acknowledged that three cases out of seven is not a representative sample at all, and, as stated earlier, only a small percentage of the participating companies on the survey indicate that they have a stated policy on training. Thus it would be disingenuous to make any generalisations. However it is submitted that both internal development and action learning can play an important role in shaping the future development of the evolving firm. It can also specifically focus the attention of the owner - manager to the need to incorporate a more formal approach to planning, particularly when the initial phases of development have been experienced and the company is expanding in terms of employees and professional management.

9.9 Understanding and Applying the Marketing Concept

The results from the quantitative survey demonstrated that 74% of the fifty companies interviews equated the term "marketing concept" with satisfying customer needs or relating to customer service. This contrasts with the general finding that out of the fifty companies, only eight developed a specific marketing strategy into the overall business plan. Of those companies which developed specific functional plans: eight, only three indicated that they prepared a specific marketing plan.

These figures suggest, at face value, that while many of the respondents understand the concept of marketing, they do not implement it in any meaningful manner. This would appear to support the literature which suggests a similar pattern within the realms of small business enterprises. The question arises therefore as to whether the qualitative information collected from the case studies further supports this or provides an alternative picture?

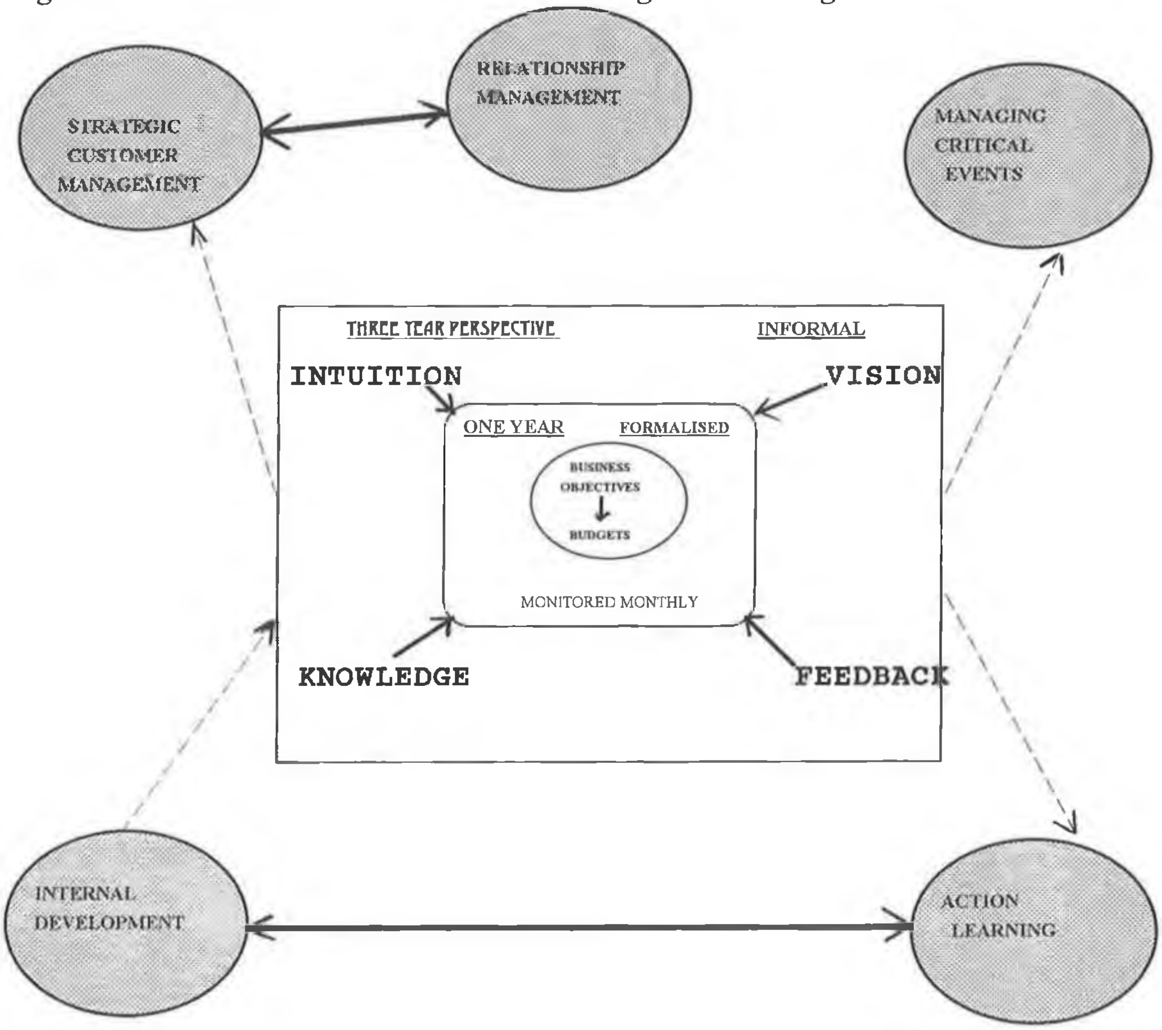
It is submitted that the case studies demonstrate that, not alone is the marketing concept understood, but that it is implemented in an effective manner, albeit not strictly in "textbook" fashion. The focus on relationship management and customer service have already been examined in earlier sections of this chapter. In addition, the virtually all of the companies have placed a major emphasis on the management of quality. In some cases this is because of competitive pressures and customer demands; in others it is in anticipation of future trends in the industry sector.

