

**Strategic Management of Small Firms:
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 firms 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 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 firms¹ 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 firms 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 firms, 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 firms 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).

In comparison to the Fortune 500 companies, the majority of small firms lack formal business plans and a coherent approach to strategy formulation (Unni, 1984). A survey of 500 small businesses in the United States during the mid-1990s found that fewer than 42 per cent possessed a formal business plan (Managing Office Technology, 1994). It has been argued that small business owner-managers do not plan because they lack the knowledge, confidence or skills to do so (Posner, 1985). Research into the impact formal business planning has on small firm performance remains equivocal due in part to the general absence of such planning within the majority of companies. For many owner-managers the absence of formal business planning is attributed to such things as: i) a lack of time to devote to such activities; ii) lack of knowledge

¹ A small firm refers to those with less than 200 employees and includes micro firms (<5 employees) through to medium sized enterprises (20-200 employees).

about how to plan; iii) inadequate planning skills; and iv) unwillingness to share strategies with others or commit ideas to paper (Robinson & Pearce, 1984).

Research into the relationship between formal strategic planning and financial performance has been unable to offer conclusive support to the benefits of such activity (Pearce, Freeman & Robinson, 1987), however, although the link between formal strategic planning and performance within the small firm is difficult to clearly establish, it would be incorrect to conclude that strategic planning is something appropriate only to large firms and can be ignored by owner-managers (Schwenk & Shrader, 1993).

Formal strategic management practice, such as business planning, has been found to assist start up firms (Castrogiovanni, 1996), and small firms engaged in periods of rapid growth (Robinson, Pearce, Vozikis & Mescon, 1984). Longitudinal research has also found failure rates among small firms that engage in formal strategic planning behaviour is lower than those that do not (Sexton & van Auken, 1985). It appears that what is important to the small firm is the sophistication of the strategic management practice it undertakes, rather than whether or not the firm's owner-manager has a plan or engages in planning (Rue & Ibrahim 1998). Higher growth rates have been found among owner-managers who adopt more sophisticated strategic management behaviour than those with a more informal or intuitive approach (Lyles, Baird, Orris & Kuratko 1993). It could be argued that growth within the small firm forces the owner-manager to adopt more formal strategic management behaviour due to the increasing complexity of the firm's operations (Bracker & Pearson 1986), however, evidence suggests that formal strategic management behaviour is advantageous to small firms experiencing growth (Robinson & Pearce, 1983).

STRATEGY AND THE GROWTH CYCLE OF SMALL FIRMS

Research into the growth of small firms has indicated a series of stage-models in which the business moves through a number of defined stages as it grows (Churchill & Lewis, 1983). 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 (Scott & Bruce, 1987). While the actual growth of individual small firms 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 centralise management potentially forcing the firm to delegate even greater authority to individual departmental managers or teams (Greiner, 1998).

A study of 364 small firms over their life cycle identified several common problems experienced at different stages of growth and development. These findings suggest that owner-managers face significant problems with cash flow management, accounting and inventory controls during the early years of the firm's existence. As the firm grows in scale and scope the owner-manager is required to adapt both their managerial practices and organisational structures as the overall complexity of the business increases (Dodge & Robbins, 1992). Successful small business growth is likely to be dependent on how well the owner-manager learns to adapt and adjust both their management style and organisational form to meet the needs of internal and external environmental change. It will be important for the small firm to demonstrate a clear competitive advantage within its chosen markets, and to secure the necessary resources that it needs to exploit any future opportunities that it may have. Strategic management within such an environment requires the combination of a variety of elements that are internal and external to the firm.

