

PHASES IN THE STRATEGY FORMATION PROCESS: AN EXPLORATORY STUDY OF IRISH SMEs

Breda McCarthy^j and Brian Leavyⁱⁱ.

Introduction

This paper provides a description of how strategies form and evolve in the small to medium-sized enterprise (SME). The results are based on a series of nine case studies and the methodology used involved an intensive, longitudinal, inductive and comparative case-based approach. Although the research undertaken is quite limited and exploratory in nature, a number of important observations may be drawn from the empirical evidence:

- the strategy process was planned but also emergent in nature;
- the degree of planning undertaken in the foundation phase appeared to be most influenced by the personality of the entrepreneur, the type of business and business context;
- the strategy process appeared to follow a phase pattern over time, with firms moving from an early fluid phase to a more defined phase, usually triggered by a crisis or defining episode. Therefore, the degree of planning undertaken was a function of organisational history.

This paper is organised as follows: first, a brief exposition of the literature on strategy is given; second, the research design is outlined; third, the data is presented and analysed; finally, conclusions are set out.

ⁱ Waterford Institute of Technology

ⁱⁱ Dublin City University

Conceptual background

A review of the relevant literature reveals several perspectives on strategy (Mair, 1999) and this section outlines two central perspectives which are labelled here as the rational-planning and intuitive-learning perspectives (see Table 1).

TABLE 1: A COMPARISON OF THE RATIONAL-PLANNING AND INTUITIVE-LEARNING MODELS OF STRATEGY

The Rational Planning Model	The Intuitive Learning Model
Organisation is guided by a formal plan	Organisation is not guided solely by a formal strategy and strategy may be deliberate and/or emergent in nature.
Focus is on the external environment: characteristics of the industry and the market	Focus is on the internal dimensions of the organisation: politics, culture, learning, organisational history, leadership.
Linear model of strategy formation	Non-linear model of strategy formation
Decision-making: hierarchical, top-down.	Decision-making: top-down and bottom-up
Rational	Rational and emotional
Adaptive	Inventive
Voluntarist	Neither overly voluntarist nor overly determinist

The treatment of strategy in the small firm literature: the predominance of the rational planning model

Traditional thinking on strategy tended to define it in terms of planning and plans and the quest was to arrive at the optimum strategy for a given context. Plans were based on a linear model of decision making (as described by Chaffee, 1985), and the planning process was divided into two main stages: strategy formulation and implementation (Ansoff, 1965). The formulation of strategy was seen as the pre-

serve of top management (Chafee, 1985) and was a rational exercise, involving the objective analysis of company resources and the external environment. The planning model of strategy focused on the linkages between the external environment and the organisation (Fahey and Christensen, 1986) and achieving 'strategic fit' was an important goal for strategists. Consequently, sophisticated techniques were developed to aid managerial decision-making. These included portfolio analysis (The Boston Consulting Group, 1973; Day, 1977), the PIMS model (Schoeffler et al., 1974), the General Electric market attractiveness-business position matrix (Rothschild, 1976), Porter's model of industry attractiveness (Porter, 1980) and product life cycle theory (Polli and Cook, 1969). Great faith was placed on the gathering of 'hard' factual information for planning and control purposes. The planning model was adaptive in the sense that it suggested that the organisation had to continually strive to keep up with an environment that moves ahead of it (Hamel, 1996). Certain writers (Huff and Reger, 1987) have presented the planning school of thought as voluntarist in nature, giving the impression of well-informed leaders choosing between clearly articulated alternatives (Huff and Reger, 1987).

According to Hanlon and Scott (1995), the dominant perspective in relation to strategy in smaller organisations has been the rational planning model. Planning is often seen as the key to company success (Bamberger, 1980; Timmons, 1978; Leidecker and Bruno, 1986; Monck et al., 1988), since it reduces uncertainty, it ensures that alternatives are considered and assists managers in dealing with investors (O'Gorman and Cunningham, 1997). Researchers suggest that planning is contingent upon the nature of the business (Murray, 1984; Berry, 1998; Monck et al, 1988) the skills of the owner-manager and his or her predisposition to planning (Carland et al., 1989), company size, and stage of development/life cycle stage (Robinson and Pearce, 1984; Scott and Bruce, 1987). Murray (1984) has argued that, at least in a high-cost, high-risk situation, the emergent, 'learn as you go' process is not an appropriate entry strategy for entrepreneurs. A survey by Berry (1998) of 257 companies found that small high-tech firms do use strategic planning to direct their long-term growth. However, it was found that the planning processes become more sophisticated as firms grow. Other authors have questioned the value and applicability of strategic planning for the small firm (Bhide 1994; Patterson, 1986). For instance, lack of financial resources and constraints on management time are seen as obstacles to strategic planning (Patterson, 1986). It has been argued that strategic planning loses its meaning in a dynamic environment, where innovation, flexibility and responsive-

