

The Impact of the Entrepreneur's Personality on the Strategy-Formation and Planning Process in SMEs



BREDA MCCARTHY

Department of Management and Marketing at University College, Cork

ABSTRACT

The objective of this study was to explore the impact of the entrepreneur's character on the development of strategy in small- to medium-sized firms. While researchers have looked at entrepreneurial traits in order to explain business start-up and growth, little attention has been paid to the possible interactions between entrepreneurial types and the strategic choices they make. This study identified two main types of entrepreneurs, the pragmatist and the charismatic entrepreneur, which resulted in different patterns of strategic behaviour. The research suggested that different types of entrepreneurs faced different problems, and that their responses to crises varied. The study suggests that the charismatic entrepreneurs were forced to review their propensity to take risk, share power and involve more people in the decision-making process and this resulted in a more rational, planned approach to the strategy-making process. Financial planning became a priority for both types of entrepreneur.

THE CONCEPT OF STRATEGY

Numerous perspectives on strategy and numerous definitions of the term 'strategy' exist (Mair, 1999). The term 'strategy' refers to the direction and scope of an organisation over the long term and strategic decisions are generally broad, encompassing details about product range, market scope and competitive approach (Wickham, 1998). According to Porter (1996) the essence of strategy is choosing to perform activities differently from rivals, which requires creativity and insight. In the planning school of thought (Chandler, 1962; Ansoff, 1965), the term 'strategy' is usually defined as a formal plan, and planners perform a detailed analysis of the company, its product-market and its environment (Lambkin, 1997). In the process school of thought, writers (Mintzberg and Waters, 1985; Pettigrew, 1992) focus on the processes by which actions are decided and implemented. Writers in the process (or emergent) school of thought have highlighted the emergent nature of strategic actions due to cognitive limitations,

learning (Quinn, 1980), cultural biases (Peters and Waterman, 1982) and organisational politics (Pfeffer, 1981). These writers have outlined the difficulties involved in planning a strategy and then trying to implement it as planned. Researchers (Mintzberg and Waters, 1985; Hayashi, 2001) have proposed that the strategy formation process was not simply an exercise in rationality but reflected experimentation, exploration, intuition, instinct and learning. Hamel (1996) highlighted that strategic plans were often inflexible and led planners to overcommit themselves to specific future predictions. Today, researchers are attempting to transcend this dichotomy between the planning and process views of strategy. While the first approach overstates the value of deliberate thinking and rational planning, the second approach underemphasises the value of rational planning within most companies (Ginsberg, 1994).

RESEARCH OBJECTIVES AND RATIONALE FOR STUDY

The main objective of this study was to explore the impact of the entrepreneur's character on the development of strategy in small- to medium-sized firms. The small business literature on strategy falls into two main categories: the first focuses on the traits of effective entrepreneurs and the second relates to planning. Entrepreneurial discourse (as set out by Gasse, 1977; Kets de Vries, 1977; Brockhaus, 1982; Mintzberg and Waters, 1985; Timmons, 1999) has emphasised the critical role played by the entrepreneur in the management of the enterprise. Researchers have focused on the traits associated with effective entrepreneurs (Carland et al., 1996) and a related stream of research seeks to develop a typology of business leaders. For instance, Kets de Vries and Miller (1984) suggest that the neurotic character type finds it difficult to cede control of the venture. The entrepreneur tends to have a strong desire for autonomy and control (Timmons, 1999) and these characteristics, if unchecked, can hamper growth of the venture. Stage models of growth (see Timmons, 1999, for a review) describe the issues, problems and crises that confront entrepreneurs as the venture grows. The planning model of strategy is the dominant model of strategy in the small business literature (see Berry, 1998). Proponents of planning stress the value of planning, it helps entrepreneurs anticipate change in the environment, deal with investors and attract funds (O'Gorman and Cunningham, 1997). Planning can aid thinking and decision-making (Johnson, 2002). However, studies suggest that founders plan in a way that is quite different to the standard textbook model of strategic planning. Research has described planning as informal in the sense that strategies are not written down and reside mainly in the mind of the CEO (Miller and Toulouse, 1986; Behara and Gundersen, 1995), scanty and perfunctory (Robinson and Pearce, 1984), and short-term in orientation (Gilmore, 1971). Explanations for the emergent nature of strategy in SMEs have focused on the nature of the environment in which entrepreneurs operate as well as the personality of the entrepreneur. In the literature on strategy management, writers have argued that effective strategic decision making depends on the nature of the environment, whether it is stable or unstable (Fredrickson and Mitchell, 1984). In a similar vein, Mintzberg and Waters (1985) questions the value of formal

planning to entrepreneurs because they operate in intense, uncertain and high-pressure situations. Other scholars (Kets de Vries, 1990; Bhide, 1994; Brouthers, Andriessen and Nicolaes, 1998; Allinson, Chell and Hayes, 2000) have found that entrepreneurs are rarely strategists who focus on the long term and act according to rational principles; instead they act on instinct, intuition and impulse. Carland, Carland and Aby highlight that:

The individual responsible for planning in a small firm is the owner-manager. If that individual is not predisposed to planning, this activity will not take place. Personality will play a key role in that predisposition. (1989: 25)

While some attempts have been made towards understanding the link between personality and the strategy (Kisfalvi, 2002), further studies are needed. Kisfalvi (2002), by adopting a psychodynamic approach, found that the entrepreneur's priorities and concerns were shaped by his early life experiences. According to Stewart, Watson, Carland and Carland:

The role of psychological factors in shaping or selecting out strategy content and their influence on the way entrepreneurs actually form their strategies remains unclear. (1999: 206)

The study of strategy in large organisations has taken great strides over the decade of the 1990s; however, a review of the literature highlights the imbalance of theory building with respect to the smaller organisation. For instance, Brouthers, Andriessen and Nicolaes (1998: 130) claimed that, "surprisingly little research exists that examines strategic decision-making in small firms". Furthermore, formal strategic management procedures that apply to the large enterprise may not necessarily be relevant and applicable to the small enterprise (Shrader, Mulford and Blackburn, 1989).