THE ENTREPRENEURIAL PROCESS

A potential starting point to understand the strategic management process within the small entrepreneurial firm is the three-stage entrepreneurial process. This process starts with the capacity of entrepreneurial individuals to recognise new opportunities and become passionate about exploiting them. This ability to recognise a commercial opportunity has been considered by some academic writers to be more important than strategy, planning, venture financing, team building or networks (Timmons, 1999). Once the entrepreneur has committed himself or herself to their opportunity, they must marshal sufficient resources to see their goals achieved. This often finds the entrepreneur attempting to “beg, borrow and befriend” resources from others. The essential resources they will need to assemble include the money or investment capital required to launch the business, access to suitable markets within which they can expand, and the managerial competence to coordinate the entire process. The first involves raising sufficient capital to fund their new venture; the second is associated with developing the product or service and then getting it to market. Finally, the management area involves the skills of planning, leading, organising and delegation required to keep the business operating smoothly. The success of the new venture will depend on the ability of the initiating entrepreneur and their team to attract other stakeholders either as customers, employees or investors (Kourilsky, 1995).

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 firms 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 (Carland, Hoy, Boulton, & Carland, 1984). 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.

Competent management within the small firm is a necessary ingredient for success, but it is not the same as entrepreneurship (Penrose, 1959). For entrepreneurial growth the firm requires the leadership of individuals with vision who are focused on growth and profit maximisation as principal goals. Under such conditions the entrepreneur is characterised principally by innovative

behaviour and will employ strategic management practices in the business (Carland, Hoy, Boulton, & Carland, 1984).

Entrepreneurship is therefore associated with such things as the creation of new business ventures; the introduction of new innovative ideas and technologies, and the willingness to take the risks. The key ingredient in entrepreneurship is the creation of something new or the new entry of ideas (Lumpkin & Dess, 1996). This refers to the act of launching a new venture that can involve starting up a new business, spinning out a new company from an established business, or creation of new business activities within an established firm. It can be achieved by either creation of new products and services, or entry into new markets. In summary, entrepreneurship is the process of creating new entry opportunities and can involve both new business start up as well as the development of existing firms.

Successful entrepreneurship also requires the skills to organise and manage the activities associated with innovation and change. Entrepreneurial traits have been identified as a strong desire for achievement and autonomy; high creativity; willingness to take calculated risks, and sense of self-determination (Caird, 1991; 1993). These entrepreneurial tendencies are found throughout the general population, although they may be more pronounced in some individuals rather than others. Entrepreneurs are not only people who found new business ventures, but can also comprise employees within large organisations – ‘intrapreneurs’ – who lead innovative change or develop spinout companies (Pinchot, 1987).

As the previous discussion suggests, entrepreneurs and owner-managers can be recognised as distinctly different actors, with the former focused on wealth creation, innovation and growth, and the latter on personal goals and lifestyle. While entrepreneurs are rare, their impact on industries can be significant. By comparison, within the small business sector the majority of firms are the responsibility of owner-managers. However, although such distinctions may be theoretically true, the reality is that owner-managers and entrepreneurs exist at two ends of a continuum, with the actual management found in small firms somewhere in-between. This continuum is illustrated in Figure 1 which also highlights the main criteria used to distinguish the entrepreneur from the owner-manager, namely levels of orientation toward risk, innovation, growth, profit maximisation, strategic thinking, task focus and lifestyle. The entrepreneur is high on risk, innovation, growth and strategic orientation, while also being motivated by wealth creation via profit maximisation. By contrast the owner-manager is highly task focused, good hands-on manager or skilled tradesperson, also oriented toward maintaining a lifestyle rather than seeking to undertake ambitious and potentially risky growth.