ness to perishable opportunities are key conditions for survival (Mintzberg, 1979). In other words, in a truly novel situation strategy can actually be 'made up as firms go along' (Weick, 1993, p. 2). Carson et al. (1995) found that most entrepreneurs use neither formal planning nor strategy. Others (Colleran, 1985; Thompson, 1999) have, however, argued that entrepreneurs require the ability to think and act strategically. The majority of researchers view formal planning as a necessity while acknowledging that planning in small firms tends to be different from that of large firms (Carson and Cromie, 1989).

Within the rational planning school of thought, attempts have been made to identify the types of strategy associated with high growth SMEs (Covin, 1991; Smallbone et al., 1995). In general, the niche strategy (Broom et al, 1983; Miles and Snow, 1978) is seen as the accepted norm since it enables entrepreneurs to conserve resources and avoid direct confrontation with large firms. Managers have been advised to pay special attention to the development of new products and markets (Smallbone et al., 1995), to compete on the basis of product differentiation, innovation, high product quality, and to exploit the unique strengths of the small firm (Murray and O' Gorman, 1994). Boeker (1989) proposes that making the correct strategic choices at start-up is crucial since investments made in people, technology and fixed assets cannot be easily altered. Researchers (Covin and Slevin, 1990) have also explored links between the environment, strategy and performance. Sandberg and Hofer (1987) concluded that small firms should enter industries in the growth stage, or industries characterised by heterogeneous demand, supply shortages or evident dis-equilibrium. Studies in the planning school of thought, while valuable, tend to embody an explicit, normative model of the strategy process. Strategy formulation is assumed to be driven by the owner-manager.

The treatment of strategy in the small firm literature: the emergence of the intuitive-learning model of strategy

Over the years, several writers have taken us well beyond the normative, rational planning models that have dominated the strategic management field for so long. Distinguished writers (Mintzberg, 1978; Mintzberg and Waters, 1982; Mintzberg, 1987) see strategy not so much as the outcome of point-in-time planning exercises but more as a pattern in a stream of decisions made over time. Indeed, Mintzberg coined the term 'strategy formation' to highlight the empirical reality that strategies emerge over time and are often not realised as intended. Process theorists (Pettigrew and Whipp, 1991) have argued

that a clear distinction between strategy formulation and implementation does not exist and they have highlighted the non-linear nature of the strategy process. Powerful political and cultural forces (Johnson, 1992; Pettigrew, 1977; Pfeffer, 1981) in large organisations tend to result in the convergence of planning and execution; strategies often reflect what will work in practice as much as what should be done (Quinn, 1980; Mintzberg, 1987; Pettigrew, 1987; Weick, 1987). Quinn (1978) argues the development of strategies is a process of 'logical incrementalism' (Quinn, 1978) where managers implement strategies in a purposeful but gradual manner in order to minimise risk, remain opportunistic, experiment and learn, and fashion a broad consensus for change. A study of large Irish organisations by Leavy and Wilson (1994) examined the interplay between leadership, industry context and history in the shaping of strategic outcomes and they showed how leaders might best be viewed as 'tenants of time and context'. New leaders had to deal with the strategic legacy of their predecessors, and the study found that previous decisions adopted and the changing nature of the business environment, served to constrain leadership capacity. As a result, the strategy formation process is continuous, iterative and uncertain.

Process researchers are mainly concerned with exploring the relationship between internal processes and competitiveness (Leavy, 1996). The tacit assumption in this school of thought is that strategies are not the outcome of a highly analytical and rational process. Instead, strategists (Quinn, 1978; Mintzberg, 1994; Mintzberg, 1977) need to capture 'soft' data such as feeling, intuition, vision, learning and judgement as well as 'hard' data. Several writers see the environment not as a neatly packaged, objective reality 'out there' but as an enacted and interpreted environment (Huff, 1982; Isabella, 1990; Smircich and Stubbart, 1985; Weick, 1987). Psychologists illustrate that managers construct simplified mental models in dealing with complex problems. Without these simplifications, managers would become paralysed by the need to analyse extensive data (Weick, 1979). The process model of strategy also stresses invention as well as adaptation. For example, Hamel (1996) has described strategy as a form of 'revolution' where managers can 'enact' or 'create' their own environment and challenge industry conventions. While the planning model is primarily voluntarist in nature, strategy process researchers tend to adopt an intermediate world view, by being sensitive to how contextual forces can both enable and constrain leadership capacity (Leavy, 1996; Pettigrew, 1985).

