# Strategies and Strategic Management in Small Business

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# Strategies and Strategic Management in Small Businesses

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## *Abstract*

After many years of academic and scientific interest in the strategies of large enterprises, the situation has, not too many years ago, turned increasingly to the strategic behaviour of smaller enterprises. This is certainly justified, in fact essential, if we take into account the importance of small and medium-sized enterprises in the economies of most countries.

Implementing strategic management in the current activity of the small enterprises has become a stringent necessity. This situation is a consequence of the serious challenges that exist on the market place, of the unstable balance of the business environment forces and other influencing factors that can be identified in the actual economic context, especially in the transition economies, where SMEs are very predominant and also very young and inexperienced (Lobontiu & Lobontiu, 2001).

The existing literature on strategic management, whilst being difficult to reconcile in terms of the conflicting theories stated in the field, appears even further flawed in the SME context. On the other hand, if there is a single difference between the strategies of the SME and the large corporations, it is that they seem to be heading in different directions (MacGregor, 1999). Whilst SME strategies largely appear to be about growth and development, the corporate sector appears to have spent the last twenty years in a process of sub-division and shrinkage.

This paper is a theoretical one, whose aim is to synthesize and systemize the most important ideas outlined in some of the papers and articles published in the field of strategic small business management. The problem here is that the information is very dispersed and it's difficult for both a small business manager and an academic researcher to have a rapid overview of this field. So the author of the present paper is trying to facilitate this process, presenting the relevance of strategic management for small businesses. The author is also proving that the small business managers are actually very preoccupied by the issues of strategies and strategic management and that SMEs are displaying a pronounced strategic competitive behaviour.


## *The Nature of Strategic Management*

Strategic management is largely regarded as the rational process by which senior management identifies courses of action and responses to complex and dynamic environmental forces. It is traditionally concerned with hegemony, size, utilisation of resources, achieving dominant positions and internalising issues of control and fit. The scale, scope and complexity of the strategic management field are problematic in that there is no overarching, generic core body of knowledge (MacGregor, 1999). There are instead contextual understandings of what is 'strategic' and a range of competing and exclusive schools of taught. This difficulty of definition prevents any conclusive diagnosis of the effectiveness of the strategic management as an aid to organisational effectiveness, yet the methodological and theoretical difficulties with the field (McKiernan & Morris, 1994) enable invention and reinvention of contextual understanding of what is 'strategic'. This is particularly useful in the SME sector where there is both scope for reinvention of the strategy process to suit the context and an urgent need to develop new and even contra-distinctive understandings of the strategy process that are directly applicable to the SME sector.

A basic problem exists in understanding growth, in that larger, developed firms are so different from small firms "that in many ways it is hard to see that they are of the same genus" (Penrose, 1959); the same author likens this growth to the transformation from caterpillar to butterfly.

Whilst it is difficult to make generalisations about the preferred strategy-making style of SME owner-managers and entrepreneurs, the grater discretion afforded under the resource-based view and the difficulties inherent in positioning within globalised industry structures found in Industrial Organisation theory (Porter, 1980) mean that many entrepreneurs tend to focus upon that which is 'closest to home'.

The key elements of the resource based view in the SME context can be summarised as follows (MacGregor, 1999).

***Competencies***

These are activities the organisation can do well, often referred to as 'core' competencies. It is basically what staff in the organisation can do to make profit or create competitive advantage.

***Capabilities***

Capabilities are collections of competencies that are linked together systematically and synergistically to provide strategic outcomes, competitive advantage or superior profitability. The capabilities of organisation, in particular SMEs are often collections of competencies that are congregated around a skill or task. This skill or task usually emanates from the entrepreneur's concept of the 'right' core competence and is 'passed on' to other staffs that replicate the process, often with less enthusiasm than the entrepreneur. This builds capabilities, the multiples of which lead to enhanced profitability and growth.

***Resources***

These are those tangible (and increasingly intangible) aspects of the organisation's infrastructure that underpin and support the competencies and capabilities. Issues of resources for growing small businesses are crucial; too little and the business is starved of the cash and assets required for sustaining its early development, too much and the business grows its infrastructure too quickly and collapses under its own inertia.

### *Contextualising the SME Strategic Management*

Attempts to derive an understanding of the strategic management process in SMEs have been constrained by a dominant debate. This is centred on short-term financial success and survival rather than long-term sustainability and 'strategic' aspects. Combine this with the entrepreneur's willingness or inability to model the dynamic processes of the internal interactions within the organisation or the interactions with its external environment and the problem becomes a more deep-rooted one. The idea that organisations can position themselves or strategically operate in 'good' or 'bad' industry structures or strategic groups is found to be flawed when attempted in the SME context (MacGregor, 1999).

The way in which SMEs grow and the strategies employed to promote and sustain growth are the real strategic issues in the SME sector and are what makes the SME sector the dynamic, innovative and visionary environment that it is.

Julien (1998) affirms in his book that, paradoxically, the smaller the organisation, the more difficult it is to define its boundaries. Very small businesses, composed of one or a handful of people who are generally members of the same family, are so completely blended with the family patrimony that, for national accounting purposes they are treated as households or simple customers. In larger firms, the most striking feature is the importance of relations with outside collaborators (accountant, suppliers, sub-contractors, distributors, and so on) to such a point that the decision-making unit may be difficult to locate, especially if the firm is highly dependent on a single order-giver.

As a result of the analysis of the strategy formulation process, the most important strategic requests for the SMEs sector are (Sandu, 1997):

- To be scientifically substantiated, offering a precise analysis of the enterprise' objectives and the necessary realism;
- To completely exploit the market opportunities;
- To fit the enterprise competences and resources;
- To involve an acceptable level of risk both from the perspective of firm's resources and also of the managerial style of the entrepreneur;
- To be appropriate to the organisational culture and to the entrepreneur's system of values.

In many cases in the SME sector, strategies and strategic rhetoric are difficult to define or contextualise. What are often clearly identifiable, however, are the behaviours and actions of the owner-manager or entrepreneur. The results of the survey performed by Lobontiu (2001) outlined the fact that the Romanian owner-managers are very much preoccupied by the strategic aspects of their business, 85%

of them being aware that they have to take care of this, especially in an environment so difficult as an emerging economy.