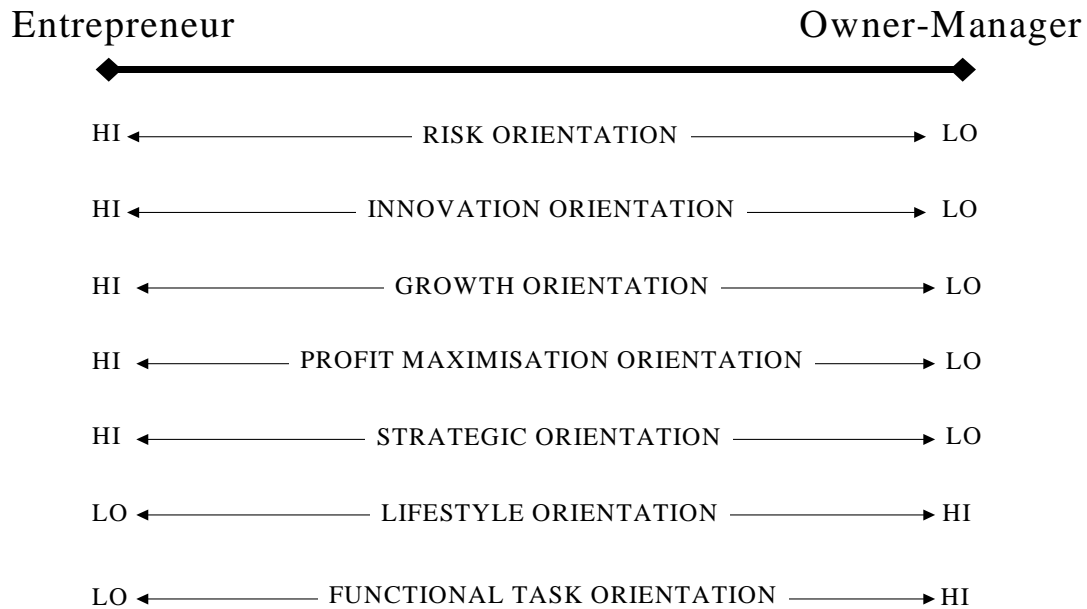


Figure 1: The Entrepreneur – Owner-Manager Continuum

Without the role of the entrepreneur identifying the opportunity and providing the managerial leadership, particularly in the early years of its development, the entrepreneurial venture would be unlikely to succeed. However, the entrepreneurial drive of the firm's owner-manager, while important, remains of little value if the venture does not have a clearly differentiated product or service to offer. Of equal importance to the entrepreneur is the innovation, which may or may not be found within the same individual.

THE IMPORTANCE OF INNOVATION

In addition to the need for entrepreneurial management, the successful entrepreneurial venture needs to innovate to secure for itself a point of difference within its chosen markets (Porter & Stern, 2001). Although the importance of innovation to industry is well recognised, the concept remains less clearly defined with popular emphasis on new technology and radical change (Grupp & Maital 2001:23). Within a business context, innovation is associated with the creation of changes to existing products or processes that can lead to the enhancement of the organisation's ability to offer superior value to its customers (Tushman & Nadler 1986). Of particular importance is the ability of the organisation to undertake innovation on a systematic

level, producing regular improvements in product or process through the implementation of an innovation management system (Drucker 1985 :31).

The key elements required for successful innovation have been identified as the possession of a market orientation, a management style (structure and culture) that fosters creativity, and a planning process that is non-linear (Quinn, 1985). Research into new product development processes highlights the value of workplace environments that offer project teams a high degree of autonomy, the capacity to determine their own goals and cross-fertilisation of ideas, skills and behaviours (Takeuchi & Nonaka, 1986). Also important is the role of leadership within organisations as senior management can both encourage and impede new ideas. Innovation is likely to be enhanced in environments where a strong relationship exists between managers and employees, and where such managerial leaders provide the necessary encouragement to innovative behaviour (Scott & Bruce, 1994).

However, while most innovation is incremental in nature, the commercially valuable innovations are often those that create significant changes or enhancements to existing technologies, products or services. This can be done either through a synthesis of existing ideas and technologies in creative ways to produce new products or processes, or radical 'discontinuous' innovations involving major shifts in technology (Tushman & Nadler 1986). Such radical innovations require two necessary conditions: first, there must be a significant change to the 'core concept' of the product; second, there must be a major change to the way in which the core components of the product are configured (Henderson & Clark 1990).

As noted above, the key to entrepreneurship is new creation or new entry. This implies that the entrepreneur requires an innovation in order to be successful. By nature small firms offer potentially fertile environments for innovation. Small firms have been viewed as the well-spring of new innovation, generating many of the key products of the past 100 years (NCOE, 2000), and continuing to produce many of the most radical innovations (GEM, 1999; Timmons, 1998). A strong small firms sector is viewed as important to the sustainability of innovation within a modern economy (Stringer, 2000).