In the small firm literature, several researchers have started to focus on the internal dimensions of the firm. A study by Hanlon and Scott (1995) found that entrepreneurs were able to persuade others to 'buy into' their dream or vision which shaped the development of the firm. Another study of Bouen and Steyaert (1990), located in the resource-based school of thought, found that the values and core competencies of the firm tended to change in the growth phase. Gibb and Scott's (1985) study of small firms found that the entrepreneur's own personal judgement and commitment, together with learning-by-doing, were strong features of the strategy formation process. Not surprisingly, research in the small firm literature focuses on the personal characteristics of the founder; the entrepreneur is seen to have a crucial impact on company strategy, culture and performance (Murray, 1984; Schein, 1983; Kets de Vries, 1996; Cromie, 1994). Kets De Vries (1996) has argued that entrepreneurs are rarely strategists acting according to rational principles. Instead they are more likely to act on the basis on instinct, a master plan or vision, and impulse. Thompson (1999), however, argues that entrepreneurs possess the qualities of successful strategic leaders; they have to assess opportunities and threats in the environment and adopt strategic positions.

Several writers have highlighted the need for further research on how strategies actually form in small firms (Hanlon and Scott, 1995; Hendry *et al.* 1995; Boussouara and Deakins, 1999). For instance, Boussouara and Deakins (1999, p. 207) argue that, in the high technology context, the formulation of marketing strategies and the learning process are not understood in the literature. In recent years, the organisational learning concept has emerged as a strong theme in the small firm literature (Hendry *et al.*, 1995; Chaston *et al.*, 1999; Bousouara and Deakins, 1999). It is assumed that learning, which underpins diverse activities such as new product development, productivity, customer service, management styles, etc., is associated with firm performance. Not all studies provide clear statistically significant relationships between learning and performance (Chaston *et al.*, 1999). Hendry *et al.*, highlighted how organisational learning is often stimulated by crisis, although it has negative connotations for managers.

In summary, the treatment of strategy in the small business literature has lagged behind that of the mainstream strategic management literature. The majority of studies have been normative in orientation and firmly located in the rational-planning school of thought. Recent studies suggest an optimal strategy for all firms in a given context does not exist, due to variations in learning, culture, personalities, experiences and goals of actors within the firms.

Research questions and methodology

The literature to date remains inconclusive on such questions as the role of rational planning and the importance of intuitive-learning in the small firm context. One limitation of many studies on the smaller firm is the non-longitudinal nature of the research. There remains a pressing need to study how the strategy evolves over time beyond the foundation stage if a greater understanding of the process of strategy formation in small organisations is to be gained. The main research questions arising from the literature review are:

- What is the nature of the strategy process – it is deliberate, emergent or both? How does it vary over time and context?
- What common patterns of process, if any, are discernible?
- What is the influence of the entrepreneur on company strategy and does this influence vary over time?

This study is carried out within the Warwick contextualist framework and involves the use of a longitudinal, case-based, inductive approach (Pettigrew 1989; 1992). In approaches that are primarily inductive, like the hermeneutic/understanding tradition (Brannick et al., 1997) or the grounded theory approach (Glaser and Strauss, 1967), the identification of the research question, the conceptual framework and data collection techniques tend to proceed and develop simultaneously. Grounded theory emphasises the discovery of theory from data and research questions proceed from the broad to the more specific over time (Smircich and Stubbart, 1985). The researcher should be 'theoretically sensitised' (Miles and Huberman, 1994) but should avoid premature categorisation and remain open to the possibility of new or surprising findings. This approach emphasises the relativistic nature (Burrell and Morgan, 1979) of the social world - social entities can only be understood from the point of view of the individual not the observer. The methodology adopted has its limitations, including the difficulty in generalising from case study research (Yin, 1993). In order to minimise this risk, nine cases were chosen for investigation. Furthermore, over thirty interviews were held with entrepreneurs, managers, employees and industry representatives, in order to strengthen the reliability of the data and improve its validity.