The strategic management process in SMEs is case-specific in that each context has a range of strategic variables and issues that may be widely diverse. Rather than SMEs not fitting the mould of the strategy process, strategic processes are difficult to reconcile with and transplant into the SME sector. There are a number of factors that militate against this process (MacGregor, 1999):

- Any vision of growth and configuration is emergent and rarely formalised by the entrepreneur.
- There is often a dichotomy between the business planning process (satisfying stakeholders) and the entrepreneur's long-term strategic view (often an informal or hidden agenda).
- The strategic paradigm is often not communicated to or agreed with other stakeholders by the entrepreneur.
- Strategies are emergent and adaptive.
- Strategic rhetoric is only used to communicate with peers and stakeholders. It is never used to communicate with employees. Those from the SME sector often misapply the strategic rhetoric and language of strategy and planning.
- The strategy process often lacks analytical credibility. There is often event contagion where the organisation is a hostage to fortune and events overtake and pollute any analytical clarity or reflection.
- The strategy process is often outcome or crisis-driven.
- There is often much choice and implementation without recourse to analysis reflection and evaluation.

Regarding the same aspect, Sandu (1997) affirms that the most important characteristics of the SME strategies are the followings:

- Most of SMEs are applying intuitive or a kind of empirical strategies, which are not formalized and they can be deduced from the entrepreneur behaviour. Often, those 'strategies' are shaped into an 'idea' of the entrepreneur regarding the future evolution of the company and the most important steps that have to be done.
- That kind of strategy is very much influenced by the entrepreneur's personality, by his/her personal characteristics, and system of values and aspirations, a similitude between the entrepreneur's objectives and those of the company is possible to be observed.

- The strategy application process has limited impact on the SME structure. The small size of the enterprise is not allowing the use of the most common structures applied in the big companies; the firm stays compact and it accepts only fundamental and essential structures.
- The coherence of the objectives with the resources is even more important for a SME. That means that the planning process has to define realistic and feasible objectives, which will constitute a middle way between the initial target and the external and internal conditions.
- The strategic horizon of the small and medium sized businesses is also limited because of the bigger uncertainties of their environment.
- For a SME, the strategic concept has to be more flexible, in order to be able to take advantage of the forthcoming opportunities or to avoid external threats.
- The small number of activities performed by a SME is imposing a tendency for their specialization.

The difficulty of strategy making in SMEs is often interrelated with problems of opportunity sensing. The wider range of potential opportunities and the less risk-averse the entrepreneur or owner-manager, the greater the complexity and range of strategic variables which must be analysed. This in turn leads to a wider range of strategic responses, choices and potential strategies to be evaluated and implemented. In strategic terms, the flexibility of the SME is its greatest asset, but also a strategic 'Achilles heel' as the entrepreneur tries to realise a vast array of potential opportunities, often ending up with none or only one being translated into real strategies (MacGregor, 1999).

The existence of an intuitive strategy is perfectly suitable for the beginning of the enterprise life cycle (launching and surviving), when the organisation is unstructured or the organisational structure is something very informal. But the organisational structure becomes a must once a new level of growth and development is achieved. The new formal organisational structure and its functional components are able to support a strategy and to provide the enterprise with some of the strategic tools.

The utilisation and appropriation of structure (be it environmental, industrial or organisational) is a key theme in the literature of strategic management. The structural aspects of competitive or industrial constructs underpin much of the traditional aspects of strategic evaluation in the corporate and by default, large organisational sector. As Burrell (1992) suggests, there may be alternative types of organisations with different structures that may be contra-distinctive alternatives to the bureaucratic hierarchy of traditional management thinking.

Within the SME sector, the narrow boundaries that identify the structural appear to be rapidly breaking down. The rapid adaptation and adoption of new products, systems, structures, technologies, and strategies by these SMEs suggests that ‘industry doesn’t matter’ and it is increasingly being eroded in significance (MacGregor, 1999; Stopford & Baden Fuller, 1994). This is occurring in that small businesses often define their scope, interpret their industry membership and configure their operations, systems and structures in order to grow sustainable businesses.

The entrepreneurial vision and strategic intent is that which defines the strategic context and everything flows directly from this source (MacGregor, 1999). The organisation is then concerned with striking the balance between concerns of internalised effectiveness and efficiency on the one hand and a quest for external competitive advantage on the other. The strategic context here represents a demarcation between internal and external objectives. These are limited in their contextualisation, but are identifiable as early elements in a process of convergence between intent and reality. What shapes and defines this process are notions of adaptiveness, flexibility, uniqueness and strategic leadership, all of which are encompassed either by the entrepreneur’s behaviours, competences and strategic intent or by elements of the task, systems, structure and culture model (MacGregor, 1999).

## *The Strategic System and the Strategic Process*

Strategy, its formulation, or creation, and implementation are recognised as key aspects of the management of all large organisations, be they profit making or non-profit making enterprises. In the world of the small business, strategy may be much less formal in its nature; at the extreme the small owner-managed business may have an implicit rather than an explicitly stated strategy.

Curtis (1983) outlines the uniqueness of the planning environment found in smaller businesses: the strategic planning techniques used to guide affairs of large businesses are not appropriate for smaller businesses. Many such techniques cannot be used in smaller businesses at all because of differences in scale of operations; few appear to account fully for the limited resources (including time) of the typical small business. None explicitly includes the personal characteristics of the important people in the business so that the strategy reflects their strengths and weaknesses and satisfies their personal needs and objectives. Smaller businesses frequently cannot afford to hire the necessary specialized staff to perform accounting, personnel, or legal functions, and many smaller companies have troubles meeting the fees of external professional retained to perform these functions (Curtis, 1983). The cost structure of smaller businesses is also different from that of larger business.

The main problem is undoubtedly the link between “corporate strategy” (general policy) and “business strategy” (operational strategy). It is not possible, in small business, to talk of strategic planning in the way that term is used in the corporate sector (Julien, 1998). However, on a prescriptive level, it seems that the task of the strategic board, once the goals and lines of action have been established, is to implement and mobilize them by means of an action plan.