One of the key learning points to emerge from the case studies is the manner in which the marketing concept is implemented. It is treated in an integrative way, with little attempt being made to treat it as a separate business function, as is the situation in many large corporations. While it could be argued that this is because such companies are too small to contemplate functional structures and plans, it can be equally stated that the customer base is the central focus for the companies which featured in the qualitative phase of the study.

It can be witnessed, in the case of Ashling Electronics, that a situation occurs where great emphasis is placed on the utilisation of multi - disciplinary teams to develop new products. While this company is arguably the biggest and most structured of those under examination, it is also clear that they are practising what many academics and practitioners are preaching: that companies should stop treating marketing as a functional, departmental variable and instead, use it in an integrated manner which transcends boundaries within the company. This, is perhaps one of the key learning points to emerge from the study. Combined with the focus on internal development of employees and management and allied to the central focus of the customer, it identifies how the evolving firm can plot a successful route to growth and development.

A framework which presents the main features of the planning process, as identified from the quantitative and qualitative phases of the study is presented in figure 9.1.

Figure 9.1 A Framework for Understanding the Planning Process



This framework attempts to draw together the critical issues which emerged from the primary research. It identifies both a formal and informal approach to planning and also demonstrates that in such evolving companies, the planning process refers to the overall business: not separate functional areas.

The inner box represents the central focus on the one year perspective, which in most cases is formalised and consists of some business objectives and a series of budgets. This represents the core formal activity with regard to planning in virtually all of the cases under investigation. The inner circle identifies the typical content of this annual plan. The gap between the inner box and outer box identifies with the fact that the companies tend to adopt a three year perspective of the future direction of their business. The critical learning point would appear to be that this time frame is largely driven by four influences: knowledge of the market / competition / industry trends, feedback, intuition and a long term vision of where the company should be going. It is informal in nature: it is not formally committed to any document such as that of a strategic plan. These are more difficult to assess as they reflect the personality and leadership style of the owner - manager. None the less they play a critical role in the manner in which strategic decisions are made. The circles which surround the outer and inner box represent the situational factors which influence the overall approach to planning. Some are inter - linked: action learning has a high level of interaction with the development of the skill and aptitudes of both management and employees within the company, whereas relationship management and the more specific focus on strategic customer management are indicative of the implicit approach to marketing which all of the companies examined in the case studies demonstrated. These are highlighted in the diagram by a continuous, heavy (bold) line. The broken line linking the circles to the outer box are indirect variables which affect the overall approach to planning by the individual entrepreneur / owner / manager. The skills and aptitudes required to succeed in these area will vary; dependent as they are on the overall personality, leadership style and ability to delegate, on the part of the individual entrepreneur. The seven cases featured in this study indicated, to a greater or lesser extent, that the respondents were proficient in these areas.

