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Strategy management in small to medium-sized enterprises: Evidence from UK manufacturing SMEs

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Abstract

This paper demonstrated that the dynamics of SME (small to medium-sized enterprise) strategy have both emergent and planned dimensions. SME managers execute the strategy process mainly from an informal fashion by holding *multiple functions* and with limited application of strategy management tools and techniques. SMEs seem to be putting more emphasis on external environmental scanning (customers, suppliers, competitors, universities and lenders) and then defining grand strategy and goals. This implies that SME strategy process is characterised by more of *market based view (MBV)*.

Keywords: Strategy management, SME, case study

Introduction

Strategy process has been widely publicised during the last three decades, but what has been accomplished by main stream strategy management literature in manufacturing SMEs? The application of strategy management in manufacturing SME practices can be seen as posing particular challenges. It is argued in literature that there is a need to understand whether and how managers in SMEs have taken up the *language* and *practice* of planning, strategic analysis and execution (Woods & Joyce, 2003).

Schendel and Hofer's (1979) ground breaking definition highlighting strategy having processual and entrepreneurial character which is used to direct organisation's operations guided this research. A processual theory treating strategy emergent as an outcome and deliberated as a purposeful set of activities to realise those outcomes was adopted also. This view, as suggested by Richard Wittington (2006), rather than rejecting planned strategy, indicated the emphasis on injecting craft directly into the process. Consequently, this research aimed to better understand *how the strategy process worked in manufacturing SMEs*.

Background

Numerous developed economies have seen a relative increase in the number of SMEs compared with large organisations since the 1980s (Ruigrok & Tate, 1996). Therefore, SMEs now provide a major portion of the employment in most European countries (Dutta & Evrard, 1999; Voss et al., 1998). There were approximately 4.3 million

businesses in the UK at the start of 2005. The vast majority of these (more than 90%) were SMEs and they provided 47% of the UK private sector employment and 36% of turnover (Anon, 2007; Dutta & Evrard, 1999; Ruigrok & Tate, 1996). Not only in European economy but also in many industrialised world economies such as the US, Russia and China, SMEs comprise a major part of these countries' economies (Dutta & Evrard, 1999; Mikhailitchenko & Lundstrom, 2006; Ruigrok & Tate, 1996; Vries & Margaret, 2003).

SMEs are important *engines* to stimulate the economic growth of a country (Van Gils, 2005). Especially it is broadly accepted that manufacturing SMEs play a vital role in the economic health of the country (Ghobadian & O'Regan, 2000; Voss et al., 1998). European SMEs have to compete with emerging economies and therefore it is thought that they should act more strategically in order to survive and grow. If firms are merely focused on short-term return on investment and financial performance, they are unlikely to stay competitive in the long term (Mills, Neely, Platts, & Gregory, 1998; Mills, Neely, Platts, Richards, & Gregory, 1998). Poor strategic planning capabilities, short terminism, a lack of focus to external and strategic issues are main areas for limited success of SMEs as pointed out in previous studies (Hudson-Smith & Smith, 2007; Hudson, Smart, & Bourne, 2001).

The academic literature on entrepreneurship started to discover points of convergence with strategy management through the 1980s (Entrialgo, Fernandez, & Vazquez, 2000; Rae, 2007). For instance, Entrialgo et al. (2000) study the relationship between entrepreneurship and strategic management, from the standpoint of a *process*. However, in literature the majority of studies of SME performance have a tendency to focus on either the symptoms resulting from problems within the firm or upon the reasons cited for failure. Comparatively small analysis of the ingredients that promote and sustain competitive advantage has been undertaken. Despite the fact that generic skills and abilities are requisite, the strategy management process in SMEs is *unique* and can not be considered to the same as professional management in larger organisations practiced on a 'reduced scale' (Jennings & Beaver, 1997, p. 13). Hence, this research aims to address the dynamics and the activities within SME strategy process and, this may help the reader understand the practices and language of SME managers concerning strategy.