The study here enlarges upon and fills some of the gaps concerning the strategy formation process in the existing literature on entrepreneurs and their firms. It tentatively proposes that different types of entrepreneurs pursue different strategies and adopt different processes in the pursuit of these strategies.

RESEARCH DESIGN

Given that existing theory does not fully explain the link between the characters of the entrepreneurs and the strategies pursued by them, the research design was qualitative and exploratory in nature. According to Lee (1999), qualitative research is often taken to mean inductive, theory generating (it also lends itself to theory testing), subjective and non-positivist processes. It can be descriptive, exploratory and explanatory in nature. A unique characteristic of qualitative research is that it is field based (Lee, 1999). Qualitative researchers encourage substantial flexibility, or improvisation, in research procedures. Researchers have the freedom to make adjustments, alter research objectives

and add questions during the data collection process. The research process is iterative rather than linear, requiring a steady movement between the literature, interview data and analysis. The case study is one way of gathering qualitative data: it involves the study of one, or a few, entities in substantial depth (Lee, 1999) and it gives rise to 'thick description' (Van Maanen, 1988: 221). Multiple cases strengthen results by yielding greater pattern-matching and greater confidence in the robustness of the theory (Yin, 1993). There are many ways of analysing qualitative data, ranging from conversational analysis, case history and the constant comparative method. All three techniques were used in this study. Comparing groups, in terms of their similarities and differences, is necessary to explain or generate theory. Creative insight often results from the juxtaposition of contradictory or paradoxical evidence (Cameron and Quinn, 1988). Eisenhardt (1989) recommends the use of several tactics in order to analyse case study data: forced comparison involves selecting pairs of cases and then listing similarities and differences between each pair. Another tactic is to select a theme, category or dimension, and look for within-group similarities coupled with differences. Qualitative researchers often describe findings as themes and a theme captures central ideas in an interview or recurrent topics of discussion (Bjorkegren, 1989). The 'write-up' involves (Golden-Biddle and Locke, 1997) developing theoretical points that are contextually grounded in the field data and researchers generally choose the most expressive comments to bring theoretical points to life.

With regard to this study, 33 semi-structured interviews were held with founders, managers and employees. Multiple informants were used to ensure that the descriptions of the entrepreneur's personality were reliable. The author had a clear agenda and the following topics – history of company, company growth, role of founder and key turning points – were explored through the use of open-ended questions with respondents. In-depth interviews, company reports and newspaper articles were used. In general, the data were collected over 36 months. The majority of the firms were small (less than 50 employees) while two firms were medium sized (less than 200 employees). The entrepreneur was defined as an individual who set up a new, independent enterprise and managed it in a personalised way (Berry, 1998). The companies were characterised by a certain degree of innovation, risk-taking, creativity and growth (Hills and LaForge, 1992). Lifestyle firms were excluded. The sample included software, manufacturing and service firms. Firms were drawn from different sectors since the literature suggested that effective strategic decision making is dependent on the nature of the environment. A profile of the sample is provided in Table 10.1, which shows that most of the firms were successful in terms of turnover and longevity.

Table 10.1 Profile of Sample

Respondent letter/code	Nature of Business	Size	Founded	Turnover
R	Software, peripheral devices	13	1988	0.5m
Q	Software product, for financial services	80	1985	6.5m
M	Software service: for accountancy sector	120	1976	7.4m
F	Manufacturer of toothpaste	25	1983	3m
I	Manufacturer of soap	2	1984	2m
B	Manufacturer of biscuits	28	1989	1.5m
C	Manufacturer of plastics	Ceased trading at time of study	1987	Nil
G	Service firm: graphic design	20	1989	Not disclosed
K	Software, electronic security	30	1986	Not disclosed

RESEARCH FINDINGS: CHARISMATIC AND PRAGMATIC TYPES OF ENTREPRENEURS

The study suggests that the strategy formation process is driven by the personalities of the entrepreneurs and by their experience of crises. The study suggests that there are two main types of entrepreneurs, the charismatic and pragmatic entrepreneurs. The charismatic entrepreneurs conformed to the stereotypical view of entrepreneurs and they were visionaries, risk-takers, highly persuasive, passionate, with ambitious and idealistic goals. The pragmatists did not fit the stereotypical mould and were more cautious, more rational and seemed to adopt a more calculating and instrumental approach to the business, yet they also achieved success. These types of entrepreneur were distinguished according to decision-making style, goals, attitude to risk, degree of commitment to venture and business background. Example quotations are shown in Table 10.2 and 10.3. These quotations are drawn from employees as well as the founders themselves.