Some authors (Sandu, 1997; Curran, 1996; Shroder *et al.*, 1990) have identified examples of the absence of the strategic behaviour in the SME sector, at least in the formal shape of it. According with Sandu (1997), the absence of coherent strategies amongst SME sector can be explained by:

- Unpredicted cash flows and uncontrolled costs;
- Inadequate response to the market realities;
- A growth that is too rapid, causing some crises inside the enterprise (managerial, financial and other types of crises) or a too slowly growth, which is not exploiting well enough the internal or external opportunities;
- Objectives which are unsubstantiated;
- Wrong assignment of the organisational resources;
- An inadequate definition of the enterprise activity area, combined with an incomplete understanding of the enterprise's business concept.

On the contrary, appreciating the inherent differences between larger and smaller businesses, several empirical studies have tested very basic normative models on smaller businesses and concluded that they do, in fact, engage in strategic planning (Moyer, 1982; Rice, 1983; Thurston, 1983). Unfortunately, the models often resemble standard decision making processes, not strategic planning systems.

In the same time, the research performed by Shuman and Seeger (1986) founds no indication that any aspect of importance to strategic planning in smaller companies had been systematically overlooked. The principal observation of their study with respect to the planning practice is that the processes used vary depending upon the success of the past planning efforts, current operating performance, and management's orientation toward change.

Storey (1994) has emphasised that too often large-firm models are taken as given and the small firm is assumed to be a "scaled-down" version of a large firm. In the context of studying the small firm, however, it is important to realise that small firms are not just "little big businesses" and that each small firm is unique and very much reflects the personal characteristics of the enterprise owner.

Correspondingly, marketing practice in small firms is different and, as Carson (1985) indicates, it is not appropriate to apply the marketing concepts and practices developed in large firm scenarios to the small firm situation. This difference arises because of the limited expertise among owner managers of marketing techniques and methods and because of their inherent limitations in terms of resources.

The process of strategy making can vary greatly among firms. Small organizations tend to have inexplicit, intuitively derived strategies that reside mainly in the mind of CEO (Miller & Toulouse, 1986). Time horizons may be very short as executives of small, simple firms react in unplanned and piecemeal fashion to conditions. But as organizations grow they require broader managerial participation in strategy making, more explicit strategies, and plans that guide, coordinate and motivate managers. Strategy making, then, must become a more cooperative, formal and analytical process.

The premise posited by Chan and Foster (2001) is that strategic planning (strategy formation) is a highly contextual activity and a generic, robust theory of strategy formation does not fit well the small business context.

Briefly, the literature on strategic planning in small businesses suggests that it tends to be: unstructured, less than comprehensive in its coverage and sporadic (Chan & Foster, 2001). Robinson and Pearce (1984) suggested that it should aptly exhibit the following four characteristics:

1. shorter planning horizons than for bigger companies;
2. be relatively informal in its nature;
3. incorporate participants other than the owner-manager, including extra firm players;
4. accept relatively open initial objectives.

Previously familiar areas of experience are often incorporated into the strategic process, although many owner-managers appeared daunted or intimidated by the word ‘strategy’. A significant number have been involved in aspects of the strategy process without realising this, and many more have been put off by what they have read about so called ‘corporate strategies’ (MacGregor, 1999).

Formal, analytical methods of decision-making will be more correlated with success in middle-sized firms than in small ones (Miller & Toulouse, 1986). In the former the complexity of projects requires diverse functional experts to get together to thrash out problems. The explicitness of strategies is therefore likely to be more important in large than in small organizations.

Anyway, the survey performed by Miller and Toulouse (1986) proves that the modes of strategy making seem to have a consistently positive impact on relative performance. Successful small firms have more explicit strategies to coordinate, unify and motivate second tier managers; longer time horizons so that change can be anticipated and planned; and more detailed analysis of decision to reduce the hazards of major commitments.

Proactiveness and risk taking, two crucial components of successful innovation strategy, were also correlated with relative performance in all firms (Miller &

Toulouse, 1986). Proactiveness and risk taking minimize the chances of strategic stagnation - dynamic and ambitious managers sometimes have spectacular successes.

The evolution of a small firm's activity strategy is linked to the parallel evolution of the environment (Watts *et al.*, 1998). This generates some delicate problems in the area of the organizational change, together with strategic piloting, which is based on technological and commercial scanning (Julien, 1998). The environment is not restricted to the market alone; the sector, as defined by Porter (1980), includes components of the channel (upstream suppliers, downstream customers and distributors), potential competitors and close substitutes, in accordance with industrial analysis. A broader analysis of the economic environment would include all contributors of information and decisions likely to influence owner-managers in their strategic decision. As a result, small firms may find themselves in a very different, inter-individual, institutional and, sometimes, vital relations network.

Environment-related strategic situations are particularly complex for small businesses, which are rarely masters of the game. Moreover, small business owner-mangers find themselves in a situation of imperfect and limited information. They usually have to rely on perceptions whereas large corporations suffer from information overload, especially figures. This explains the strategic importance of personal relations networks, which far exceeds the importance of 'orthodox' planning and strategic diagnosis procedures (Julien, 1998).

The effectiveness of an organization's strategic planning is strongly influenced by its ability to scan the external environment (Jain, 1984). Information sources available to the strategic planner are personal and impersonal (Aguilar, 1967). Daft and Weick (1984) contented that the more complex and changing the perceived environment, the more personal sources of information are used. Personal source involve the feedback, cues and large variety necessary for dealing with an environment that is difficult to understand. Impersonal source involve other individuals collecting, interpreting, and summarizing information for the strategic planner, enhancing the probability the planner will misinterpret the environment.

The study performed by Hammers Specht (1987) founds that in small strategic planning groups with perceived environmental change and complexity, uncertainty for planning, and intolerance for ambiguity, personal sources of information were used more than impersonal. Personal sources provide richer media than impersonal. Personal sources involve personal contacts that give immediate feedback and use of two channels, audio and visual.

But the empirical findings of the above-mentioned study (Hammers Specht, 1987) have to be considered in light of the study's limitations. Data were collected in one type of small organization (small financial institutions). The results may not generalize to non-service, large organizations.