Industrial context

It appears that SMEs are important for economic health and poor strategy management practices are proposed to be one of the reasons of inadequate success of SMEs (Hudson-Smith & Smith, 2007). So, what is known about strategy in SME context is an important area to further investigate. Literature highlights that strategy is managed in SMEs from an informal and intuitive fashion with a *fire fighting* approach, short-terminism. The strategy is shaped in the head of the entrepreneur, owner-manager or the managing director (Koberg, 1996; Mintzberg and Quinn, 1992; Van de Ven, 1986; Walsh, 1987). However, it is pointed out that the strategic awareness of SME managers and entrepreneurs is the critical determinant of the company's survival and achievements in the long term. SME managers in successful companies recognise that strategic management is an integral business activity (Berry, 1996) performed either consciously and visibly or unconsciously and invisibly (Jennings & Beaver, 1997). Thus, SMEs are important to the economy and it is thought that strategy management is a key area that SME managers should put more emphasis on in order to stay competitive in the *long term*.

Research design and methodology

This research investigated this topic by conducting four in-depth *case studies* in the UK which have been surviving in a challenging environment for manufacturing sector in recent years especially.

Data were collected through semi-structured face to face interviews with senior and middle managers in four manufacturing SMEs in the UK in 2006-2007. Interviews were recorded electronically and written up in case study reports according to a case study protocol. Then data were analysed by using descriptive statistics, coding, counting and pattern searching via conceptually ordered maps and a deductive taxonomy based on literature (conceptual framework). The researcher's interpretations, maps and answers to the research questions were peer reviewed for research quality purposes.

Selection of the case study SMEs

This research aims to explore the patterns in strategy processes in manufacturing/production SMEs so as to be able to *illustrate* examples. The criteria for selection of case studies were:

- Independent SMEs because subsidiary companies could be potentially less autonomous in strategic issues
- Medium sized SMEs because small and micro businesses could be immature in strategic issues
- In order to compare like-with-like, SMEs from manufacturing sector that are based in the UK. UK context was also interesting because chosen SMEs are all managed to survive in this challenging environment for manufacturing companies (high energy and labour costs etc.).

Investigating the strategy process in SMEs

A large amount of qualitative data gathered from four case studies investigated in this research. Firstly, we analysed the data from within-case analysis followed by a cross-case analysis in order to organise and make sense of this rich data through relying on facts. We organized the data by adopting Maxwell (2005) approach (Figure 1). The techniques used was coding and thematic analysis. In this way, data analysis was triangulated by carrying out pattern matching via conceptually ordered maps and coding via taxonomy, coding book, stories and examples from cases. Data also triangulated (Yin, 2003a, 2003b) via multiple-interviewees and multiple-researchers, interpreting multiple-sources and peer-reviewing for outer control.

