Strategy Formation in Entrepreneurial SMEs and Influential Actors in This Process

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Abstract

Although the strategy formation process in large companies has been extensively and deeply researched, the strategy making in SME (small and medium sized companies) is largely under-investigated by researchers. In our thesis, we find even for entrepreneurial SME owners, the process doesn’t exhibit the characteristics of comprehensive and exhaustive environmental scanning and strategic analysis. Instead, the strategy formation in entrepreneurial SMEs is a combination of systematic planning and improvisation, a combination of proactivity and reactivity. And the limited planning and proactivity is more reflected on the SME owner’s cognitive level, they are strategically aware, sensitive and flexible to any change that will affect their company and immediately know the relevant implications. Our finding is in line with Mintzberg’s insightful notion that “strategy as a pattern” and “strategic thinking”. The SME owner’s opportunistic, intuitive and emergent approach to strategy making often involves more than themselves. Families, friends, company board of directors, accountants, consultants are also influential actors participating and contributing to this process in different ways.

Key Words: Strategy formation, SME, influential actors
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1 Introduction

1.1 Why do we study strategy formation in entrepreneurial SMEs?

According to the definition of European commission, SME means a firm with less than 250 people and turnover less than 50 million Euro and can be further divided into three categories: micro firms with less than 10 people, small firms with 11-50 people and medium firms with 51-250 people. “SMEs are socially and economically important since it represents 99% of enterprises in Europe” (European Commission website: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm). While they have a dominant role in terms of absolute numbers, SMEs also contribute a lot to economic growth and employment. For example, SMEs in Europe created 58% of GDP and hire 67% of labor force (European SME report, 2007, p. 18). In terms of entrepreneurial activity, SMEs often have a dominant role in scattered niche markets which large scale enterprises (LSEs) either cannot reach economically or are not willing to enter considering the risk involved (Brouthers, Andriessen & Nicolaes, 1998, p. 135).

According to Wyant’s research (1977, p. 67), “SMEs’ failure can be attributed to management inexperience, incompetence and lack of strategy planning”. Some other researchers support this claim, for example, George & Jonathan (2002, p. 856) points out that “the focus on short-term business planning is an important factor of high bankrupt rate in the early years”. Mayer and Goldstein (1961, p. 173) concludes that “lack of systematic planning was a major reason for small business failure”.

So what is the reason behind the fact that some SMEs don’t plan strategically. Wang, Walker & Redmond (2006, p. 53) points out that “the extant literature focus on the company level such as lack of time, money and inadequate awareness and knowledge, is not the right way to approach why so many SMEs don’t make strategic plan. They suggest the researchers should also think from owner-manager perspective by dividing companies into two categories: profit maximization oriented and personal fulfillment oriented”. By relating strategic planning to ownership motivation, they come to the conclusion that “many owner-managers of SMEs do not want to grow and are happy to stay
small which highlights the truth that many businesses are not entrepreneurial and will never engage in active growth activities like strategic planning” (ibid).

Other researchers lend support to the above argument. Gibbon & Connor (2005) studies 359 Irish SMEs examining a number of organizational and individual factors influencing the type of strategy formation process adopted. Their major finding is that entrepreneurial SMEs devote more time on developing strategy than average. In our thesis, we are going to explore strategy formation in entrepreneurial growing SMEs which will narrow down our interview target groups. In our thesis, we are not concerned to all SMEs but Entrepreneurial SMEs which exhibit the characteristics of being proactive to search for opportunity, willing to take risk and having consecutive growth for a period of at least 3 years.

However, Shrader (1989, p. 52) says “it’s important to understand that SMEs are not just small versions of large firms. Their decision making process differ significantly from that of large companies”. Gibson and Cassar (2002, p. 181) further argue that “in large organizations, strategic planning is often deliberate and long term based. While in the case of SMEs, the strategy is more adaptive and short-term oriented thus results as a reactive response to particular occurrences in the firm’s operating environment”. Strategy making process has been researched extensively and deeply which results in many models and concepts while much less is known about SMEs in this field, they deserve more attention of academic researchers of how they formulate their strategy, how it operates, their advantages and problems to grow, etc.

Many studies indicate that there is a positive relationship between SME performance and its strategic planning. Schwenk & Shrader (1993, p. 58) for instance, have proved this by establishing a relationship between strategic planning and the success rate and performance of small firms. Many other studies support this perspective. For example, Perry (2001, p. 206) found that non-failed firms did more planning than failed firms; Joyce, Seaman & Woods (1996, p. 57) concluded that small firms that engage in strategic planning outperform those that do not.