The sample was selected using the method of convenience sampling, which is acceptable for exploratory research where it may assist in the development of hypotheses (Domegan and Fleming, 1999). The firms ranged between seven and twenty years old, with 2 to 120

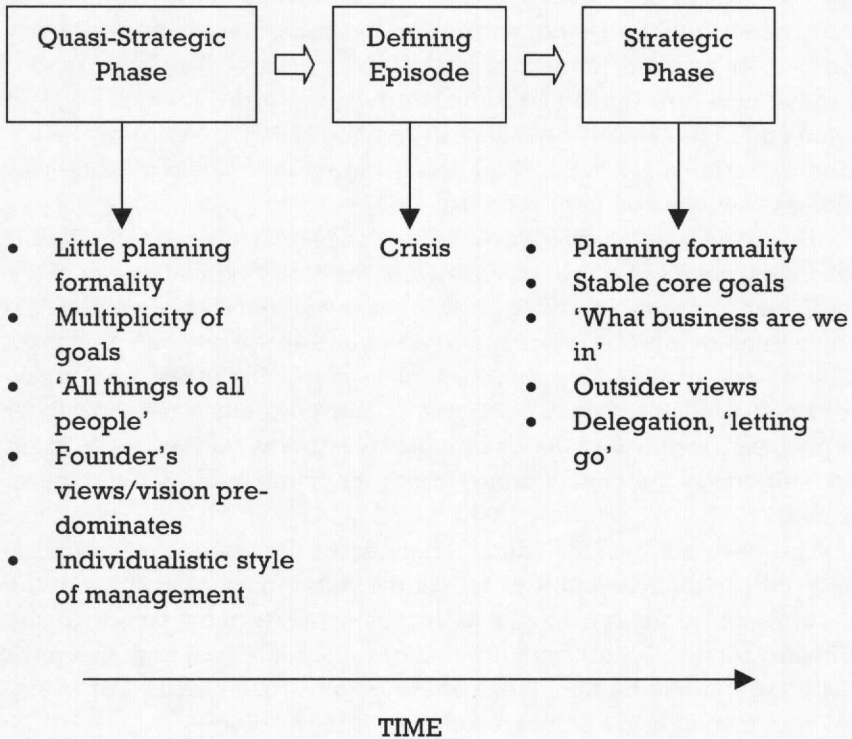
staff, and had a turnover ranging from £500,000 to over £7 million. The final list of companies that agreed to participate in the study was devised from the Kompass directory, business contacts and the mass media. Initial contact was made by letter, followed up by a telephone call, and to ensure participation, all respondents were guaranteed confidentiality and offered a business report. Informants were selected for study only if they fitted the prevailing definition of entrepreneurs as “creators of new enterprise” (Low and Macmillan, 1988, p. 141) and if the business had been in existence for five years. These criteria excluded new start-ups and early failures. Since the conceptual framework highlights context as an important variable, cases were drawn from the dynamic software sector, the mature, well-established FMCG (fast moving consumer goods) sector, as well as the graphic design, security and plastics sectors. Such case diversity can also help towards isolating strong empirical effects and improve the probability of generating insights of analytical and conceptual interest. As Pettigrew (1989, p.1.) has put it ‘. . . it makes sense to choose cases such as extreme situations and polar types in which the process of interest is transparently observable.’ Regarding data analysis, within-case and cross-case analysis was carried out along the lines recommended by Eisenhardt and other experienced case-based researchers (see Eisenhardt 1989 review).

Research findings

The results showed that the strategy formation process displayed a marked phase pattern over time (see figure 2). In general, strategy formation in SMEs did not conform in any way closely to the rational planning model of strategy. Rather, the companies seemed to evolve from an early fluid stage of strategy formation, referred to here as a quasi-strategic phase, to a stage where the enterprise became characterised by a more explicit and clearly defined strategy.

FIGURE 2: A PHASE PATTERN OF THE STRATEGY FORMATION PROCESS IN SMEs

A Phase Pattern of the Strategy Formation Process



The quasi-strategic phase:

The first phase in the strategy formation process we have characterised as a quasi-strategic phase. As shown in figure 2, this phase was characterised by little planning formality, the pursuit of a multiplicity of goals, and a very individualistic management style with the founder's views predominating.

Little planning formality

In general, the strategy formation process during the quasi-strategic phase was characterised by a short planning horizon and the absence of detailed goals; the planning process was informal in the sense that

plans often resided in the minds of the founder and were communicated to others informally. None of the SMEs studied possessed a written strategy document.

For example, one manufacturing company was set up by an engineer who had no experience in business management. The marketing manager later claimed that specific goals, such as marketing goals, did not exist in the start-up phase. In fact, manufacturing operations were described as being extremely unsophisticated, and strategy seemed to emerge through a trial and error process. The founder simply knew how much had to be produced in order to make a profit at the end of the year. One manager remarked that the entrepreneur's sheer determination to succeed and his ignorance of the risks he was taking drove the company forward.