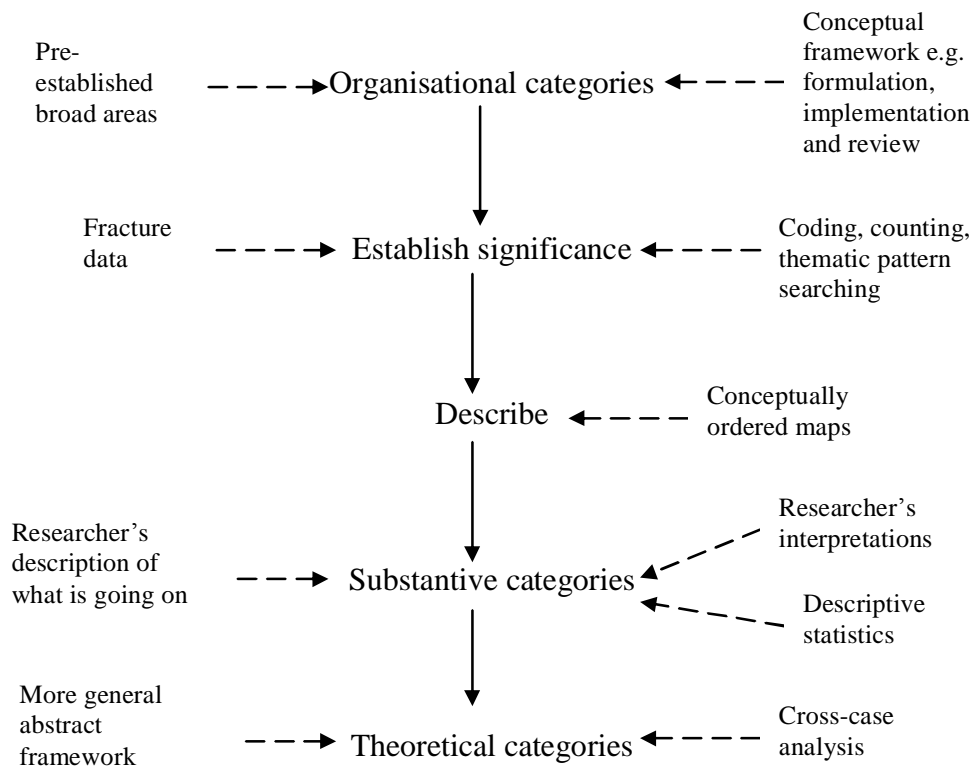


Figure 1. Qualitative data design summary (Adapted from Maxwell, 2005)

Analysis of results

Table 1 demonstrates areas where the companies are putting more emphasis on. What we mean by 'more emphasis' represents the most frequently mentioned activities during interviews by the managers. We consider that if managers deem that an activity is the key to their business or operations strategy, they would mention about it more often emphasising its story and implications during the interviews.

Table 1. Cross case analysis of data

Item number	Item	Co A	Co B	Co C	Co D
		% of occurrence	% of occurrence	% of occurrence	% of occurrence
	<i>Formulation Phase</i>				
SA1	Analyse the external environment	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>
SA2	Analyse company core competencies, capabilities	no	no	no	no
SA3	Evaluate opportunities	no	yes	no	no
SA4	Strategic choice	no	no	yes	no
SA5	Define grand strategy and goals	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>
SA6	Define short-term objectives and action plans	no	yes	no	no
	<i>Implementation Phase</i>				
SA7	Execute strategy	yes	yes	no	yes
SA8	Allocate resources	no	no	yes	yes
SA9	Planning and budgeting	no	yes	no	no
SA10	Workforce alignment	yes	no	yes	yes
SA11	Institutionalising strategy	yes	no	no	yes
SA12	Communicate strategy	yes	yes	yes	no
SA13	Embed strategy	no	yes	yes	no
SA14	Manage strategic change	no	yes	yes	yes
	<i>Review & Control Phase</i>				
SA15	Gather feedback from strategic activities	yes	yes	no	no
SA16	Revise strategy	no	no	no	yes
SA17	Appraise, test and reconcile strategy with departmental plans and needs and modify goals if required	no	no	no	no

In Table 1 ‘yes’ representing emphasis greater than 5% and ‘no’ representing emphasis less than 5% that is placed to the relevant activity

Identifying strategy dynamics in SMEs

When decomposing the strategy process in to activity level, main stream strategy process theory is proven to be relevant to SME context. We found that the strategy process is very interactive in SMEs. There are bits of systematic and bits of opportunistic/ emergent decisions, actions and outcomes around the strategy process in SMEs. Strategy management in SMEs does not reflect an exhaustive strategic analysis, but rather a leadership and customer driven, opportunistic, external market oriented approach which is channelled through both an emergent and deliberated set of activities. Strategy process is very much market-based oriented rather than internal resources and capabilities. At the core of the SME strategy process there are *language* used in strategy making/ implementation and the *practitioner’s* role as wearing multiple hats. However, competencies and strategy reviews do not seem to be emphasised significantly in SMEs. SME strategy process dynamics are presented in Figure 2.

Although SMEs may be criticised for ignoring the Resource Based View (RBV) of the firm, one could also suggest that SMEs are dependant on the customer in supply chains that they have little choice but to concentrate on actions based on a Market Based

View (MBV). Perhaps, SMEs could be better saved if academics and researchers recognised to look at SME practices from a contemporary market based view.