By formulating a proper strategy, SMEs can make the most use of its advantages while downplaying its shortcomings. However, such process is not simple. According to Heinz (1982, p. 59) “Today most business enterprises engage in strategic planning, although the degrees of sophistication and formality vary considerably. Conceptually, strategic planning is deceptively simple: analyze the
current and forecast future situation, determine the direction of the firm and develop means for achieving the mission”. But he further argues that “the practical process is extremely complex hence demands a systematic approach for identifying and analyzing factors external to the organization and matching them with the firm's capabilities”.

1.2 Who are involved in entrepreneurial SME strategy formation?

SME, just like big companies, operates in a complicated environment. Lots of factors such as government regulation, supplier, customer, competitor, etc, have either direct or indirect impacts on SME's performance. When making SME strategy, these factors have to be taken into consideration. At the same time, in SME owner’s network, there are owner’s families and friends, members of SME steering committee (Board of Directors), accountants, auditors, lawyers, bankers, consultants, business associations, regional and national trade and economic institutions, media which are source of information and advisory. Are they influential in entrepreneurial SME owners/managers strategy formation and how do they contribute? We are going to find it out.

1.3 Research purpose and research questions

Quinn (1978) argues that the process of strategy formation is typically fragmented, evolutionary and largely intuitive and that firms' strategies evolve over time as a result of small incremental steps and decisions. David (1982) studied 200 SMEs in the state of Virginia and found that planning firm emerging from their study engaged in scanning the environment for opportunities, identifying the future through research and involving a number of organizational members in the planning process. Non-planning firms tend to be reactive to environment changes and daily operating problems they have not anticipated and make corresponding adjustments based on the knowledge, experience and hunch of owner.

In our thesis, we want to unfold the “black box” of SME strategy formation and we are trying to have in-depth analysis of what is the real practice of SME owners when they make company strategy and what support they can get and from whom in this process.

So our research questions are:

1. How do entrepreneurial SME owners make strategy for the company?
2. Who are involved in this process and how do they contribute?

2. Methodology

2.1 Theory of knowledge generation

Daudi (1986, p. 121) talks about “the fundamental paradox in studying social systems, that is in order to be able to carry out research and find out more about social interactions in organizations, researcher needs to find a better method, but at the same time, in order to find better method, researcher needs at the point of departure to know a great deal about social interactions that is going to be studied”, so when researchers study a particular subject, it’s a simultaneous assuming, exploring, learning and correcting process both in terms of method being used and reality being perceived.

We have learned from this paradox in a hard way. In the third week of our thesis project, we have read literatures relevant to our topic. Some articles are talking about why most SMEs don’t formulate strategy, some are exploring why they fail, some are discussing the characteristics of strategy in SMEs, some are trying to identify what makes strategy formation in SMEs different from that of large companies. The former researches are sporadic in terms of how SMEs form their strategies. So we suddenly got the ambition to conduct a comprehensive survey to investigate how SMEs formulate their strategy and whom do they get suggestions from. Then we spent two days to design the questions and another two days to find appropriate contacts to send our survey. Finally we got 200 Email addresses and delivered our survey hoping for their kindness to answer the survey seriously for us. Unfortunately, we only received 4 feedbacks in the next 10 days.

Now we guess there are following reasons for this small setback. First, some email address may get old since lots of SMEs have short life expectancy. Second, our questionnaire targeted owners of SMEs but on most SMEs’ website, there is only a contact email checked maybe by secretary of the owner and this SME contact person may not bother to forward it to owners email account. Third, we don’t call them to build trust and make them more willing to help us since people barely care about complete strangers. Fourth, some may think the survey link we send to them is virus link, so
they just delete it immediately after they get it. Fifth, we sent the survey just two days before the long Easter holiday.

The setbacks taught us a lot. First, quantitative research methods needs a large amount of field data, maybe it’s unrealistic to get it within a short span of time. Second, it’s naive to assume strangers are going to be supportive and the issue of trust comes before the kindness.