However, while the capacity for innovation among small firms should not be dismissed, some caution is required. As small firms grow, they must introduce new products, processes, and management changes and acquire new systems and markets, all of which can be viewed as innovative activities (Gibb, 2000). Sustainable innovations that lead to major shifts in technology and dominant designs in products or service deliveries are less common among small firms, although when they do occur they are particularly noteworthy. Nevertheless, the need for

adaptation and change, the lack of bureaucracy, the multi-disciplinary nature of the work environment and the closeness of owner-managers to customers and employees, all serve to increase the likelihood of innovation in smaller firms, a view supported by empirical research (Vossen, 1998).

Innovation in small firms is typically more pronounced than in larger firms, due to the need for small firms to constantly adapt to changing environments. Small firms are well placed to develop close partnerships with customers that define a strong market orientation. The need to respond to customer demands or market opportunities is frequently easier for small firms where strategic decisions are made quickly and with the full support of the senior management who are both chief executives and principal share holders. The informal and frequently chaotic nature of small firm planning is also in keeping with the non-linear framework advocated. Small firms that possess innovative orientations are more likely to emulate the autonomous, multi-disciplinary project teams that are often difficult to generate within larger organisations. However the attitude and orientation of the owner-manager is the key to innovativeness within the small firm (Chandler, Keller & Lyon.,, 2000).

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 firms lack. However, small firms 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 firms 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 (Dean, Holmes and Smith 1997).

Strategic network relationships operate on three broad levels or layers (Holmlund & Tornroos 1997). The first of these is that of the *production network layer*, which consists of the vertical supply-chain relationships flowing through a particular business activity system. Critical to this are the *key suppliers* and *lead customers* that make up the production network in which the firm operates. Key suppliers are those firms that offer critical inputs to the firm and who would degrade the firm's competitiveness if they allowed their own quality or efficiency to degrade. Lead customers are typically dominant in their own industries and have above average levels of competitiveness. They assist the firm to benchmark its quality to the highest levels, and consistently drive up performance standards. Due to the dominance they have in their own industry, lead customers offer firms access to new markets and increased sales. Lead customers also serve as a source of new ideas and often collaborate with their suppliers to foster innovation (AMC, 1994).

In addition to the production layer, the strategic network also consists of the *resource network layer* and the *social network layer* (Holmlund & Tornroos 1997). The first of these comprises those actors that control various resources necessary for the production process to take place. Typical actors within a resource network are financial institutions (e.g. banks, venture capital firms), insurance providers, transport, storage and communications industries, education and training institutions. It can also include research centres or even firms in other industries that can provide complimentary goods and services or transfers of technology (e.g. packaging technology). The third layer is that of the social interaction that takes place between personnel from the firms within the network. Social interaction can be both formal and informal in nature and has been found to be an important source of innovation due to the sharing of knowledge that takes place (Hogberg & Edvinsson 1998).

The strategic alliances that form the basis of the networks within which small firms operate can range from loose affiliations with limited commitments and relatively little allocation of resources, to tight associations market by amalgamation. Such alliances can take place across both the production network and resource network layers and are driven by the strategic intent of the owner-manager (Jarrett, 1998). Independently owner-operated small firms are usually dependent on the managerial competencies of their owner-managers for success, and their networking behaviour is frequently the result of a process of formal or informal social interaction between the owner and others (Donckels & Lambrecht 1997). Key factors influencing network formation among small firms are the owner-manager's propensity to engage in social networking, the strength of ties that are formed in such networks and the social prestige attached to membership of the network. Such things as the age and education of the owner-manager, the size of their firm

and the industry within which they operate can influence these primary motivation factors. What network does (its purpose) may be more important than how large it is (BarNir & Smith 2002).