Contribution to theory

The research findings demonstrate both convergence and divergence from the main stream strategy management literature. Firstly, the trends in main stream strategy management literature are shifting from a rational approach to a practice/ activity based approach (Whittington, 1996, 2006; Johnson et al., 2003; Jarzabkowski, 2006) as shown in Table 2.

Table 2. Emergent and deliberate nature of approaches to strategy

	<i>Rational Approach 1960s-1980s</i>	<i>Emergent Approach 1960s-1990s</i>	<i>Processual Approach 1980s-2000s</i>	<i>Strategy as Practice 1995s-ongoing</i>
STRATEGY CONTENT	Deliberate	Emergent	Emergent	Emergent
STRATEGY PROCESS	Sequential Environment controllable	Messy Intuitive Environment uncontrollable	Deliberate Small steps merging into patterns A combination of internal and external environment focus	Emergent Practitioner Strategy tools Micro practices of strategising

The latest development in strategy discipline is the key focus to the ‘strategy practitioner’ in organisations. ‘Strategy as practice’ research stream defines practitioner at the core of strategy making and implementation. This trend is relevant to entrepreneurship and SME strategy literature because SME literature has been publishing a significant amount of research regarding the role and characteristics of the entrepreneurs and owner-managers. The debate in SME literature is around the gender and other demographic characteristics of SME leaders and entrepreneurs.

Besides, the language that SME practitioners are using in strategy management is pointed out in this research as an important topic to investigate further. If we translate the language of SME managers into theory, we would be able to see the reflection of main stream strategy theory to SME strategy practice more clearly. SME managers carry out the activities within the strategy process but not necessarily calling it strategy or formulation or strategy making or strategy implementation.