In the light of other works (Fuller, 1994; Sexton & Van Auken 1982), it seemed likely that small firms would tend to be reactive rather than proactive in their strategic planning. Strategy formulation in small businesses is also characterised by its limited comprehensiveness (Chan & Foster, 2001). Indeed, Robinson and Pearce (1984) found that their sample firms often did not search aggressively for alternative options but rather accepted the first 'attractive' option to reveal itself.

### *Strategic Leadership and Strategic Entrepreneurship*

All economic units and consequently, in particular, all business enterprises face the necessity of asserting themselves in competition with others. This results in the entrepreneur having the task of finding those factors that are of significance in competition, and concentrating the firm's activities on these factors. The impetus for achieving long-term sustained competitive advantage relies upon a concept of strategy and a mindset that can only be developed through strategic leadership from the owner-manager.

Entrepreneurial strategies are change-driven and reliant upon the development of new routines. By balancing the issues in the strategic management process, the owner-manager can achieve a close fit between what the organisation offers, its systems and structures and the wider environment (MacGregor, 1999).

In Julien's (1998) opinion, using the theoretical types of entrepreneurs existing in the literature to explain effective strategic behaviour of the business leaders may be somewhat risky. In fact they are mainly idealistic in nature, drawn from the traditional strategic management literature with its emphasis on growth strategies, the pursuit of critical size and the use of formal planning.

In the process of strategic management, the management system of values is influencing the strategic objectives and behaviour. The relationship between the system of values and the manger's intents and his strategic behaviour is more direct inside a small or medium sized company than in the bigger ones, which are having more complex decisional structures (Sandu, 1997).

Thompson (1999) has always argued that a key task for an effective strategic leader is to clarify which strategic competencies - from a long list of generic competencies - can make a real difference. By focusing attention and effort on these selected competencies - and critically ensuring that performance is measured - and changing emphases and priorities over time in a dynamic environment, strategic leaders can secure growth for their organisations. In this respect, they are acting entrepreneurially. In other words, entrepreneurial behaviour implies creating an effective strategic position, and sustaining or transforming it with carefully orchestrated change in a dynamic environment (Thompson, 1999).

Thompson (1999) has also shown how effective strategic management implies congruence between an organisation's environment, its resources and its values and culture – the so-called E-V-R congruence framework (environment-values-resources). A truly entrepreneurial organisation creates E-V-R congruency and sustains the match with measured strategic change. This congruency requires strong and effective strategic positioning, matching competencies and capabilities (resources) with key success factors (environment). This will not be achieved - and strengthened - without strategic awareness, the ability to capture and harness key information and knowledge within the organisation and from the environment. This must then be synthesised and shared to inform and support innovation and continuous improvement - the single-loop learning which improves operating efficiencies through an overlap of values and resources. Although essential, over time this is unlikely to be enough. The organisation must also create a new competitive vision and paradigm, as competitors will be looking to steal an advantage by effectively destroying the value of existing positions (Thompson, 1999). From time to time new products and ideas make existing products dated and redundant. New technologies and new processes meet or create new demands and affect the overlap between environment and values.

Several authors such as Robinson and Pearce (1984) and Curtis (1983) offer findings pointing that small business owner-managers rely on their own knowledge and experience in making strategic decisions and also there is a low level of involvement of persons other than the owner-manager in the making of strategic decisions in small businesses. But the study performed by Chan & Foster (2001) in the Chinese context showed clearly that owner-managers in these small businesses did use the knowledge and expertise of colleagues in both the creative and final evaluative phases of 'strategy formulation'. Within Chinese societies, there is typically a more collectivist turn of mind than would be typical in the US or the EU. This would explain why the bosses turned to others for advice and input.

Some of the research findings reveal clear evidence for the relationship between entrepreneurial characteristics and managerial techniques, planning skills and the business growth pattern of the small enterprises (Covin, 1994; Kirby, 1990). In Schamp & Deschoolmeester (1998) certain combinations pointing towards the likely catalysing effect of management training on growth-related entrepreneurial and managerial attitudes and towards the influence of those attitudinal differences on planning skills and the enterprise growth pattern were identified.

Amongst challenges facing smaller centralized firms there is also overcoming the rigidity and foibles of the CEO's personality (Miller & Toulouse, 1986). Only then will strategic innovation and administrative sophistication become possible. Smaller firms are often closely held; frequently the CEO is in position to decide everything himself. His personality therefore can take on great importance, especially where are few strong managers to challenge his view (Kets de Vries & Miller, 1984). So inflexible, defensive CEOs can be a major cause of strategic stagnation.

Kets de Vries and Miller (1984) have argued that strategic failure in centralized organizations is often due to the CEO's almost neurotic rigidity. This prevents him from changing his view of his organization, its mission and its environment. The problem is especially severe in smaller, tightly controlled organizations where the CEO has a great deal of impact (Miller & Toulouse, 1986).

It was stated (Miller & Toulouse, 1986) that the CEO's years with the firm and in his job would correlate negatively with performance and that flexibility and internal locus of control would be associated with better performance. This may be especially true in dynamic environments where flexibility, adaptiveness and innovation are doubly important. Dynamic environments were expected to require more adaptive and flexible CEOs.

In some firms, which are not very small, there are some strategic planning groups that carry out the strategic decision-making (Hammers Specht, 1987). Those groups also do the scanning of information sources. The strategic planning group in a small firm consists of the head of the firm and the employees who meet the head on regular basis to make strategic decisions regarding the entire institution. This group tends to have tremendous influence on the organization's strategic planning.

Delegation of authority is also related very strong to all elements of performance, as Miller and Toulouse (1986) pointed out in their research. They've discovered that the hoarding of power and the tendency for some CEOs to try to do everything themselves are common and dangerous aspects of many small organizations. The danger increases as organization grow and become too complex for any one person to run single-handedly. This is especially true when environment is changing and innovation is required.

They've also affirmed (Miller & Toulouse, 1986) that it may be that task forces, cross-functional coordinative committees, and integrative personnel are needed only in larger, complex and more differentiated organizations. Small firms may still be able to use less formal, ad hoc methods. In fact, their study proved that the use of liaison devices is indeed more strongly associated with relative performance in larger firms.