Within the entrepreneurial venture the role of strategic alliances is to assist the firm in its accumulation of necessary resources. Small firms that enter into networks are likely to do so as a result of their owner-manager's perception that they offer access to new markets, build existing capabilities or assist in defending existing market position. Strategic networks assist the small firm to develop new products and markets through close associations with leading customers or key suppliers. These networks provide access to new technologies and enhance quality and reputation. Networks, particularly within the resource layer help to build existing business capability by accessing financial resources, knowledge and skills, or sourcing physical capital or information. Finally, the network may serve to help the firm defend its market position through joint promotion, the establishment of barriers to new market entrants or protection against substitutes (Jarrett, 1998).

Alliances within networks for small firms can be both formal and informal and can take place across both the production and resource network layers. Given the importance of the owner-manager/entrepreneur in the decision to form an alliance, it is within the social network layer that attention needs to be given in seeking to understand the networking of small firms. A personal network – whether formal or informal in nature – is a valuable source of knowledge and ideas for the owner-manager and can assist them in making strategic decisions (Hogberg & Edvinsson 1998).

THE PRODUCT MARKET GROWTH VECTOR

If the small entrepreneurial venture is to grow it must address what Ansoff (1965) has described as the *Growth Vector*, which suggests that corporate growth is a process of product-market expansion. According to this thesis, the successful growth of the firm is contingent on its ability to achieve a competitive advantage by assembling unique assets and resources, and developing *Synergy* by finding a complimentary fit between new and existing product-market activities. Firms can launch into new markets with existing products (e.g. export), or grow established markets by offering new products or services. Where a firm launches a new product into a new market – diversification strategy – a higher level of potential risk is created because the firm is operating outside its known boundaries. Firm's seeking such growth should understand what assets provide them with competitive advantage, and how best to fit new and existing product-market activities together to achieve synergy. Such firms need a good understanding of the needs of the market, product or service technology and market geography in order to gain competitive advantage (Ansoff 1987).

It has been argued that small firms should seek growth via product or market development rather than diversification (Watts, Cope & Hulme 1998). By contrast diversification increases risk levels and may over stretch internal resources. Among the case study firms growth strategies involving the development of either established markets with new products or new markets with established products took place in-conjunction with diversification strategies.

STRATEGIC THINKING NOT JUST STRATEGIC PLANNING

The entrepreneurial venture that has an entrepreneurial owner-manager, an innovation and the capacity to develop strategic networks will still need to be managed strategically to ensure that it can chart a successful course through the various product-market combinations that it may be faced with. A common adage in small business development programs is the need for owner-managers to work on not in their firms (Gerber, 1986). This recognises the importance of finding time away from the usually hectic and demanding workload of daily operations, in which the owner can undertake strategic or business planning. Further, the mere possession of a written business plan is not sufficient to guarantee success. Of greater importance is the quality or sophistication of the strategy development process that produced this document (Berman, Gordon & Sussman, 1997).

In the development of strategy within the entrepreneurial venture it is important to draw a distinction between strategic planning and the process of strategic thinking. The field of strategic management recognises a separation between strategy formulation and implementation, although both comprise two ends of a common spectrum (Feurer & Chaharbaghi, 1995). Strategic behaviour is frequently associated with flexible but focused activities conducted over a relatively long time period. By comparison planning is more about implementation within the short run. Strategy has been likened to a 'double-loop' process in which the organisation maintains contact with the external environment or market and is prepared to adapt and change in the face of feedback, while planning is a 'single-loop' process involving implementation and monitoring (Heracleous, 1998).

It has also been suggested that the key ingredients for strategic thinking among managers are the ability to develop a holistic understanding of the organisation and its environment, creativity and sense of vision for the future. Further, these attributes must then be combined with an organisational environment wherein there is a strategic dialogue taking place within the senior management team as strategic options are considered, and a culture that encourages creativity from all employees is developed (Bonn, 2001).