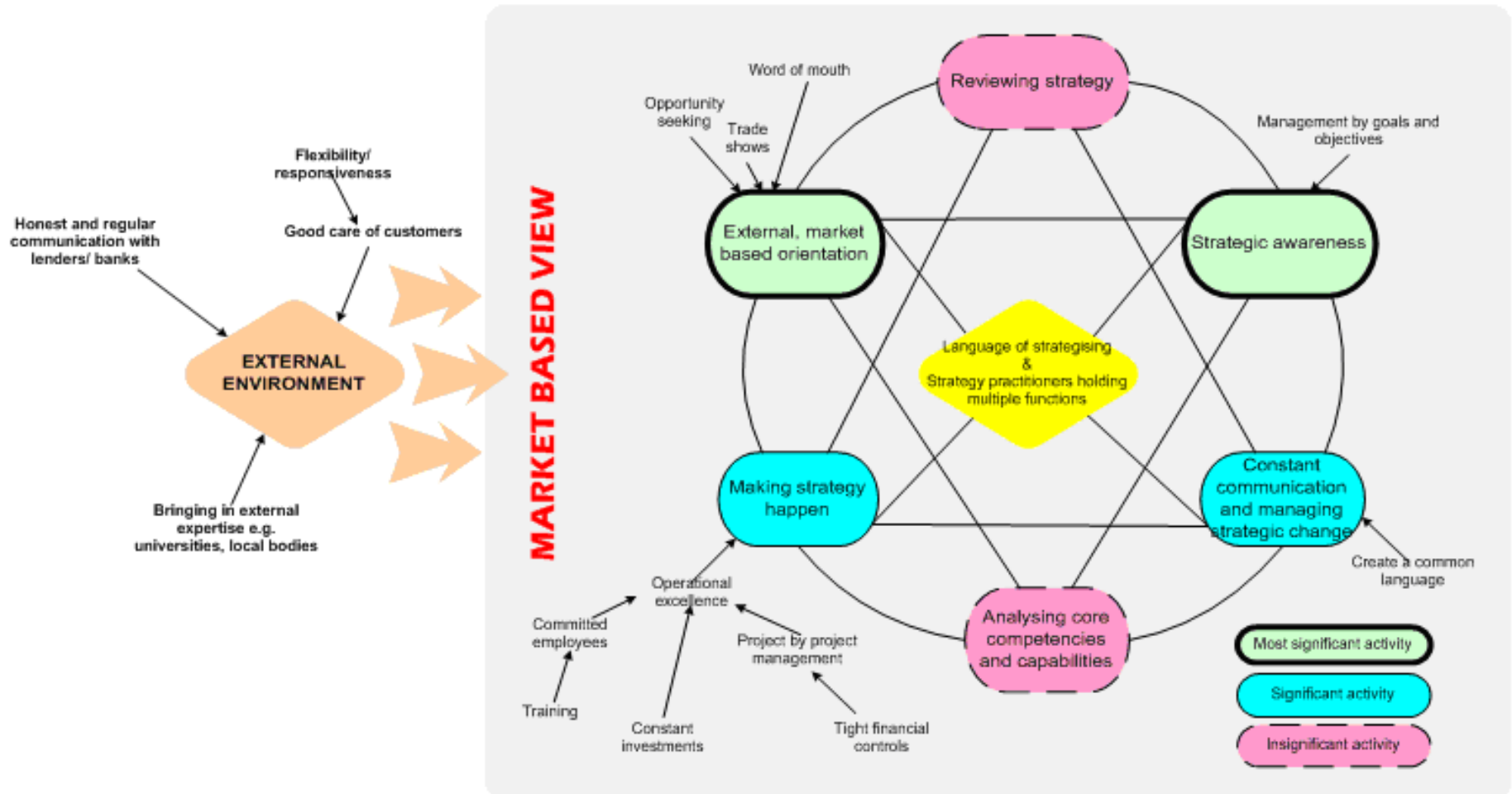


Figure 2. Strategy dynamics in SMEs

Second important implication for theory is that SME literature ignores the fact that SMEs are mainly operating within supply chains and therefore, they are almost like slaves for the larger organisations (customers). Therefore, a Market Based View (MBV) to strategy (Porter, 1980, 1985) is more relevant to SME context. Mainly because SMEs see the exit from the risk associated with high degrees of dependency to a few major customers, through diversifying their customer base. As a result, the latest trends in main stream strategy management literature, Resourced Based View (RBV) (Barney, 2001) and core competencies/ capabilities (Prahalad and Hamel, 1990) do not seem to be as relevant to SMEs as Market Based View does *in practice*. This key conclusion of this research may imply that researchers should look at an updated version of Market Based View (Porter, 1980) from a contemporary angle in SME strategy subject area. This research clearly concluded that MBV is more relevant with SME context, however it should be further researched whether a RBV or an MBV or a mix of both views lead to success of SMEs.

Contribution to practice

This study has some implications and recommendations for SME managers that they can take away from this research that is readily relevant and applicable to their businesses. These are:

- SME managers should wear multiple hats rather than having a functional focus regarding roles and responsibilities
- SMEs should communicate with external stakeholders particularly customers, suppliers, lenders, universities and competitors. They should not take the environment as given. They should not be only internally focused.
- SMEs should be strategically focused rather than having a focus on short-term financial performance only.
- SME managers should work on making strategic plans happen via committed employees, constant investments and internal and external communication. The strategy should not stay only in the head of the entrepreneur.
- SME managers should review their strategies so as to accommodate dynamic strategic changes and to ensure continued strategic relevance over time.
- SME practitioners will benefit from strategy theory implications and principles more if they can manage to close the gap between the academic language and their own language regarding strategy analysis, implementation, strategy tools and techniques.
- SME managers should develop a balanced view between looking at their organisations from outside-in (MBV) and inside-out (RBV). They should ensure continued strategic fit between external opportunities and their own resources and capabilities/ competencies.

Limitations of research

The findings could be potentially criticised because they are grounded on four firms. However, an in-depth qualitative data analysis reached saturation before drawing conclusions. Also a quantitative analysis of 37 case studies conducted for the larger project, which this research is part of, provided additional learning. The authors are confident to express that the findings from the rest of the case studies are confirming the conclusions of this study.

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