Shuman and Seeger (1986) envisioned that a resource-sensitive model would enable smaller company CEO's to estimate the 'strategic value' that could be realized in return for the decision to allocate a portion of their limited resources to the strategic planning process.

## *Competitive Advantages for the SME Sector*

The problem of defining the mission is especially important for small firms, which almost inevitably find themselves in relatively narrow market segments or niches. They must specify the type of competitive advantage generated by their craft, which in turn corresponds to their competitive position.

The development of competitive advantage is one of the main components of strategic behaviour. As a consequence of the growing interest in business strategies, the bases and deployment of competitive advantages are currently an important part of the study of strategic theory.

A competitive advantage can be defined as a unique position which a firm develops vis-à-vis its competitors (Bamberger, 1994). The outward evidence of competitive advantage is a position of superiority in an industry or a market.

Harari (1994) also suggests that effective strategy formulation and implementation relies on concepts of uniqueness and differentiation leading to sustainable competitive advantage, whereas traditional competitive analysis promotes conformism, caution and imitation of the key, often well-established major players in the industry.

Sustaining approximately the same idea, Bamberger & Bonacker (1994) said that, especially in SMEs, the decision on products and markets are strongly interdependent with the choice of competitive strategies, that is to say the type of competitive advantage(s) the firm wants to develop: the definition of the firm's 'niche' and the nature of its 'uniqueness' are intensively related. The development of competitive advantages can be considered as a core element of a firm's strategic behaviour. The authors (Bamberger & Bonacker, 1994) assumed that the strategic behaviour of small firms varies considerably according to the factors on which they base their competences.

Competitive advantages, such as lower costs and prices, better service, faster delivery, a good brand image or engineering capacity, are based on the firm's resource development and scope decision (Bamberger, 1994). In order to create and sustain competitive advantages the firm develops specific resources and skills frequently called *distinctive competencies*.

It is acknowledged that small firms cannot compete with larger organisations in terms of economies of scale, investment in R&D, or major promotional expenditure. Small firms are, therefore, particularly vulnerable to larger competitors unless they are able to exploit their inherent strengths such as flexibility and speed of response to customer requirements.

Bamberger (1994) sustains that competitive advantages are determined by five sets of variables: the characteristics of the environment and especially those of industries and markets, the internal resources of the firm, the objectives pursued, the personalities of the decision-makers and the firm's product/market strategies.

There is a large body of literature in which numerous authors have attempted to name those factors that seem significant for competition. However, although the literature might at first sight seem to be most heterogeneous, specific areas are in fact mentioned repeatedly. Competitive factors can be covered by the category of 'Human Resources and Image', 'Technological Competences', 'Output Features' (such as product quality and variety within product groups, and service related parameters), 'Distribution and Product' (distribution channels, personal selling, advertising/sales promotion, product layout and design), 'Low Cost and Price Position', 'Market Position and Financial Power' (Gabele & Moraw, 1994). With regard to their importance the comment must be made that all six groups of factors lie very close together (Gabele & Moraw, 1994).

The study of 1,135 firms conducted by Bamberger (1994), as a part of the international STRATOS (Strategic Operations of Small and Medium-sized Enterprises) research project, showed up that *product quality* is considered by far the most important factor for the achievement of competitive advantages in the market.

Service quality is generally considered in the literature in terms of its relevance for larger organisations with more bureaucratic structures, which often lead to poor customer communication and a lack of response to customer needs (Smith, 1990). Formal customer care policies are introduced to redress this imbalance and ensure a quality of service, which will maintain good customer relationships. Small firms, however, tend to be regarded as implicitly in close contact with their customers and therefore issues surrounding customer care and service quality in the context of the small firm are overlooked.

Frequently the small businesses' marketing activities emphasise the enterprise's tangible product and place an over-reliance on low pricing structures (Carson, 1985). Intangible product issues, such as those that deal with service and add value, are largely ignored. It is, of course, much more difficult for the enterprise owner to see immediate returns in these more intangible aspects which have much longer-term implications for contributing to a firm's position in the marketplace. A greater understanding is therefore required of how service can be integrated into the marketing which is actually practised by small firms and in what ways they can utilise their strengths in this area which has often been pinpointed as critical to growth and development (Carson, 1990).

Reeves and Hoy (1993) draws attention to the fact that the importance from a marketing perspective is to examine how a small firm can gain a quality advantage in order to pursue a policy of differentiation in the marketplace. This advantage can only realistically be achieved by maximising existing strengths in relation to service quality.

In this aim, Maclaran and McGowan (1999) conducted a series of ten in-depth interviews using a loosely structured topic list, which allowed interviewers to adapt the topics and conversation to suit each particular respondent. The aim of the research was to investigate in more detail issues like 'personal touch', specialist offerings greater innovativeness, employee loyalty, quicker decision making, greater flexibility, and speedier delivery. These were considered (Maclaran and McGowan, 1999) the most advantageous for the small firm in relation to the provision of quality services as a part of their augmented product.

Characteristic of most small firms there was a general agreement that the key marketing challenges to be confronted were: their limited appreciation of marketing competencies, their general lack of resources, particularly with respect to acquiring and processing information on their customers, actual and potential, and their very small size which limited their company's impact on their respective markets (Maclaran and McGowan, 1999).

The results of the research performed by Maclaran and McGowan (1999) can be summarized as follows.

***The personal touch***

All the respondents cited their ability to provide a personalised service as a major competitive advantage and emphasised the importance of being available to their customer. They acknowledged that their customers preferred to deal with 'the boss' and all these owner-managers maximised this whenever possible. A lot of time was therefore devoted to developing and maintaining long-term relationships with customers.

***Specialist offerings***

The fact that most knew all their customers personally ensured that they were continually in touch with changing requirements. This meant that new ideas were automatically grounded in customer needs and a majority of respondents demonstrated a willingness to adapt and innovate in keeping with customer requirements.