Strategic thinking within the small firm requires the owner-manager to possess a clear sense of where both they and their business are going, and the capacity to maintain that focus and direction in the face of external challenges and the allure of new opportunities. A common problem facing small firms is the risk of strategic drift. This occurs when an opportunity presents itself and the desire to seize it is too much for the owner-manager to ignore. Although the ability to identify and pursue opportunities is fundamental to the success of small entrepreneurial firms, the danger is that they overstretch their limited resources and risk failure. Owner-managers must therefore make painful choices about what opportunities to pursue and what to leave alone. Once the owner-manager is able to clearly identify what their long-term focus and direction is they can begin to develop strategic plans. However, for many the dilemma is to determine what their strategic objectives are.

Unlike their larger counterparts, small firms are strongly influenced by their owner-managers and usually lack the management teams and bureaucratic structures of bigger corporations. Strategic management practice within small firms is usually low and frequently amounts to crisis management, or at best planning through the budget on an annual basis (Berman, Gordon & Sussman, 1997). The more entrepreneurial a small firm's owner-manager is appears to determine the level of strategic management behaviour, although most small business owners will resort to crisis management when faced with periods of environmental uncertainty (Matthews & Scott, 1995). Strategic management behaviour within small firms seems to be influenced by both the characteristics of the owner-manager (e.g. prior managerial experience, education levels), and the context in which this individual is found (e.g. period of growth, industry type) (Olson & Bokor, 1995). The effectiveness of such formal strategic management behaviour appears to be dependent on the level of analysis employed (Ackelsberg & Arlow, 1985). In-depth analysis and longer-term forecasting have been found to be associated with higher performing managers (Orphen, 1985). Also of importance is likely to be the owner-manager's level of strategic awareness and capacity to establish clear strategic directions (Rice, 1983).

THE STRATEGIC TRIANGLE

The process of strategic management within the entrepreneurial venture can be likened to that of a triangle comprising three key elements: i) strategy, ii) structure and iii) the resources required to achieve the strategic goals. This strategic triangle recognises the strategic theories that suggest the need to maintain a harmonious relationship between strategic direction and the organisation's structure (Chandler, 1962). However, it also recognises the importance of building future strategy around the firm's resources and not out-stripping those resources (Barney, 1991). Strategy requires the considered positioning of the firm and its products within targeted markets seeking to use innovation to create a competitive advantage through differentiation (Porter, 1980). However,

the firm must have adequate core competencies (Prahalad & Hamel, 1990), which can be both tangible and intangible but offer superior outcomes over what might be available to competitors (Reed & DeFillippi, 1990). For resources to be a source of competitive advantage they should be of commercial value, not available to competitors, not easily substituted by customers and difficult for competitors to easily copy (Barney, 1986).

Throughout its development cycle the strategic management of the entrepreneurial venture will require consideration of these three elements. For small firms this strategic triangle is likely to be particularly important as it is likely that resource constraints will significantly impede the firm's capacity to fulfil its intended strategy. However, while very small firms generally lack any specific organisational structure, as they grow in scale and scope, it will be important for them to develop appropriate structures that enhance their strategy and make best use of their relatively limited resources. Successful growth will typically involve the continuous juggling of these three strategic elements and the need to keep the strategic triangle in equilibrium.

A FRAMEWORK FOR STRATEGIC MANAGEMENT OF ENTREPRENEURIAL VENTURES

The growth cycle of small firms is therefore a dynamic process involving the combination of a variety of different elements, partially concentrated within the owner-manager or entrepreneur, and partially within the firm itself. How successful the firm is over time will depend on the capacity of the management team leading it, and their ability to set clear strategic goals and implement such strategy via formal planning.