Table 10.2 Characteristics of the Charismatic Entrepreneur

Strategy-related variables	The charismatic entrepreneur	Example quotations
Decision-making style	Visionary Intuitive Creative	R: I am gut-feeling type of person. We were specialists in that area. We were in it pre the personal computer! We were doing programmable device drivers for POS before anyone else. R: What's a five-year plan in this business?! F: It was his idea, his drive and initiative that got it off the ground. Q: He had the vision and foresight to come up

		<p>with an idea and base a product around that idea and start up a company.</p> <p>Q: It was 70% vision of Gerry and 30% planning. Gerry's vision would have played a key part in the growth of the company.</p> <p>M: He is very dynamic. His ideas, his concepts of what the clients will want are right. He is quite imaginative, he is indispensable.</p>
Goals	Ambitious Idealistic	<p>F: He was a driving force in the business...he was hell-bent on keeping the order book full. Much more hell bent: let's go for that, let's try to run 100 yards in 10 seconds as opposed to 15 seconds that will take longer.</p> <p>R: I believe that the Irish people can be world-beaters.</p> <p>R: He has put a lot of enthusiasm into the company, he is keen to continue pushing it forward, it has developed over the years, he has many contacts with the industry in Ireland and abroad and he has used those to generate sales.</p> <p>Q: We developed a top-class product.</p> <p>Q: We were trying to be IBM while still in the garage-style mode of operation.</p> <p>M: We tried to cover too much ground; we bid for nearly everything, everything that moved, we would grab it.</p> <p>M: The danger with software development is that expansion can be rapid until one day the bubble bursts. A company can become too big too quickly.</p>
Attitude to risk Degree of commitment to venture	'Bullish' Risk-prone Abiding commitment Obsessive Success against the odds	<p>F: He had money to invest although he was not wealthy. It was a case of either all or nothing.</p> <p>F: It required a total degree of commitment. I do not know if I would have done it. He had family commitments.</p> <p>R: He dug deep into his own pockets. If you are supporting an organisation like this out of your pocket, the costs are mighty, very high-cost, high-risk stuff.</p> <p>R: People work and work and work, they really kill themselves in an effort to achieve success...</p>

		Q: I am an optimistic risk-taker; the essence of the entrepreneur is to take a gamble.
Business Background	Non-business	F: His background struck me as a bit strange, but sometimes they make the best entrepreneurs. They do not see problems only solutions. We need a bull-headed attitude. They do not realise the implications of things. I think he went into the venture without realising the commercial risks involved.

Table 10.3 Characteristics of the Pragmatic Entrepreneur

Strategy-related variables	The pragmatic entrepreneur	Example quotations
Decision-making style	Planned Rational Reactive	<p>G: We go through decisions, like employing a single person, very, very carefully.</p> <p>G: We like to think of ourselves as being proactive, but we are reactive, I feel. We put many things on the agenda which we have never completed. Possibly, if the company was run by one person, rather than by four people, we could be more proactive. That one person could make decisions quicker.</p> <p>B: We need to go out and be active and aggressively go after business, push the company. Instead we are manufacturing to an order book, which thankfully is full. But we are becoming more proactive. It is a question of changing.</p> <p>K: I still believe that we are a little too cautious, still a little too slow. Someone else may say that we need to be cautious because we have to recuperate a costly R&D program. I would advocate that we be a little bit quicker in making decisions, that we be a bit bolder.</p>
Goals	Achievable Conservative Down-to-earth Common-sense Slow-growth Consolidation	<p>G: You have to decide that you want to achieve, how you are going to achieve it and go for those goals in a controlled way. There is no point in taking off like a rocket and getting nowhere.</p> <p>G: Our aim is to stick to our knitting until we have achieved a much firmer foundation.</p> <p>B: The whole issue of growth, how it is planned</p>

		<p>and controlled, can bury a company. A company has to be very careful in its expansion plans. Managing cash flow, how much money is spent, how much is got back in, seeing that credit terms are adhered to, are all crucial...A company has to start off small and stabilise the market before they try to expand.</p> <p>B: I would never wish to become huge. We will always remain relatively small in a niche market if we are to succeed.</p> <p>K: Growth has been quite slow really. We are now looking at niche markets, taking away small, profitable business from large companies. We are steering away from anything large. We just could not afford it or be able to finance it.</p>
Attitude to risk Degree of commitment to venture	'Bearish' Risk-averse Calculated commitment Pragmatic Success within reach	<p>I: Her approach was very different to X. One person got involved in manufacturing; the other sub-contracted. There was no real financial involvement in the company: she was doing this as an outside interest, it was not her livelihood.</p> <p>B: The company is still conservative. We are prepared to take a risk if the opportunity comes up. It is a conservative risk.</p>
Business Background	Combination	<p>G: We are not simply designers. Designers tend to be very fickle, temperamental people. Many of them do not know how to run a business or would not have any interest in running a business. Clients see them as difficult people to work with.</p>

STRATEGIC DECISION-MAKING STYLE

The charismatic entrepreneurs were visionary in the sense that they were able to predict market trends and visualise new product opportunities. Employees saw the entrepreneurs as the creative force behind the venture. The entrepreneurs' belief that a market existed for the new products tended to be based on their feelings and informal research. Most of the entrepreneurs gathered information by talking to customers, by subscribing to trade magazines, by going to

conferences and attending trade shows. This enabled them to keep up to date with customer needs, with technological developments and to develop ideas for new products. One individual set up a technologically based firm in the 1970s and remarked, "the market wasn't right for it then, that's for sure", and claimed that he was a "gut feeling type of person". The founder's product ideas were mainly based on:

His hunches, his experiences of talking to people, his experiences of using the products himself.

Employees claimed that he was always a year, if not more, ahead of the competition. Furthermore, the charismatic founders were able to attract followers due to their enthusiasm for the venture:

A manager has to be a very disciplined, analytical type of person, who can look at things and weigh them up very carefully. Managers are more careful people. An entrepreneur is not a careful person. Careful people write the history they do not create it. Entrepreneurship is an enthusiasm. I can get very enthusiastic about something and bring people along with me, even customers. When I am in full flight even customers get excited about it as well. That's part of being an entrepreneur.