The nine case studies revealed a range of entrepreneurial personalities; not all of whom conformed to the stereotypical image of the charismatic risk-taker. Instead the case studies also revealed the prevalence of a more pragmatic type of entrepreneur, one who typically sought to minimise risk through a more deliberate and measured management style.ⁱⁱⁱ This type of entrepreneur was more likely to prepare business plans or conduct feasibility studies, seek grant aid, sub-contract manufacturing, target the home market, and control growth.

The case studies revealed variations in the degree of planning undertaken which seemed to reflect the different personalities of the entrepreneurs along with the different contexts they faced. In the software sector, the product firms adopted a more planned approach to strategy formation than those offering software services. For example, as a manager in a software services firm recalled:

There was no strategy. They simply wanted to get enough cash to pay this month's wages . . . the company started off with a few employees, with his ideas, with what he wanted to sell, after that there was continual growth all the time to the mid 1980s . . . long term plans were not present in the initial stages.

The lack of planning in this case could be attributed to some extent to the nature of the industry environment. The same manager claimed

ⁱⁱⁱ The study revealed two main types of entrepreneurs which are discussed in detail in the article: 'The Entrepreneur, Risk Perception And Change Over Time: A Typology Approach.' IBAR, October 1999.

that industry conditions were very good at start-up and the 1980s were the time of the 'big boom in financial services'. The company started out as a software services firm and therefore management did not face the problem of attracting funds for research and development purposes. In this case, early business success was characterised by serendipity and good fortune, rather than by detailed planning

In contrast, the two software product firms faced a challenging environment from the start, which seemed to demand a more deliberate approach. The financial software entrepreneur had a formal business plan which was used as a means of raising finance to fund research and development. This entrepreneur stressed that the early product/market decisions taken were crucial and the company continued to pursue the original strategy over time. The founder remarked:

The ideas and the product were absolutely right. It was predicted with a great deal of accuracy how, firstly, the financial markets were going to advance in the next 4 to 5 years, and secondly, how technology was going to evolve. Getting that right is largely a matter of luck.

The founder seemed well aware that the environment was a constraint on the strategy formation process. He believed that a niche strategy was the only viable option for a software company due to the strength of the competition. His comments highlight the power of environmental forces over the development of the business. He chose to target the financial services market where there was a great need for both business and technical knowledge. The company developed a close relationship with its customers early so that the software product was tailored to suit their needs. At the same time, learning-by-doing was a strong feature of the company's early product development stage. The founder claimed that he did not plan in the formal sense but had informal discussions 'over a few pints'. The planning horizon was short-term rather than long-term in nature: 'it wouldn't be a case of where are we going to be in five years time'.

The founder of the second software product firm also recalled that management had a clear focus, a business plan and they were realistic about what they wanted to achieve from the beginning. However long-term planning was not a feature. As he put it in interview:

...we are not overburdened with long term planning. What's a five year plan in this business? We look 18 months ahead in a bit of detail, but that is as far we like to look.

In sum, the data indicate that there were variations in the degree to which strategy formation might be characterised as deliberate or emergent during this quasi-strategic phase. The main influences on the degree of deliberateness seems to have been the personality of the entrepreneur and the nature of the business context. In general, however, it can be seen that the strategy formation process did not, in any way, conform closely to the rational-planning model.

Multiplicity of goals: 'all things to all people'

All of the entrepreneurs stressed that getting the business off the ground in the early days was extremely difficult. From interviews, it is clear that business start-up was typically an unstructured, uncertain and highly stressful situation:

Those years were a real struggle...95% of all start-ups fail because people do not have the resources to continue. People work and work and work, they really kill themselves in an effort to achieve it...the IDA (Industrial Development Authority) throws up the same success stories all the time...the history of these companies have broken the spirits of most of the people involved...

The entrepreneurs typically needed to focus on several tasks, such as obtaining funding, producing a product, getting it to the market, negotiating contracts, etc., in order to ensure the viability of the enterprise. One manager claimed that:

At the start, you need twenty things to happen to make the business worthwhile; whereas when you achieve those twenty items, you then start to pick and choose...you can choose your goals once the business area is up an running. The company has become much more focused...

The comments of a sales manager in another company also captures this characteristic of the business:

...we tried to cover too much ground, we bid for nearly everything that moved, we would grab it.