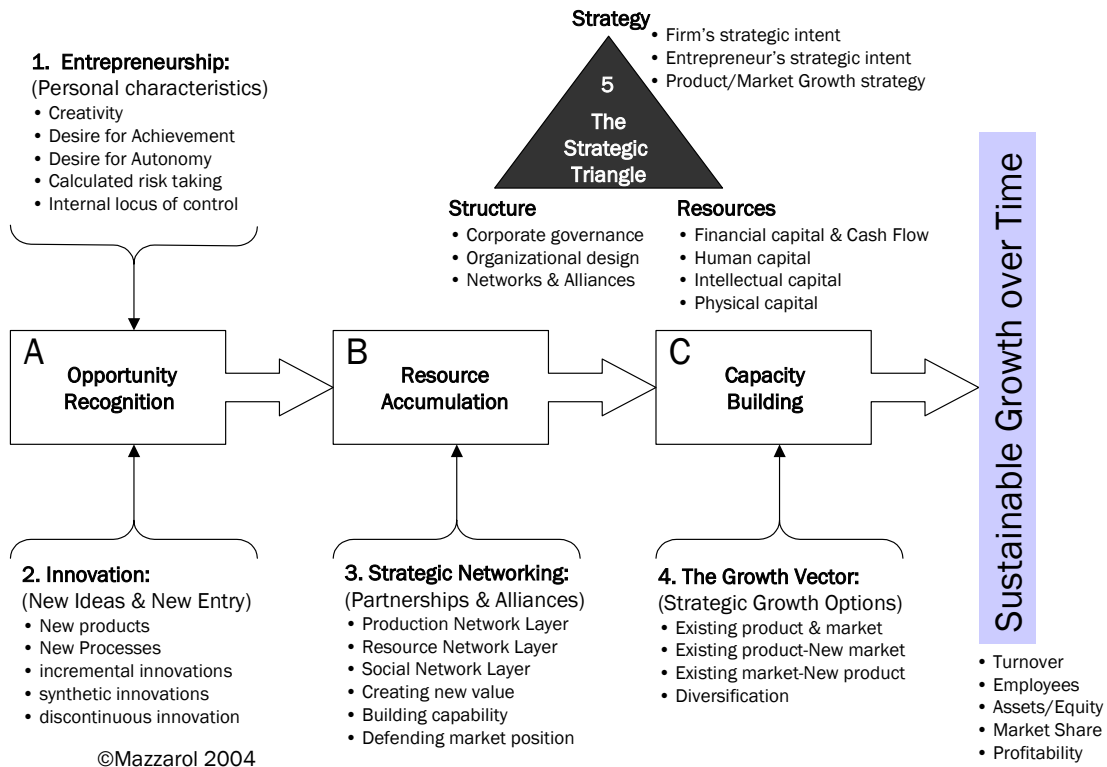


Figure 2: Strategic Management of Entrepreneurial Ventures Framework

The model outlined in Figure 2 outlines a proposed framework for understanding the strategic management issues relating to small entrepreneurial ventures. In the following sub-sections the various elements of this model are discussed. The framework model assumes that the key outcomes or measures of success for an entrepreneurial venture are sustainable growth over time, which can be measured by such quantifiable indicators as annual turnover, number of employees, size of assets under management or equity within the firm's balance sheet, market share and profitability. The core of the framework is the entrepreneurial process of opportunity recognition, resource accumulation and capacity building. The next five components are: i) the role of entrepreneurship and the entrepreneur; ii) the need for an innovation; iii) the need for strategic networking and alliance formation; iv) the importance of growth through product and market combinations; and v) the dynamics of the strategic triangle comprising the interplay of three forces – strategy, structure and resources.

As outlined earlier in this paper, this framework provides a theoretical model through which the strategic management of small entrepreneurial ventures can be better understood. It incorporates the key elements that the literature suggests might be critical to the successful growth of small entrepreneurial ventures. Strategic decision making within the small entrepreneurial venture is largely centred on the owner-manager or principal entrepreneur who is usually the major shareholder. Their capacity to identify an opportunity, marshal the necessary resources and build capacity over time to make the venture a success is the critical entrepreneurial process. Without entrepreneurial management the small firm is unlikely to successfully grow beyond a modest level of scale and scope. However, the entrepreneur and the venture must also possess a capacity to generate innovation in products and process that allow the firm to build a competitive advantage within its chosen markets. These are critical elements in the opportunity recognition phase of the entrepreneurial process. Over time, the firm's growth is likely to be facilitated by strategic alliances through the production, resource and social networks that the entrepreneur and their venture can accumulate. While strategic networking is often a challenge for small firms, those that master them are likely to gain significant benefits in the accumulation of resources. In seeking sustainable growth over time, the entrepreneurial venture will need to chart a trajectory through the growth vector with a series of product-market combinations that allow it to build upon its market opportunities, core competencies and strategic alliance partnerships. Managing through this process will require continuous attention to the strategic triangle.