Another entrepreneur who set up a software firm was described as very dynamic and imaginative, someone who could predict the needs of clients very well. Another entrepreneur was described as an individual with a love of ideas, a very active mind, quick to adopt new trends and prepared to take risks. He decided to target the unstable Eastern European market, even though the Irish Trade Board was discouraging entrepreneurs from entering those markets at that time. Another entrepreneur was described as an individual who had the vision and foresight to come up with an idea and base a product around that idea.

In contrast to the charismatic entrepreneurs, the approach of the pragmatic entrepreneurs to strategy formation was underpinned by a more conservative, 'common-sense, down-to-earth' and rational approach. Two founders formed very similar firms (import substitution) at around the same time and shared the same distributor, but adopted very different strategies. The distributor commented that:

Her approach was very different, there was no real financial involvement in the company.

He remarked that she did not see the business as her livelihood. In contrast to the other founder, she undertook a feasibility study, carried out market research and eventually selected the sub-contracting option rather than the high-cost manufacturing option. With regard to market expansion, she focused on the domestic market rather than the Eastern European market. Eventually she was

faced with a key decision: to target the US market or sell the firm, and she made a pragmatic decision to sell the venture. The founder of a graphic design firm also adopted a planned and rational approach to decision-making. They employed a consultant and spent several months preparing a business plan. They claimed that decisions were made "very, very carefully" in order to reduce the risk of business failure.

GOALS

The charismatic entrepreneurs had ambitious goals. When the entrepreneurs described their objectives, there was also a touch of idealism in their accounts. One entrepreneur had a vision of bringing the power of the PC to the masses. He remarked that many people did not have any experience of using computers and were marginalised by the computer industry. He hoped to target that market and make it easier for uneducated people to use PCs through simple keystrokes. Another entrepreneur remarked that he wanted to be a world-class software developer and his aim was to target the world market rather than just the domestic market. Another entrepreneur had similar goals and it was commented that he was "driven by this search for excellence" and he tried to ensure that the Irish product was as good, if not better, than the product produced by multinational companies. Simple phrases used by stakeholders in interviews revealed a great deal. This founder was described as being "hell-bent" on growth and his attitude was:

Let's go for it, let's try and run 100 yards in 10 seconds as opposed to 15 seconds which will take longer.

He was also driven by the desire to make money. The comments of one stakeholder suggested that his profit goals were unrealistic, "whether his goals were attainable in his time frame, or ever, is debatable!" In another company, the phrase "gung-ho" was used to describe the early posture of the firm.

In contrast to the charismatic entrepreneur, the pragmatic entrepreneur seemed to make a more realistic assessment of the marketplace: the goal was to set up a business that would have a good chance of succeeding. For instance, one founder claimed that he would never wish to become huge and that the company would have to remain 'relatively small in a niche market' if it was to succeed. His goal was to build a profitable company and either sell the business or pass it on to his family. Unlike the charismatic entrepreneurs, who tended to be emotionally attached to the venture, the pragmatic entrepreneurs were not as tied to their ventures and ceding control of the venture, or even selling it, did not seem to be a major problem for them. The founders of a graphic design firm decided to concentrate on the home market, consolidate the business and avoided diversifying and growing it too quickly. Safeguarding what they had already achieved was more important than rapid expansion, as the following comment shows:

The policy has been to stick to our knitting until we have achieved a much firmer foundation.

ATTITUDE TO RISK AND DEGREE OF COMMITMENT TO VENTURE

While both types of entrepreneur had to assume risk, the risk borne by the charismatic entrepreneurs was perceived to be very high in the eyes of stakeholders. The founders had a strong belief in the venture and as a result they were prepared to leave secure jobs, set up and grow the ventures using their own funds, placing both themselves and their families at risk. The entrepreneur's degree of commitment to the venture is shown by the following comment:

It was a speculative venture. He had to make it work. He had money to invest although he was not wealthy. It was a case of either all or nothing.

The charismatic entrepreneurs seemed to be driven by the strength of their convictions and such was their confidence in their ventures, they assumed extraordinary risks. One founder claimed that state agencies thought he was crazy and it was difficult to obtain grant-aid. In the growth stage, he made a major decision to invest £0.5m of his own funds in order to increase production capacity; however, sales contracts were not in place and he was unable to convince state agencies to give him capital grant. The actions of the founder resulted in a crisis shortly afterwards. An employee in another firm commented that the company could not rely on cash reserves and suggested that managing cash-flow on a monthly basis was very difficult. He remarked that the art of the entrepreneur was to take a gamble and that the founder was adept at leveraging resources. The charismatic entrepreneurs had a passion, if not an obsession, for their businesses which was clearly recognised by their employees; the following words and phrases were used to describe the founders: "driving force", "indispensable", "a one-man company", "gave over 100% of himself", "total degree of commitment".

In contrast to the charismatic entrepreneurs, the pragmatic entrepreneurs were not willing to assume extraordinary risks. The pragmatic entrepreneurs tended to minimise risk and were therefore not readily prepared to sacrifice resources to the venture. Their vision for the ventures seemed to be based on straightforward commercial values rather than the more emotion-rich, idealistic values espoused by the charismatic entrepreneurs. One pragmatist remarked that his goal was to pass on the business to his family but if he got an attractive offer for the venture he would consider selling it.

BUSINESS BACKGROUND

The professions of the charismatic entrepreneurs prior to business start-up were as follows: engineering, technician and computer programming. Having a non-business background may explain the entrepreneur's intuitive approach to decision making. For instance, one stakeholder remarked that the entrepreneur was an engineer by profession and not a business person. He slowly developed a

commercial awareness and learned to read a balance sheet. In the early years, he was not aware of the commercial risks involved in the venture and where others would see problems he only saw solutions to those problems. Another entrepreneur echoed this comment by remarking that he always looked at things from a positive side rather than a negative side.