***Employee loyalty***

Most respondents realised their own ability to inspire employee loyalty, acknowledging that this loyalty in turn produced a more competent and productive work force. Ways to obtain this loyalty were various but the common denominator was the owner-manager's ability to place an importance on the motivation of his work force. Often this was through a hands-on approach and some enterprise owners frequently worked alongside their employees to inspire a team spirit. Almost always they ensured that they were accessible to employees and could be communicated with easily. Training was an important part of this motivation and, in particular, training which kept the work force flexible in terms of the tasks they could perform. Even the company, which had mass production, was trying to create an atmosphere where employees would not be carrying out the same tasks all the time because "if they get bored they get careless". It was well recognised that service also depended on the work force and that highly motivated employees would instill confidence in the customers.

***Quicker decision making***

Apart from contributing to overall flexibility the major advantage of quicker decision-making was seen as enhancing problem-solving abilities, both as regards product development and also in the response to actual problems that could occur in day-to-day business transactions.

In the majority of cases it was the owner who would respond to problems and this response tended to be immediate. The emphasis was very much on the speed of response that these companies could offer when required, together with the personalised attention of that response.

***Speedier delivery***

The delivery system holds several opportunities for service quality and Berry *et al.* (1990) believe that the firm should be accessible from the point of view of the customer in both the placing of orders and progress updates. It was generally acknowledged that delivery has to be prompt and reliable. The owner-managers keeping their fingers on the pulse, making quicker decisions and responding quickly to problems facilitated this.

It depended on the nature of the work undertaken but the crucial factor was to be able to give a reasonably instantaneous response to schedule queries. They were all prepared to use their inherent flexibility to offer an immediate and quality service to their customers whenever urgent items were required.

***Local image***

Where a potential or existing customer was in the same locality, all the enterprise owners indicated that they maximised the importance of their local origins and knowledge in developing their relationships with these customers. However, where the customer was from outside the locality owners tended to use their local image to reinforce the positive aspects of the firm's 'smallness' in terms of staff quality and supplier reliability.

Structural changes, excess capacity, environmental concerns, changed customers priorities and technology and deregulation have all added to the need for radical and even unconventional rethinking of both the strategy process and the way in which strategy is communicated and disseminated (MacGregor, 1999).

Consequently, the attention given to unconventional courses of strategic action might appear to be useful in the light of dynamic uncertainty in the environment: why go along with the crowd if no one is sure what is going to happen next? This was originally Schumpeterian's (1934) view, and has been updated by Prahalad and Hammel (1994), who suggest that managers are "abandoning traditional approaches to strategy".

MacGregor (1999) states that uniqueness or another unconventional approach may not be wholly generic or transferable in the way that Porter's (1980) strategies are, but it is however possible to identify some general suggestions for developing a unique competitive advantage:

- Devise investment strategies based on future potential and competitive position rather than present demand.
- Question the dominant logic of the industry or strategic group.
- Question 'global' facts and figures in the light of 'local' knowledge.
- Develop autonomous approaches to strategy making.
- Nurture the ability to abandon unwritten rules and norms, particularly those that are 'imposed' or brought in from outside.
- Give managers and employees the authority to 'dismantle' the dominant logic that previously shaped the organisation.
- Search for different 'concepts' of strategy.
- Explore synergies between unconventional and conventional approaches.

It appears that much that might be considered unique or unconventional has been defined in terms of research that looks at organisations displaying 'unusual characteristics'.

## *Applied Strategies*

Strategy can be defined, in a broad sight, as set of objectives, strategies (in a narrow sight) and policies of a form. When investigating strategies, it seems, however, to be useful to define strategies in a narrow sight: strategies are global patterns of behaviour of a firm to achieve its objectives (Bamberger & Bonacker, 1994). Thus, they are fundamental means with respect to the accomplishment of objectives. Competitive strategies can be regarded as specific business strategies. They are aimed at the development of competitive advantages for particular product/market combinations (businesses).

The study and measurement of strategies has to consider the distinction between *intended* and *realized* strategies. These two fundamental perspectives of strategy can be characterized as follows (Bamberger & Bonacker, 1994).

The first perspective defines strategies as *plans*, which describe explicitly an ex ante global activities and guide the firm's decisions and actions in the future. Strategies are ex ante-models of future behaviours.

In the second perspective strategies are *real patterns of behaviour*. These patterns are only visible ex post like a structure in a flow of decisions. Strategies are the outcome of a series of decisions, and may be, thus, the result of a planned behaviour. Strategies as real patterns of behaviour may have been defined before as plans. But they may be, too, the result of a sequence of incremental and non coordinated decisions and external events and, thus, of an 'unplanned behaviour'.

It is however evident that every firm has strategies as real structures of behaviour, that is to say every firm has realized strategies. In this perspective SMEs often not carrying out a strategic planning process and rarely having strategic plans, have strategies (Bamberger & Bonacker, 1994).

Marketing strategy is a form of purposive adaptation, in most circumstances (but not necessarily) informed by learning. It might typically be proactive in nature, but the degree of proactivity is a relative concept. Carson (1990) combines the concepts of limited proactivity and personal management in the concept of an 'involved' marketing style, describing how small firm marketing is often characterised by a high level of direct involvement on the part of the owner-manager and how it "relies heavily on intuitive ideas and decisions and probably most importantly on common sense" (Carson, 1990).

Also, all SMEs have certain products and markets and thus product/market combinations, even if their product/market combinations are not as SBUs are (at least in an ideal situation), relative autonomous, independent units (Bamberger & Bonacker, 1994). However, linkages between product/market combinations are specific characteristics of the strategic behaviour of SMEs and direct the attention to the characteristics and consequences of linkages between products and markets.

Success for any business is dependent upon the ability to find a valuable strategic position, whereby the company's resources, competencies and capabilities are deployed and managed to meet and satisfy the demands and expectations of key stakeholders.

Traditionally, studies examining the relationships of strategy and structure with performance have adopted a 'contingency view'. The appropriateness of strategies and structures is said to depend on many things – the environment of the firm, its technology, and even the match between strategy and structure. These findings seem especially appropriate for large, complex organisations (Miller & Toulouse, 1986).

The different product/market combinations of a firm and their interrelations determine corporate strategies. If we take into consideration the multiple possibilities of choosing from a number of products and markets and their relationships a finally unlimited number of different corporate strategies is possible for SMEs (Bamberger & Bonacker, 1994). However, it is possible to distinguish with regard to product/market choices some basic types of corporate strategies including specialization and diversification, internationalisation and vertical integration/sub-contracting. These three dimensions of product/market activities can be combined.