One of the software product firms in the study was the first Irish company to install a point-of-sale system in the pub trade in Britain and Ireland. In order to prove that the technology worked, management

had to provide total solutions to customers: they were involved in developing and manufacturing products and running a sales office in an effort to maintain close contact with customers. The founder claimed that he was not very comfortable with this stage of the business; it was a high-cost, high-risk scenario; he used phrases such as 'hands-on approach' and 'fire-fighting' to explain the difficulties he faced.

Founder's views predominates; individualistic style of management

Unlike leaders of established organisations who inherit the decisions of their predecessors and who have to develop a strategy with reference to the past, entrepreneurs are in a position to 'create the history'. The early development of the ventures was influenced more by the vision, commitment and determination of the entrepreneurs than by hard facts, forecasts or plans. Not surprisingly, this was most markedly the case with entrepreneurs of the charismatic type. Founders were able to influence others on an emotional level:

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 as well. That's part of being an entrepreneur. You look at things from a positive side rather than a negative side.

Entrepreneurial visions included building a world-class reputation for Irish software, making computing power at the point-of-sale more accessible to users, proving that a small Irish firm with an import substitute product could compete against the multi-nationals. The initial business idea typically came from the founding entrepreneurs and since all had a shareholding in the business they had a significant influence over the course of its development.

In four of the case studies, employees described the entrepreneurs as charismatic individuals who played a pivotal role in building up the business. Phrases used to describe the founders were as follows: 'a driving force'; 'dynamic'; 'crazy', 'driven', 'a lot of drive'; 'very ambitious'; 'indispensable'; 'instrumental in the development of the company'; 'significant player within the computer industry'; 'charismatic type of individual'; 'vision and foresight', 'very strong'; 'well respected'. There was a suggestion that the presence of such a strong dominant entrepreneur meant that the companies were over-dependent on the founder. For example, the unique skills of one founder in the development of export markets was believed to have

been invaluable. In two other companies the entrepreneurs had unique strengths in relation to the generation of new product ideas.

The founders' style of management can be described as 'individualistic' in the sense that they had control over the venture, had a tendency to be self-reliant and were able to persuade people to believe in their vision on account of their strong personalities. One founder described his style of management as 'autocratic' in some ways. Another described it as 'people-driven' and explained that people reacted to the 'personal charisma' of one individual; another claimed that he had total control over the company and tried to do everything himself in the early days. His distributors claimed that they faced relatively more pressure from him than from others which stimulated them to promote his product.

The defining episode

The term 'defining episode' as used here describes a period of transition. In some cases it is characterised by financial crisis and change in ownership, and in all cases it signifies a significant break from the past.

The research showed that eight of the companies had experienced a crisis at some point during their early histories. Crisis typically brought the realisation among the entrepreneurs that they needed to address weaknesses in the areas of planning and financial control. The effects of crisis were both functional and dysfunctional in that considerable learning took place, but at substantial cost in business and cultural terms to the company and in psychological and emotional terms to the entrepreneurs. The following table attempts to show the change in organisational culture that took place as a company moved from the quasi-strategic to strategic phase as result of the defining episode phase:

TABLE 3: CULTURAL SHIFTS OVER TIME

Founding ideology: adventurous	New ideology: calculating
Vision, imagination	Rationality
Why not?	Why?
Unproven ideas	Proven ideas
Experimentation	Experience
What is desirable?	What is feasible?

The business start-up phase was typically characterised by vision, imagination, unproven ideas, experimentation and opportunism. However, the onset of crisis resulted in the emergence of a more cautious outlook and a strong desire to safeguard the organisation. People were more inclined to turn to hard reason, to ask 'why', to remember past experience of crisis and seek some justification for proposed plans. Planning and control procedures were put in place to prevent the re-occurrence of crisis and measures such as cash flow, credit control, productivity, market share and profit became more important. The next section discusses some of these changes in more detail.

The strategic phase

Formal planning

Through discussions with management and employees, it emerged that major change took place in the organisations over time. The strategic phase seemed to be characterised by greater planning and control, particularly of the financial side of the business. The comments of one manager clearly illustrate this point:

As we move from one stage to the another, there is a sound financial basis behind it. Looking to the future, there is a more strategic based approach to it, as opposed to say an instinctive based approach.

In another company, long-term business strategies were put into place. Management moved from a service to more product-led strategy and it became more budget-oriented and more cost conscious. In

the aftermath of crisis, management started holding formal meetings to review past performance and started to forecast the future over a three-year period. It was remarked that management became 'more prudent' and 'more contemplative' about how the business was run. Likewise, another company underwent major change; according to the sales manager:

The firm has much more formal plans now. That has to happen. We also have ISO9000 in house which has helped a lot. Planning and having procedures, rather than the 'lets go and do it' approach. Everything is formal now.