The professions of the pragmatic entrepreneur prior to business start-up were as follows: accountancy, advertising, sales, teaching, graphic design, management. One pragmatic entrepreneur who did not have a business background saw that as a weakness, he claimed that many designers who set up firms lacked a business ethos and he was keen to avoid the mistakes made by others. They appointed a chairman in order to benefit from his business experience.

CHARISMATIC AND PRAGMATIC ENTREPRENEURS: PROBLEMS AND CHALLENGES, RESPONSE TO CRISES

All of the firms faced common problems and challenges. This section starts by outlining the major factors that caused crises (Table 10.3) and the ramifications of crisis are then described (Table 10.4).

Source of Crises

In general, there were two main types of crises: an endogenous crisis, which was caused primarily by the founder by forces within the firm, and an exogenous crisis, which stemmed mainly from environmental shocks. This study suggests that the different types of entrepreneurs conceive of risk differently and thus pursue different types of strategy.

Table 10.4 Problems and Source of Crises

Type	Explanation	Personality type
Endogenous	Ambitious start-up strategy based on ability to secure support of one key investor, followed by loss of key financial backer Expansion into emerging export market Heavy investment in production capacity follow by loss of key distributor Rapid growth	Charismatic
Exogenous	Recession Adverse currency movements Change in customer tastes Increased competition	Pragmatic (and charismatic)

Crisis was internally generated and it arose primarily from the actions of the charismatic founders in their drive for growth. In one firm, a deal with a financial investor fell through which forced the firm to scale back its ambitious growth plans. The founder later remarked that there was "no point in trying to be like

IBM when in the garage-style type of operation". In another firm, the founder had invested heavily in production capacity in anticipation of future export growth but the collapse of a distributor resulted in severe over-capacity. The founder justified that investment decision by saying:

It was very risky, but without that decision we would not be here today. We would not be able to produce a product as efficiently as we do now. We would not be able to offer to produce for people and do it on time had we not taken the risk, had we not spent the money.

The founder seemed to describe his posture as one of obedience to the growth imperative, and the comments suggest that he was a mere creature of such pressures. In contrast to the pragmatic entrepreneur, this entrepreneur did not perceive the risks associated with growth to be very high. In a third firm, rapid growth led to high marketing overheads and high R&D costs, costs that proved difficult to cover when the company experienced a downturn in demand.

Crisis was also externally generated, and it arose primarily from environmental shocks. The type of crisis seemed to be associated mainly with the pragmatic entrepreneurs (although the charismatic entrepreneurs were also affected by environmental change). One firm was affected by a severe currency crisis. Another firm experienced cash flow problems due to falling sales in a more competitive domestic environment, gradual change in customer tastes and the sudden collapse of a distributor in the UK market. Another firm experienced problems shortly after start-up due to the recession, bad debts and the growing price consciousness of clients.

The following section describes the changes that took place in the companies as a result of crises.

Table 10.5 Crisis and its Ramifications for the Firm

Type	Pre-crisis	Post-crisis
Charismatic and Pragmatic	Casual approach to financial planning	Greater attention to financial planning
Charismatic: change in mentality	More risk-prone: Focus on fast growth and on new opportunities	More risk-averse: Focus on survival
	Why not? Is this desirable? Experimentation: what might happen? Centralisation of power	Why? Is this feasible? Experience: what happened in the past? Power sharing

Pragmatists and Charismatic Entrepreneurs: Greater Attention Paid to Financial Planning

Crisis had financial ramifications for both the pragmatic and charismatic entrepreneurs. Many entrepreneurs faced common problems such as cash flow

problems, poor credit control, bad debts and lack of proper budget control. In the aftermath of crisis, they were forced to think carefully about the allocation of scarce resources. One individual remarked that after the crisis, there was more planning and more research into prospective customers. Another founder remarked that keeping control of finances was "the most important thing". A founder of a different firm suggested that in the early days their approach to financial planning was lax and that needed to change: "we were a little bit shaky on the financial side. It was a little bit fingers crossed as well". The comment of the following employee highlights the positive aspects of the crisis episode:

Even though it was a bad period for the company, positive aspects emerged. The company has become far more contemplative. It has become far more prudent about how money is spent. R&D expenditure is now planned a year in advance. Now we can ride it (the product life cycle) out much better because a secure financial base is there.

Charismatic Entrepreneur: Change In Mentality

Learning from crisis emerged as a strong theme. The optimistic, risk-taking mentality of the charismatic entrepreneur gave way to a more cautious outlook on life. One charismatic founder claimed that he was a "total optimist" but that quality had been "battered out of him" due to crises. The priority placed on survival rather than on fast growth was evident from the conversations with the entrepreneurs. One founder talked about the "broken spirits" of entrepreneurs who had to struggle to keep the business going. He remarked that:

In most entrepreneurial companies, the struggle for survival cramps the opportunities to be innovative. You need comfort and resources.