9.10 Contribution of the Study to Knowledge

The objectives of this study have been shaped from the outset, by the belief that much of what has been written on the process of planning in general, and marketing planning in particular, does not equate with reality. This is particularly the case in relation to the evolving firm. Thus the resulting design of the study, including both a quantitative and a qualitative phase, has set out to examine the accuracy of this observation. The review of the literature on small business and entrepreneurship, strategy and planning, together with small firm policy in the Republic of Ireland, identified a number of discrepancies between theory and practice.

It is further argued that the quantitative phase of the study both supported the view that small business owners approach the planning process in a different manner to that which is prescribed in the literature. Perhaps the most interesting and significant finding to emerge is the relationship between the size of the customer base and the intuitive, informal mode of planning. This is perhaps best evidenced by the findings contained in table 6.12 in the previous chapter which shows that fifty per cent of the companies with a customer base of less than ten, develop intuitive plans which are not formally written down or circulated to other people in the company. When the companies in the > twenty category are considered, it can be seen that ten of the twelve companies prepare a formal, written plan.

The case studies identify a number of influencing factors which impinge on the approach to planning, many of which are not discussed in any meaningful way in the existing literature. These have been laid out in the preceding sections and are represented in appendix F (see part 2, page 460). It is argued that these findings provide a deeper level of insight into the specific characteristics of owner - managers / entrepreneurs and, more importantly, have relevance for policy makers in the area of the small firm. The framework goes some way towards improving the level of knowledge about the role which planning plays in small firm growth and development. It is further submitted that the tendency of such government agencies and lending institutions to treat the evolving firm in the same manner as the large corporation, is based on the prejudice that the characteristics are similar in each case. Evidence that this is not unique to Ireland is presented in empirical research undertaken by Bannock (1), European Banker's Small Business Seminar (2), and the Forum of Private Business (3) The findings from the case studies indicate that a number of influencing factors challenge this perception. In essence the assumption that the potential for business venture growth and development should be dependent on a "rational", prescribed approach to planning is flawed. The factors which have been identified in this study indicate that the situation and circumstances which face many evolving firms is more ***complex, contextual and flexible*** than has been hitherto acknowledged in the literature and among policy makers. The research presented is not applicable to all sectors; focusing as it does on the electronics sector. It also does not set out to be prescriptive in nature: the primary objective being one where a greater level of insight and understanding is reached at the end of the study.

It is submitted that the hybrid nature of the data collection methods which were utilised in the study also contribute to the achievement of this clearer insight into planning practices in small, evolving firms. Much of the existing empirical work in this area has relied on a uni - dimensional approach to research design. The incorporation of both quantitative and qualitative methods has overcome this weakness to some extent. The study also demonstrated how the telephone method can be used more in an innovative and proactive manner than has been the case to date.

9.11 Limitations of the Study and Areas for Future Research

As stated earlier, much of the analysis and assessment which has been carried out in this study has been *exploratory* in nature. It is also limited to one industry sector and it is debatable as to whether the same findings and issues would be identical if the same study was carried out across a number of sectors. An opportunity arises therefore for more extensive work to be carried out on a multi - sector basis, making use of both quantitative and qualitative research methods. It is argued that the latter area provides an interesting route for further research: specifically, more exploratory work needs to be carried out to ***generate*** a theory of business planning, growth and development, before a theory can be tested. As stated earlier, this study goes some of the way only.

If the level of theory generation is to be extended further, it is argued that researchers should consider making greater use of ***action research***. By working more closely and for a longer period of time with an individual enterprise, it should be possible to glean more detail from the research exercise and explore, more extensively, some of the findings which have been generated in this study. While this would not allow for generalisations to be made, it would take the researcher further along the continuous journey of knowledge, working on the basis that there is no final destination.

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