In three companies, the major priority was to ensure the continued survival of the organisation which meant that R&D/new product development plans were either delayed or not pursued at all. One manager remarked that crisis:

...makes a firm conservative, very much so...it makes you conservative as regards pushing the boat out in the R&D side

Likewise, another entrepreneur remarked that crisis 'grinds you down a bit' and it caused him to plan more instead of simply taking a risk. Another manager remarked that:

You hesitate to bring in new products unless you are 100% sure. You need market surveys which is expensive.

Similarly, another founder claimed that crisis makes some people 'want to play it safe and stick to the status quo'. A further entrepreneur recalled gaining a much-heightened commercial awareness with the realisation that power 'was dependent on a single issue - making profit.'

The emergence of a new culture was constructive in some ways but it carried the risk of leading to an undue conservatism in decision-making. This was a drawback for software product firms whose survival depended on innovation:

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

Not only does crisis deprive a company of financial resources to improve its research and development effort but it seems to create a psychological barrier to risk-taking.

New ownership, new influences

Two companies were taken over after a crisis experience. Entrepreneurs suffered some loss of credibility during periods of crisis and the crisis showed that the risk-taking role played by the founding entrepreneur was no longer appropriate. In one company, cash and credit control procedures were non-existent before the crisis episode which was described as 'very imprudent'. A manager of a second company claimed the business was 'mismanaged in some ways'. In another case, it was recognised that there was 'no point in trying to be IBM when in the garage style mode of operation'. In one case, crisis was followed by a change in ownership structure; this meant that the entrepreneur's plans had to be justified in a financial sense and it allowed people 'with different skills and competencies to integrate into the firm'. The entrepreneur was placed under 'a certain amount of restraint' and new structures acted as a 'sort of controlling factor on our risk-taking'. In another company, it was suggested that the entrepreneur's propensity to take risks could not be sustained as the company grew larger:

The art of the entrepreneur is to take a gamble, they have to deliver on that gamble...As the company gets larger, it is harder for him to put his finger on the pulse, to know just how much he can gamble...he does not take those decisions anymore.

In another company, a manager commented that crisis brought about an awareness that the organisation was now a larger entity and that jobs had to be protected.

The case histories suggested that certain entrepreneurial qualities were associated with the business start-up stage, such as risk-taking, self-reliance, enthusiasm for new ideas, and persistence. However, many of the same personal qualities seemed to contribute to crisis in the growth stage. Crisis had ramifications for the business as a whole. There was recognition that the business was mismanaged, entrepreneurs gained an insight into their strengths, their weaknesses and the advantages of a team structure. The founders' perceptions of risk in-

creased and in many cases, they deliberately sought out situations that would reduce their exposure to risk.

Delegation and letting go

The strategic phase of the business seemed to demand a change in management style on the part of the entrepreneur. The following comments of one of the entrepreneurs showed how the individualistic style of management had to change:

...letting go and letting others take the driving seat which may not fit in with the way things used to be...the emotional issue will be a lot tougher to deal with – this is my baby and I've grown it up – now just as it is about to take off and go to the next level, I'm being asked to stand aside. So that's a big issue.

In short, the entrepreneurs typically were no longer completely free to run the business as they saw fit.

Discussion

The first major point to note in relation to the literature reviewed earlier is that this study reveals that strategy formation in Irish SMEs is both deliberate and emergent in nature, and that the degree of deliberateness appears to be influenced by a number of variables; most notably by the entrepreneur, by organisational context and early history of the organisation. This seems to provide further support for the position of Mintzberg and Waters (1982) and suggests that their approach, rather than traditional normative models, presents a more empirically sound and conceptually useful way of looking at the strategy formation process in an SME context.

Mintzberg (1978) found that strategy was essentially a visionary, learning and emergent process in the early years and became more formal and planned as the organisation matured. Decision-making in the entrepreneurial small firm has been characterised as 'largely confused, chaotic, unstructured, certainly non-linear and definitely time-compressed' (Hill and McGowan, 1999, p. 7). In the literature, the recognition exists that marketing management in small firms is different due to the personalities active within them (Carson *et al.*, 1996). Birley (1982) has suggested that SMEs face specific constraints which set them apart from larger organisations such as goals based not on the analysis of opportunity but on what most appeals to the owner/manager, lack of resources or knowledge which limits deci-

sion making in respect of the selection of products and markets. Other constraints include lack of general management expertise, limited customer base (Carson, 1985), strong focus on a single geographical base and existence of powerful customers within firm's existing markets (Roper, 1999). Likewise, this study found that the crisis/defining episode acted as a constraint on the entrepreneur and had ramifications for the strategy formation process.