The study suggests that entrepreneurs became more aware of the implications of their actions and more likely to draw on experience of crisis. In the aftermath of crisis, the charismatic entrepreneurs had to spend more time communicating with, explaining and justifying their actions to key stakeholders. A manager remarked that the founder had numerous business ideas, but it was their role to assess the ideas strategically and select the ones that were viable. One entrepreneur gained an important lesson on the nature of power:

Power is the big thing. Power to do what you want is dependent on a single issue, making profit, and if you are not making profit then everything you do is wrong

Crisis resulted in a loss of credibility for the founders since it was linked to mismanagement and exposed their weaknesses. For instance, one stakeholder noted that the founder acted imprudently and that it was a bad idea to extend so much credit, far in excess of normal credit terms. After the crisis, the distributor took a 51 per cent share in the business and this gave them control over decision

making. They brought new skills into the business and spearheaded change. The following words and phrases illustrate the influence of the majority shareholder: "controlling factor on our risk-taking", "restraint", "strategic-based approach", "more prudent". Stakeholders began to realise that the entrepreneur had certain strengths (i.e. generating ideas for new products, finding new markets, dealing with customers), but that their commercial weaknesses became more apparent after the crisis. One founder claimed that he had a great interest in new technologies and new ideas; however, he realised that attempting to grow the business in several different areas would probably lead to failure. He remarked:

I think I need to be harnessed at times. You need to harness what I am trying to do, to prioritise things and focus on particular products that can be successful, focus on things where there is a market for them, rather than a shot gun approach with many targets.

One employee remarked that if his actions were not in the best interests of the company, then it was up to the people around him to talk to him and be honest with him.

DISCUSSION AND CONTRIBUTION TO LITERATURE

The Entrepreneur

This study contributes to the literature on entrepreneurial traits and typology. In this study, the terms 'charismatic' and 'pragmatic' were used to describe two different types of entrepreneur. Although it is widely acknowledged today that there are several types of entrepreneur (Hornaday, 1990; Chell and Haworth, 1992), few of these studies attempt to link personality to strategies pursued by the founders and their planning styles. This study seeks to defy the notion that entrepreneurs are not orientated towards planning. The pragmatic, careful and rational type of entrepreneur proposed here is different from the classical entrepreneur, an individual (Kets de Vries, 1990; Bhidé, 1994) who is rarely a strategist acting according to rational principles. In everyday language, the term 'charisma' refers to a personality trait such as charm, allure, appeal and magnetism. Charismatic leadership theory (Trice and Beyer, 1993) has progressed beyond trait theory and it encompasses many elements, such as traits, behaviour, company performance and cultural ideologies. Charisma can also characterise organisations, such as direct selling organisations (Biggart, 1990). The term 'charisma' can refer to a type of social order, to a large-scale social system (Weber, 1961). Charismatic social orders are based on a belief in a rare, extraordinary leader such as a messiah or hero. Although the charismatic entrepreneurs are not charismatic in the sense Weber (1961) described, they do have disciples or followers, notably customers, managers and investors, who place their trust in the individual rather than in a formal strategy, or written document. The charismatic entrepreneur seems to engage with stakeholders on an emotional level instead of us relying solely on logic, reason and plans.

For many writers on the entrepreneurial personality (Gasse, 1977;

Brockhaus, 1982) personality traits are fixed and static and little attention is devoted to how entrepreneurs change over time. This study contributes to the minor, but growing literature on learning, (Gibb, 1997; Perkins, 1994) by suggesting that the risk-taking propensity of the charismatic entrepreneur changed over time. They learned about the financial risks, the risk of developing new products, the risk of diversifying into different areas. Risk-taking is not just a function of personality but seems to be shaped by the experience of crisis.

Crisis

This study adds to the growing body of literature on crisis and provides an insight into the impact of crisis on company strategy. In the literature, crisis has been extensively examined, in particular, the sources of crisis and its ramifications for the organisation (Cahill, 1977; Hedburg, 1981; Nystrom and Starbuck, 1984; Perry, 1986; Pitt, 1989; Chowdhury et al., 1993; Hendry et al., 1995). Writers propose that crisis can stimulate the entrepreneur to think and plan strategically (Aram and Cowan, 1990). Cahill (1977) concluded that the firm's context and internal circumstances seemed fundamental to understanding the issues. Greiner's (1972) growth model predicts that a firm will face four types of crisis: crisis of leadership, crisis of autonomy, crisis of control and crisis of red tape. However, life-cycle models (Greiner, 1972; Flamholtz, 1990) have been criticised for their overly general nature – they assume that all founders experience the same development pattern and are confronted by the same issues and crises. Hendry et al. (1995) argued that the root cause of crisis was the entrepreneur, whose dominant personality resulted in a reluctance to cede control and led to errors of judgement. However, studies are emerging that test conventional wisdom regarding the problems faced by the founder as the business grows (Timmons, 1999). This study revealed the existence of a pragmatic type of entrepreneur who is less likely to face these control issues, characterised by Greiner (1972) as the 'crisis of autonomy'.

AREAS FOR FURTHER RESEARCH

There is a real need for qualitative studies of entrepreneurs and strategy formation in small- and medium-sized firms. The methodology used in this study has its limitations and the findings (the typology in particular) were not definitive or wholly exhaustive and will need further scrutiny. This study proposed that the character of the entrepreneurs had an impact on the strategies formed. Future researchers could continue this line of enquiry. For instance, do charismatic founders rely more on informal, social networks and then transform them into financial networks? Do pragmatists rely more on formal networks? Do pragmatists see business start-up as an investment rather than a way of life? There is a need for a comprehensive and exhaustive study on the types of crises faced by different types of entrepreneur, their features and properties, the processes used to resolve them and content of strategies formed in relation to crises. It would be worthwhile to undertake a longitudinal study on crisis in order to explore the implications of crisis for innovation and growth.