Cooperation with other small or with big firms may enable SMEs to balance competitive disadvantages of their size, for example, adequate financing and lack of management expertise. Otherwise, cooperation may give SMEs access to strategies and strategic opportunities, which usually would not be available to them.

The business-development strategies should also be seen under a dynamic perspective and in relation to the competitive strategies. As a basis for the implementation of corporate and business strategies the functional strategies have to be considered (Bamberger & Bonacker, 1994). Functional strategies have to be chosen corresponding to the pursued product/market strategies. So, for example, product diversification may require a certain R&D strategy. But, as well, functional strategies may create specific resources and capabilities (distinctive competences) as sources of competitive advantages. Thus, functional strategies specify corporate and business strategies.

Especially with regard to SMEs, Brockhoff (1990) investigated the marketing and R&D strategy of predominate small firms of the biotechnology industry. He found out that in the marketing area, out of three founded strategy (innovative marketer, market penetrator, defensive imitator) the innovative marketer strategy is the dominant strategy, followed by market penetrator strategy. The mainly chosen R&D strategy established by Brockhoff (1990) is the strategy of the 'all-round researcher'. The other firms mainly named the strategy of 'quality' or 'product improver' and only a few choose the strategy of 'process development to cost savings'.

Many authors have commented on the typical limitations of strategic alternatives available to the small firm by virtue of such factors as small market share and limitations of resources and skills (e.g. Carson, 1985). Because of these limitations, it has been suggested that certain strategic alternatives are typically more appropriate for a small firm, namely those that avoid direct competition with larger firms and that involve the development of close customer relationships and product adaptation (Storey & Sykes, 1996). In the specific language of Ansoff's Matrix, it has been suggested by Perry (1987) that for SMEs the most appropriate growth strategies are therefore product development and market development.

One of the challenge facing smaller firms is their limitation in selecting an effective corporate strategy. Porter's (1980) well-known study argues that there are three major options open to firms: cost leadership, differentiation and focus. But cost leadership and marketing differentiation both benefit from economies of scale that are generally not forthcoming in the smaller enterprise. As a result, focus strategies emphasizing innovation or high quality may be the major viable ones (Miller & Toulouse, 1986). The others could actually hurt performance, because the more dynamic the environment the more necessary the strategy of innovation and less appropriate the strategy of cost leadership (Hambrick, 1983).

It seems that differentiation strategies are the key to success for the small firm. One way of achieving differentiation, which is also consistent with a small firm's major strengths, is through a quality service (Maclaran & McGowan, 1999). The niche strategy is also often recommended for small firms, but they also must be able to obtain a key-competitive advantage from it, and their advantage must be based on a craft mastered by the owner-manager and the organization.

In the field of strategies pursued by SMEs, five kinds of competitive strategies were distinguished, of which four are forms of differentiation (by marketing, quality, innovation and technical competence and service), and one cost leadership (Bamberger & Wrona, 1994; Miller, 1988).

The study performed by Bamberger & Wrona (1994) proved that the strategy of differentiation by innovation and the one of differentiation by marketing are more pursued in situations of high uncertainty. They've even found a highly significant linearly increasing relationship between the use of those strategies and the environment uncertainty. This effect was also shown with regard to cost-leadership strategies, but without a linear increase. The reason for this could be that in fact demand-side uncertainty is relatively small – customers want standardized low-priced products – but nevertheless the uncertainty induced by competitors by more intense price competition is decidedly high (Bamberger & Wrona, 1994).

With regard to differentiation by marketing, significant relationships were established between the environment and the intensity of strategic behaviour. In every environmental situation the 'successful' SMEs followed marketing strategies more than the 'less successful'. An innovation strategy is applied more intensively with increasing uncertainty. This applies, however, to both successful and unsuccessful firms.

In differentiation by quality on the other hand the same study (Bamberger & Wrona, 1994) found no apparent environmental influence on the intensity on which this strategy is employed. Of course, this doesn't mean that this form of competitive strategy is less important. Rather it is to be expected that differentiation by quality will be employed in *all* environmental situations.

Regardless of the situation in the environment at any time, successful firms are characterized by a significantly more intensive pursuit of a quality strategy. From this it can be concluded that their local image, product quality, reliability of delivery and so on, are very important distinctive competences for SMEs – in whatever environment they may find themselves.

For differentiation by technological competencies and service no clear relationship with the environment was found by the above-mentioned study (Bamberger & Wrona, 1994). The influence here plainly depended upon the industry.

Altogether it has been shown that with low uncertainty all strategies – except for differentiation by technological competences and service – are of equally limited importance. On the other hand competitive strategies are clearly pronounced in situations of higher uncertainty. This means that the environment perceived as certain – e.g. defined by low intensity of competition, regular demand or no technical change – is associated with SMEs which do not have very pronounced strategic behaviour (Bamberger & Wrona, 1994).

With regard to the relationships between the environment, strategies and a firm's performance, there is a finding that successful SMEs (regardless of the situation in the environment) can be characterized by the more pronounced competitive strategies they follow in terms of intensity of their pursuit of strategies. Successful SMEs develop clearer competitive advantages. This is particularly valid for differentiation strategies by marketing, technological competence and service, and also quality (Bamberger & Wrona, 1994).

The strategic power of manufacturing in supporting business strategy and creating competitive advantage has been an important theme in the literature on manufacturing management since the 1980s. Companies that have introduced just-in-time, total quality management, continuous improvement, design for manufacturability, or concurrent engineering appear to have reaped the benefits of quality, dependability, flexibility, high variety, and low cost.

Related literature on operations strategy and small business highlights the differences between large and small firms of managerial, operational, and organizational competencies. On the one hand, small firms are believed to have an edge over large firms in flexibility, innovation, and overhead costs, while on the other, they are limited by the amount of market power, capital and managerial resources. Research has also shown small firms to be different from large firms in terms of their operational priorities.