Life cycle or stage-of-growth models (Greiner, 1972; Kimberly and Miles, 1980; Scott and Bruce, 1987) are useful as they direct attention to changes that take place over time. These models also draw attention to the role of crisis in moving the organisation from one stage of development to another. Stage-of-growth models have their limitations; they tend to be overly deterministic and assume that all organisations ultimately pass from introduction, to growth to maturity and decline in a linear sequence (Watson, 1995). Furthermore, most of the traditional stage models primarily provide a description of internal changes in organisational structure and tend to ignore the external environment (Siu and Kirby, 1998). The patterns of strategy formation revealed here are less deterministic. Different planning styles are adopted at different stages, and this study recognises the role played by external context and type of entrepreneur in the organisation's pattern of development.

In the literature, crisis has been examined quite extensively (Miller and Friesen, 1980; Hedburg, 1981; Tushman *et al.*, 1986; Nystrom and Starbuck, 1984; Pitt, 1989; Chowdbury *et al.*, 1993; Hendry *et al.*, 1995). The dominant personality of the entrepreneur was often found to be a root cause of crisis (Hendry *et al.*, 1995) due to a reluctance to relinquish control or due to mismanagement. The most functional perspective on crisis is to see it as a source of organisational learning (Nystrom and Starbuck, 1984; Pitt, 1989; Hendry, 1995). Crisis (Greiner, 1972; Perry, 1986; Hendry, 1995) tends to trigger significant change in some or all of strategy, ownership structure, power, people or systems. In resolving crisis, the firm may create conditions that will subsequently constrain its overall degree strategic freedom. In the same way that success breeds over-confidence, failure can lead to excessive caution (Hendry *et al.*, 1995). Similarly, this study suggests that forces for continuity existed in SMEs. Organisational history may be seen to serve as a future constraint when a new 'dominant ideology', predicated on survival and rationality, emerges to supplant a founding ideology which was based on vision, risk-taking and opportunism.

Implications for research and practice

Two areas in particular should be the focus of future inquiries. The dichotomy between the planning and process views of strategy has been, and still remains, a source of controversy in the literature (Mintzberg, 1991). This study's finding that at certain times in a firm's history, the intuitive-learning mode of strategy formation seems more prevalent and perhaps more appropriate, while at other times the pursuit of a strategy in a more planned and predictable manner seems to be most fruitful, and even necessary, indicates the need to move beyond the either-or debate. A call has been made for balance and for non-dualist thinking (Mair, 1999) and even Mintzberg (1994) has suggested that both the learning and planning modes of strategy formation are required for longer-term survival. Future research might concentrate more on trying to understanding how and why firms tend to cycle back and forth between these different modes over the course of their histories; and on trying to isolate and examine the influences and conditions both intrinsic and extrinsic that tend to drive this dynamic cycle.

The second relates to the role played by crisis in the phase model. Is the overall effect largely functional? Is the accelerated learning triggered by crisis a necessary phase in the maturing of new firms or can there be less traumatic ways to bring this learning about? These are now among the most pressing issues to emerge from this study that require further research. Perhaps Chell's (1998) 'critical incident' technique might be adopted to study crisis. This technique depends largely on unstructured interviews to capture the thoughts and feelings of the respondent about a meaningful incident or set of incidents, which can be positive or negative. The main advantage of this technique is that it provides a focus for the interview, and it '...enables the researcher to relate context, strategy and outcomes, to look for repetition of patterns of ways of doing, and thus to build up a picture of management tactics for handling difficult situations.' (Chell, (1998), p. 55).

Finally, the study raises questions about the tendency of policy makers to make formal planning a requirement for public financial support to new enterprises. Bird (1988) referred directly to the importance of intuition in entrepreneurial activity. She argued that an analytic, cause-and-effect thinking process underlies formal business plans whereas much entrepreneurial activity involved vision, hunch and intuition. The findings of this study suggest that attempting to force all entrepreneurs to adopt planning methodologies will not be

productive in all cases and indeed may even be counterproductive in the case of the more charismatic, risk-seeking type. The one exception seems to be in the area of basic financial planning skills. Beyond this, what entrepreneurs may need most from policy makers is some support in trying to recognise when and how their management approach will need to change as the enterprise grows, and this agenda is about gaining emotional as well as cognitive skills and insights.

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