PRACTICAL IMPLICATIONS OF STUDY

The study showed that there are different types of entrepreneur, they face different problems and some founders are orientated towards planning and detailed analysis. This has practical implications for policy advisors. The study proposed a pragmatic type of entrepreneur and this type might be more responsive than the charismatic type to state incentives and state training schemes. Certainly, trainers and advisors need to stress the importance of financial planning and control as the organisation grows. The fact that crises resulted from the failings of the charismatic entrepreneur points to the need for better management skills or a balanced management team. The charismatic entrepreneurs themselves need to be aware of the need to share power, be open-minded and willing to listen to the views of stakeholders. Entrepreneurs need to be made aware of the prevalence of crisis, the need to deal with stress, the need for support and the benefits of learning from the experiences of other founders who have experienced crises.

Author

Breda McCarthy, BBS, MBS, PhD, is college lecturer in marketing at University College, Cork. She obtained a BBS degree and MBS degree (by research) from the University of Limerick. She spent four years at the DCU Business School and obtained a doctorate degree in 1997. Her current research interests lie in the area of strategic marketing and the formation of strategy in the small- to medium-sized enterprise. She has published journal articles, cases studies, book chapters and conference papers based on her research. After obtaining a PhD, she worked as a research officer with the National Food Centre, a division of the agricultural agency, Teagasc. Prior to joining UCC, she lectured in Marketing at the National University of Ireland, Galway, and at Waterford Institute of Technology.

REFERENCES

- Allinson, C., Chell, E. and Hayes, J. (2000) "Intuition and Entrepreneurial Behaviour", *European Journal of Work and Organisational Psychology*, Vol. 9, pp. 31-43.
- Ansoff, I. (1965) *Corporate Strategy*, New York: McGraw Hill.
- Aram, J. and Cowan, S. (1990) "Strategic Planning for Increased Profit in the Small Business", *Long Range Planning*, Vol. 23, pp. 63-70.
- Berry, M. (1998) "Strategic Planning in Small, High-Tech Companies", *Long Range Planning*, Vol. 31, pp. 455-66.
- Behara, R.S. and Gundersen, D.E. (1995) "Small Business Transformation: The MEDS Approach", *Journal of Small Business Strategy*, Vol. 6, No. 2, pp. 69-84.
- Bhide, A. (1994) "How Entrepreneurs Craft Strategies that Work", *Harvard Business Review*, March-April, pp. 150-61.
- Biggart, N.W. (1990) *Charismatic Capitalism*, Chicago: University of Chicago Press.
- Bjorkegren, D. (1989) "It doesn't have to be that way". Paper presented at the Organisational Behaviour Teaching Conference, Columbia.

- Brockhaus, R. (1982) "The Psychology of the Entrepreneur", in C.A. Kent, D.L. Exton and K.H. Vesper (eds) *Encyclopedia of Entrepreneurship*, New Jersey: Prentice Hall, pp. 41-56.
- Broutthers, K., Andriessen, F. and Nicolaes, I. (1998) "Driving Blind: Strategic Decision-making in Small Companies", *Long Range Planning*, Vol. 31, No. 1, pp. 130-8.
- Cahill, E. (1977) *Corporate Financial Crisis in Ireland*, Dublin: Gill & Macmillan.
- Cameron, K. and Quinn, R. (1988) "Organisational Paradox and Transformation", in R. Quinn and K. Cameron (eds) *Paradox and Transformation*, Cambridge, MA: Ballinger, pp. 1-18.
- Carland, J., Carland, J. and Aby, C. (1989) "An Assessment of the Psychological Determinants of Planning in Small Business", *International Small Business Journal*, Vol. 7, No. 4, pp. 23-34.
- Carland, J.C., Carland, J.W. and Stewart, W.H. (1996) "Seeing what's Not There: The Enigma of Entrepreneurship", *Journal of Small Business Strategy*, Vol. 7, No. 1, pp. 1-20.
- Chandler, A.D. (1962) *Strategy and Structure*, Cambridge, MA: MIT Press.
- Chell, E. and Haworth, J. (1992) "A Typology of Business Owners and their Orientations towards Growth", in K. Caley and E. Chell (eds) *Small Enterprise Development Policy and Practice in Action*, London: Paul Chapman.
- Chowdhury, S. and Lang, J. (1993) "Crisis, Decline and Turnaround: A Test of Competing Hypotheses for Short-term Performance Improvement in Small Firms", *Journal of Small Business Management*, Vol. 31, No. 4, pp. 8-17.
- Eisendhardt, E.M. (1989) "Building Theory from Case Study Research", *Academy of Management Review*, Vol. 14, pp. 532-50.
- Flamholtz, E.G. (1990) *Growing Pains: How to Make the Transition from an Entrepreneurial to a Professionally Managed Firm*, San Francisco: Jossey Bass.
- Fredrickson, J. and Mitchell, T. (1984) "Strategic Decision Processes and Performance in an Industry with an Unstable Environment", *Academy of Management Journal*, Vol. 27, pp. 399-423.
- Gasse, Y. (1977) *Entrepreneurial Characteristics and Practices: A Study of the Dynamics of Small Business Organisations and their Effectiveness in Different Environments*, Sherbrooke, Quebec: Rene Prince.
- Gibb, A. (1997) "Small Firms Training and Competitiveness: Building Upon the Small Business as a Learning Organization", *International Small Business Journal*, Vol. 15, pp. 13-29.
- Gilmore, E. (1971) "Formulating Strategy in Small Companies", *Harvard Business Review*, Vol. 47, pp. 71-83.
- Ginsberg, A. (1994) "Minding the Competition: From Mapping to Mastery", *Strategic Management Journal*, Vol. 15, pp. 153-74.
- Golden-Biddle, K. and Locke, K. (1997) *Composing Qualitative Research: Crafting Theoretical Points from Qualitative Research*, Thousand Oaks, London: Sage Publications.
- Greiner, L. (1972) "Evolution and Revolution as Organizations Grow", *Harvard Business Review*, Vol. 50, No. 4, pp. 37-46.
- Hayashi, A.M. (2001) "When to Trust your Gut", *Harvard Business Review*, Vol. 79, No. 2, pp. 58-65.
- Hamel, G. (1996) "Strategy as Revolution", *Harvard Business Review*, Vol. 74, pp. 69-82.
- Hedberg, B. (1981) "How Organizations Learn and Unlearn", in P. Nystrom and W. Starbuck (eds) *Handbook of Organisational Design*, New York: Oxford University Press, pp. 3-27.
- Hendry, C., Arthur, M. and Jones, A. (1995) *Strategy through People: Adaptation and Learning in the Small to Medium Enterprise*, London: Routledge.
- Hills, G. and LaForge, R. (1992) "Research at the Marketing Interface to Advance Entrepreneurship Theory", *Entrepreneurship Theory and Practice*, Vol. 17, pp. 33-59.
- Hornaday, J. (1990) "Dropping the E Words from Small Business Research: An Alternative Typology", *Journal of Small Business Management*, Vol. 28, pp. 22-33.