Regarding all those, the major goal of the research performed by Motwani *et al.* (1998) was to examine the applicability and implementation of operations strategy elements by small and large West Michigan manufacturing organizations. For examining the above research issues, the authors tried to identify seven operations strategy implementation constructs/factors:

1. Total lead-time
2. Quality
3. Cost
4. Customer service
5. Advanced technology and innovation
6. Human resources
7. Operations flexibility.

The research started from the idea suggested by the conventional literature that firms, which are committed to a well-planned, formal operations strategy exhibit several indications of its systematic, organization-wide acceptance leading to a competitive advantage. While most of the literature on operations strategy is specifically directed to large firms, no specific evaluations of the above-mentioned critical factors/elements have been undertaken for small firms. Therefore, the authors (Motwani *et al.*, 1998) considered that it was critical to examine whether the findings in the literature pertaining to operations strategy are applicable to small firms.

The execution of seven operations strategy implementation constructs was measured (Motwani *et al.*, 1998) in 67 West Michigan firms, starting from the 7 hypotheses that large firms execute each of the above-mentioned seven operations management factors/constructs more effectively than small firms. The general conclusions of the paper (Motwani *et al.*, 1998) consist from the following:

- large firms are able to execute the first six of the seven operations strategy constructs more effectively than small firms. It was also obvious that large firms have the capability and will spend more on human and technology resources than small firms;
- there were no statistically significant differences between small and large firms when it came to the implementation of the flexibility construct. This result is also not surprising as there is a general perception in the literature that small firms do a better job than large firms when implementing the flexibility construct. In this case, based on statistical analysis, one can conclude that the large West Michigan firms are doing an equally good job in implementing the flexibility construct.

Based on an empirical investigation of the development of a group of manufacturing SMEs comparing the characteristics and strategies of firms achieving high growth between 1979-90 with the weaker performing companies, the study performed by Smallbone *et al.* (1995) shows that high growth can be achieved by firms with a variety of size, sector and age characteristics; such firms are distinguished more by the strategies and actions of managers than by their profile characteristics. The clearest differences between fast growth firms and other firms are with respect to their approach to product and market development.

As one of the conclusions of the above-mentioned survey (Smallbone *et al.*, 1995) the authors stated that for surviving companies as a whole, changes in production processes were generally less common over the decade than were changes in products and markets. Although three-quarters of firms in the study had made some change in production methods, in most cases this only involved minor modifications to existing processes rather than more substantial changes.

The study (Smallbone *et al.*, 1995) shows that the strategies used by the best performing firms for managing production over the decade could best be described as a threefold strategy: increasing control over and reducing production costs; seeking increased efficiency in the use of labour which may involve investment in new production technologies in some sectors but be more focused on intensification in others; and improving quality standards in production.

Although the precise focus varied between industrial sectors, an important general characteristic of the high growth firms was the link between changes introduced in the management of production over the decade and the firm's product and market strategy (Smallbone *et al.*, 1995). The most successful firms were not 'production-led' but rather were characterized by an ability to make production process changes to complement an active market development strategy. The adjustments to production were customer-driven, not capital- or technology-driven.

While there is no single type of strategy, which is associated with growth, the best performing firms in the study (Smallbone *et al.*, 1995) were those that were the most active along a number of dimensions while being particularly active in managing their products and markets.

Another study (Watts *et al.*, 1998) seeks to explore the relationship between learning, strategy and growth in small food producing firms using Ansoff's strategy matrix as a framework and explores the usefulness of Greiner's life cycle model. All of the cases discussed are examples of successful 'adaptation'; most resulted in what could be described as a new 'strategy'. They represent diversity in many dimensions: timescale, motivation, degree of proactivity and impact, both positive and negative, on the owner-manager and on the business.

Some of these are clear examples of 'strategy that happened' or 'emergent strategy' (Mintzberg, 1994) rather than the deliberate logically planned or 'intended' notion of strategy often espoused within the planning literature.

## *Major conclusions*

- The SME context has and will continue to yield interesting theories, concepts and provocations, which will continue to refine and reform the notions of what is strategic and strategy process.
- It can be observed lately that small business owner-managers are becoming more and more conscious of the strategic management importance and they are more interested in applying strategic management in the ruling process of their companies (Lobontiu, 2001).
- SMEs are displaying relatively pronounced and in part wide strategic competitive behaviour. They dispose of great variety of potential strategic actions, which, being combined, result in various strategic behaviours and development paths and stages. The researches in the field have found four forms of differentiation as well as a strategy of cost leadership.
- The majority of SMEs do not employ isolated individual competitive strategies, but rather combinations of strategies (Bamberger & Wrona, 1994).
- It also can be concluded that with increasing environmental uncertainty there is a tendency to follow more pronounced strategic behaviour (in the sense of the intensity with which competitive strategies are pursued).
- Also, the overall dichotomy of differentiation versus cost leadership is not adequate for the description of actual competitive strategic behaviour, but the multiplicity of actual forms of differentiation exists and they can be combined and put into effect in various ways. The results of Bamberger & Wrona (1994) study show that in the choice of a competitive strategy there is no conflict of goals between differentiation and cost leadership leading to an absolute either/or solution.
- The relative growth and profitability of small firms are correlated strongly with an innovative product-market position and a more aggressive and analytical mode of decision making guided by an explicitly codified strategy. But there are certain variations between sectors in the importance of product innovation to competitiveness and also in the types of investment strategy associated with successful growth performance (Smallbone *et al.*, 1995).
- Strategies or strategic groups stressing quality have been shown to be successful regardless of industry, size, or the environment.

- Maclaran and McGowan (1999) have demonstrated in their paper how small firm considerations are largely overlooked in the service quality literature. The key emergent issue emphasized by Maclaran and McGowan (1999) is the importance of managing long-term relationships between an enterprise and its customers.
- Delegation of decision-making authority by the CEO, and the use of trained professional managers and experts are also associated with better relative and absolute performance (Miller & Toulouse, 1986). Groups of firms in which more authority was delegated down the line appeared better able to exploit complex innovation strategies and were more adept at coping with dynamism.
- Accordingly with each development stage from the life cycle, the organisational structure and all the processes belonging to a small enterprise are changing, so in the strategy implementation process it is necessary to achieve a concordance between enterprise structure and the strategy and also between those and the environment.

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