



## STRATEGIC MANAGEMENT OF SMALL FIRM: A PROPOSED FRAMEWORK FOR ENTREPRENEURIAL VENTURES

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### **Abstract**

*Strategic management has been the subject of a substantial literature since the 1950s but has principally focused on the large corporation. By contrast the literature relating to strategic management within the small firm sector has remained limited. Much of the existing literature has dealt with business planning rather than strategic management, or the process of strategy within the smaller firm. This paper outlines a proposed framework for understanding the strategic management of small entrepreneurial firms and draws upon the literature to illustrate aspects of the proposed model. Future directions for research using the framework are discussed.*

*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.*

**Keywords:** *SMEs, Strategic Management, Entrepreneurs, Networking.*

### **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. There are instead contextual understandings of what is 'strategic' and a range of competing and exclusive schools of thought. 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 enable invention and reinvention of contextual.

### **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.

### **The Importance of Strategic Thinking**

Strategic management is largely associated with the large corporation and most of the theories associated with the subject have been developed for large firms. Small firm1 are generally owned and led by owner-managers who make strategic



decisions based more on pragmatic intuition than academic principles (Ennis, 1998). However, while the lack of formal planning within small firm is recognised, the importance of strategic awareness and personal commitment from the entrepreneur is viewed as having the potential to serve as a counterweight (Gibb & Scott, 1985). The possession of a strategic plan has been advocated as important to the success of small firm, particularly to outline the strategic direction of the firm, coordinate action and assist in achieving goals (Sandberg, Robinson & Pearce, 2001; 2001).

The majority of small firm are led by owner-managers who are strategically myopic. While this may seem a harsh comment, it reflects their lack of long-term vision as to where their company is headed, and their stronger orientation toward operational rather than strategic issues. Such strategic myopia may be attributed to the managerial environment in which many small business owners find themselves; too often they are busy dealing with the daily challenges associated with running their firm to find sufficient time to consider their future strategic directions. However, the ability to think and act strategically is probably the most important attribute an owner-manager can have, and one that is critical to sustained business development. For example, a study of 906 CEOs of Fortune 500 fast growth firms in the United States identified that 86 percent had long-term plans for the ownership of their businesses, 79 percent had formal written business plans and 85 percent made decisions in consultation with their senior management (Sexton & Seale, 1997).

### **Strategy and the Growth Cycle of Small Firm**

Research into the growth of small firm has indicated a series of stage-models in which the business moves through a number of defined stages as it grows. While various models identify different numbers of stages, these models generally suggest that the business is initially conceived in the mind or minds of its founders (pre start-up), is then established (start-up) and passes through several additional stages as it grows into a mature large firm. These additional stages might encompass a period of *survival* while the firm struggles to achieve sustainable profitability, *growth* (sometimes divided into early and late stages) in which the firm takes on employees, wins new markets and introduces new products. Once it starts to grow it will either plateau off or enter a further stage of *expansion* in which transitions from a small to a medium or even large firm before reaching maturity. While the actual growth of individual small firm may not be as linear as such theoretical models suggest, they provide a useful framework against which to analyse the experiences of particular firms. At each stage of the process the small firm can grow, plateau or even die. In the initial stages of formation and survival the owner-manager is largely focused on keeping the business alive and must find new customers and maintain sufficient cash flows to pay running costs. The owner-manager is likely to be the most important asset the little firm has, providing all its managerial skill, direction and financial capital. However, such stage models do not adequately explain the process of strategic growth within the small firm or what key elements contribute to the successful development of the entrepreneurial venture.

A small firm, particularly those with less than 10 to 20 employees, provides a managerial environment in which the owner-manager can generally communicate easily with all staff and both communication and control is frequently informal. The creative leadership provided by the owner-managers is crucial to the firm's success. However, as the business expands the scale and scope of its operations the managerial span of control widens to a point where the individual owner-manager is no longer able to direct and coordinate the firm's operations. This leadership crisis requires the owner-manager to recruit or develop a team of managers to whom the task of daily operations can be delegated. Such a team-based management environment will require the introduction of systems to ensure control and coordination. However, once the firm's scale and scope grow too large (perhaps to over 200 employees), it is likely that the firm will begin to fragment into separate departments within distinct sub-cultures. Such departmentalisation can result in a crisis of autonomy whereby sub-units within the firm seek greater independence from centralised management potentially forcing the firm to delegate even greater authority to individual departmental managers or teams (Greiner, 1998).

### **The Role of Entrepreneurship**

At the core of the entrepreneurial venture and the initiator of the entrepreneurial process is the entrepreneur. It is important to draw a distinction between the process of small business management and the concept of entrepreneurship or the entrepreneur (Brockhaus, 1987). Entrepreneurs have been viewed in many ways but in this context they are the key agents of change or creativity leading to new growth and opportunity (Schumpeter, 1954). While the majority of small firm are owned and managed by individuals of varying competence, these owner-managers should not be confused with entrepreneurs. In contrast to the innovative, growth oriented and strategically minded entrepreneur, the small business owner-manager is typically defined as focused on furthering personal goals within a venture that consumes all their time and is essentially an extension of their own personality. The term owner-manager is generally correct in most small business research (Moran, 1998) however it would not be so for any understanding of the entrepreneurial venture.

### **The Need for Strategic Networking**

While the entrepreneur and their innovation are important elements in the initial stage of opportunity recognition, the successful diffusion of the innovation into the market and with it the growth of the entrepreneurial venture, is likely to be

constrained by a lack of resources. Whatever the advantages the new innovation offers it will not succeed without adequate financial backing, marketing and production competencies. These are frequently the types of resources that small firm lack. However, small firm exist within a network of actors consisting of customers, suppliers, financial institutions, government agencies, local authorities, employees, other firms and stakeholders (Jennings & Beaver 1997). The entrepreneurial manager of a small firm can leverage such networks to secure resources that they do not possess within their own organisation with resulting competitive advantages (Ostgaard & Birley 1994). Previous research into the development of alliances and networks among small firm in Australia suggests that owner-managers view networks as source of sharing ideas and resources, but understand the concept poorly. Networking also appears to be more prevalent among service firms than manufacturers. Major barriers to the formation of networks are the perception by the owner-manager that they would lose their independence or suffer a leakage of commercially valuable ideas. The owners of newer, less established firms were more likely to hold such concerns than older, more established companies. 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.

### Major Conclusions

- 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. 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 the 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 firm 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.
- Strategies or strategic groups stressing quality have been shown to be successful regardless of industry, size, or the environment have demonstrated in their paper how small firm considerations are largely overlooked in the service quality literature.

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