- Johnson, G. (2002) *Address to Irish Academy of Management Conference*, Waterford.
- Kets de Vries, M.F. (1977) "The Entrepreneurial Personality: A Person at the Crossroads", *Journal of Management Studies*, Vol. 14, No. 1, pp. 34-57.
- Kets de Vries, M.F. (1990) "The Anatomy of the Entrepreneur: Some Clinical Observations", *Human Relations*, Vol. 49, No. 1.
- Kets de Vries, M.F. and Miller, D. (1984) *The Neurotic Organisation*, San Francisco: Jossey-Bass.
- Kisfalvi, V. (2002) "The Entrepreneur's Character, Life Issues, and Strategy Making: A Filed Study", *Journal of Business Venturing*, Vol. 17, pp. 489-518.
- Lambin, J. (1997) *Strategic Marketing Management*, Cambridge, UK: McGraw-Hill.
- Lee, T. (1999) *Qualitative Methods in Organisational Research*, London: Sage Publications.
- Maanen Van, J. (1988) *Tales of the Field: On Writing Ethnography*, Chicago: University of Chicago Press.
- Mair, A. (1999) "Learning from Honda", *Journal of Management Studies*, Vol. 36, No. 1, pp. 25-44.
- Miller, D. and Toulouse, J.M. (1986) "Strategy, Structure, Chief Executive Officer Personality and Performance in Small Firms", *American Journal of Small Business*, Vol. 10, pp. 47-62.
- Mintzberg, H. and Waters, J. (1985) "Of Strategies, Deliberate and Emergent", *Strategic Management Journal*, Vol. 6, pp. 257-72.
- Nystrom, P. and Starbuck, W. (1984) "To Avoid Organizational Crises, Unlearn", *Organisational Dynamics*, Vol. 12, No. 4, pp. 53-65.
- O'Gorman, C. and Cunningham, J. (1997) *Enterprise in Action: An Introduction to Entrepreneurship in an Irish Context*, Dublin: Oak Tree Press.
- Perkins, D. (1994) *Smart Schools: From Training Memories to Educating Minds*, New York: Free Press.
- Perry, C. (1986) "Growth Strategies for Small Firms: Principles and Case Studies", *International Small Business Journal*, Vol. 5, pp. 17-25.
- Peters, T.J. and Waterman, R.H. (1982) *In Search of Excellence*, New York: Harper & Row.
- Pettigrew, A. (1992) "The Character and Significance of Strategy Process Research", *Strategic Management Journal*, Vol. 13, pp. 5-16.
- Pfeffer, J. (1981) *Power in Organisations*, Marshfield, Mass.: Pitman Publishing.
- Pitt, M. (1989) "Crisis Modes of Strategic Transformation: A New Metaphor for Managing Technological Innovation", in *The Strategic Management of Technological Innovation*, University of Bath: John Wiley.
- Porter, M.E. (1996) "What is Strategy?", *Harvard Business Review*, November-December, pp. 61-78.
- Quinn, J.B. (1980) *Strategies for Change: Logical Incrementalism*, New York: Irwin.
- Robinson, R.B. and Pearce, J.A. (1984) "Research Thrusts in Small Firm Strategic Planning", *Academy of Management Review*, Vol. 9, No. 1, pp. 128-37.
- Shrader, C., Mulford, C. and Blackburn, V. (1989) "Strategic and Operational Planning, Uncertainty, and Performance in Small Firms", *Journal of Small Business Management*, Vol. 27, No. 4, pp. 45-60.
- Stewart, W.H., Watson, W.E., Carland, J.C. and Carland, J.W. (1999) "A Proclivity or Entrepreneurship: A Comparison of Entrepreneurs, Small Business Owners and Corporate Managers", *Journal of Business Venturing*, Vol. 14, No. 2, pp. 189-214.
- Timmons, J.A. (1999) *New Venture Creation: Entrepreneurship for the 21st Century* (5th edn), Irwin, Boston, MA: McGraw Hill.
- Trice, H.M. and Beyer, J.M. (1993) *The Cultures of Work Organisations*, Englewood Cliffs, New Jersey: Prentice Hall.
- Weber, M. (1961) *Economy and Society*, New Jersey: Bedminister Press.
- Wickham, P.A. (1998) *Strategic Entrepreneurship*, London: Pitman Publishing.
- Yin, R.K. (1993) *Applications of Case Study Research*, London: Sage Publications.