FUTURE RESEARCH DIRECTIONS

The framework outlined in this paper for the strategic management of entrepreneurial ventures remains a theoretical construct that requires further research and measurement to determine its validity. Future research being undertaken by the author will focus on evaluating the model using a combination of case study and survey methodology. This combination of research methods is designed to provide a variety of data points and in turn enhanced triangulation (Scandura & Williams, 2000). Key research questions that will need to be examined within any future research are:

1. What are the personal characteristics of entrepreneurs who manage fast growth entrepreneurial ventures and is there a pattern to be found?
2. What is the relationship between entrepreneurial tendencies and opportunity recognition within the basic entrepreneurial process?
3. What are the characteristics associated with innovations as found among fast growth entrepreneurial ventures and is there a pattern that defines them?
4. What is the relationship between these innovations, the entrepreneur and opportunity recognition within the basic entrepreneurial process?

5. What are the key features of strategic networking by entrepreneurs within fast growth entrepreneurial ventures across the production, resource and social network layers, and what is the strategic intent of such strategic networking?
6. What is the relationship between strategic networking, the entrepreneur and resource accumulation within the basic entrepreneurial process?
7. What are the key pathways to growth (e.g. growth vectors) adopted by fast growth entrepreneurial ventures and is there a pattern?
8. What is the relationship between the growth vector, the innovation and capacity building within the basic entrepreneurial process?
9. What is the pattern of strategic management within fast growth entrepreneurial ventures in relation to the strategic triangle?
10. What is the relationship between the strategic triangle, the entrepreneur, the innovation, strategic networking, the growth vector and both resource accumulation and capacity building within the basic entrepreneurial process?

A multiple case study methodology is to be used (8-10 cases) that will select fast growth entrepreneurial firms. Firms will be selected for their profile as having the characteristics of above average growth in sales turnover, assets, employees, profitability and market share. Case study methodology is considered to be a valuable tool in understanding the behaviour of small firms as it allows a direct observation of managerial activity and the ability to get close enough to the firm's actors to examine their task environment and ground any observations in the context of the business (Chetty, 1996). The key units of analysis to be used in these case studies will be the five key elements of the research framework and the role undertaken by the entrepreneur or management of the firm. All interviews will be analysed using the replication logic and pattern matching process (Yin, 1989).

Supporting this qualitative methodology will be a cross-sectional survey that will measure as many elements of the model as possible. This will draw upon a series of scale items used in other studies (Sexton & Seale, 1997; Sexton & van Auken, 1985; Mazzarol, 2003; Mazzarol, T., Reboud, S., & Adam, D. 2004; Reboud & Mazzarol, 2004), but will also seek to develop new scale items for subsequent use in future research phases of this project. A sample will be drawn of up to 200 fast growth small firms who will be identified via such publicly available lists as the BRW Fast Growth 100, Telstra Small Business Awards and Ernst & Young Entrepreneur of the Year program. The study will analyse the results using a three-stage approach: i) descriptive statistical analysis to examine general firm structure including bivariate analysis between selected variables; ii) factor analysis (principal component) and scale reliability testing to examine the underlying dimensions within the data, reduce data for future analysis and generation of scales

for future replication of the study (Stewart, 1981); iii) structural equation modelling using Partial Least Squares (PLS) to examine the strength and directionality of relationships within the model (Chin, 1998).

Through such research it is anticipated that additional insights can be found into the strategic management behaviour of entrepreneurial growth oriented firms. This framework can be validated and lessons learnt that can assist future entrepreneurs.

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