As the pre-understanding survey failed, as an alternative we approached and had a deep discussion with Professor Johannisson, a lecturer in Linnaeus University- Växjö and SME expert, who gave us an overview and pre-understanding on the subject. Professor Johannisson provided us insightful information and suggestions of how entrepreneurial SMEs evolve; how they work and struggle for innovation and their contribution to society in terms of employment and wealthy creation and both advisory, informational sources available for them. This discussion led to reframe and widen our understanding on the subject; hence decided to gather empirical data, by using in-depth interviews so that we can interact with SME owners to get very rich information from them about how SME owners formulate company strategy in practice, what support they can get and from whom. We also interviewed outside consultants to get their objective high-level comprehensive perspectives on this process.

Researchers, like any other people, are in fond of to be unique and impressive. Daudi (1986, pp. 122-123) believes “this kind of individuality never ceases to exist despite the most advanced constructions intended to annihilate it: each individual is a specific case with his or her own particularism, a certain will, particular interests to accomplish, a wish for a certain degree of freedom to strive for or maintain (or even to expand)”. Since researches have either concealed or revealed preference to approach issues, there is a need for them to put aside all the rules and stereotypes which are set by others and to go out in the field to actively get involved in the issues to be studied, interact with people to share their ideas and experience in order to gain thorough understanding. This useful research strategy is called participant observation. Daudi (1986, p. 126) points out “its purpose is to gather valuable primary data and reach an understanding of the meanings shared by the individuals or groups being studied”.
We are going to approach our research questions with our own participation and understanding. We try our best not to be influenced by the researchers who have gone before us thus to give the reader the independent perspective through our own lenses.

One problem concerning our thesis is the criteria of objectivity- that is not to let our preference, emotions and experiences influence the interpretation process of certain phenomenon being studied. In fact, if everyone is only allowed to see the issue with the strict rule of objectivity, the world would be identical in everybody’s eyes and obviously that is not the case. I completely agree with Daudi (1986, p. 133) that “there is no way we can escape from ourselves, not even as ‘objective researchers’”. People by its nature have different interpretations towards the same issue.

2.2 Comparison between qualitative research and quantitative research

Quantitative and qualitative studies are generally two approaches to conduct a research. There are discussions about which approach is more scientific. Jha (2008, p. 45) argues that “science is both positivistic and naturalistic in its assumptions. As long as one clearly articulate one’s assumptions about what is considered as knowledge and keep consistent in those assumptions as well as methods derived from it, it can be called scientific to the epistemological requirements”. Jha (2008, p. 43) says there are lots of arguments about which method is better, he thought both quantitative and qualitative research are scientific processes to create knowledge and he assumes no singular epistemology and no single method to acquire knowledge is superior. Researchers can determine whether qualitative and quantitative or a combination of both is most effective depending on the specific problem they want to solve thus it’s highly contextual.

2.2.1 Qualitative method

Fisher (2007) says qualitative research approaches its studying target in an interpretative and naturalistic way, trying to earn a better understanding about certain phenomenon with description, decoding and translation by most often using in-depth interviews. Chisnall (1986, p.58) considers the essence of qualitative research as a diagnostic attempt to find the problematic moments, identify hidden dimensions of issues and seek a deeper understanding of certain type of behavior. He further argues that “qualitative method provides a myriad of techniques to explain the complexities and subtleties in business and management research”. In this case, the empirical material is not the
numbers but instead it can be interviews, dialogues, observations, personal experiences, case studies, etc. Patton (1990, p. 132) defines “qualitative data as first hand detailed descriptions of a specific situation, which may involve direct quotations from people’s life stories, or people’s behaviors, beliefs, thoughts and attitudes towards an issue and also second hand data such as documents, records, letters, news papers, etc”. The main limitations of qualitative research are the conclusion of a certain investigation will remain as untested theory thus cannot be generalized.

2.2.2 Quantitative method

Jha (2008, p. 45) says “quantitative research is characterized by hypothesis-testing process. Usually the study starts from stating a theory and some hypotheses derived from this theory, then the researchers create and control relevant independent variables to examine their influence over the dependent variables”. Karami & Azhdar (2007, p. 71) says in quantitative research, the empirical data is measured by numbers, both on interval level and cardinal level. Quantitative research most often tries to establish casual relationships between concepts. Karami & Azhdar (2007, p. 71) further points out the empirical data is most often collected by questionnaires or structured observations and the sample size is much bigger than qualitative method and controlled in a way to represent the whole population of research target. The essence of quantitative method is that standardized numerical data makes comparison easy and amenable to classical statistical test and the result of one particular investigation can be universalized beyond itself. The limitation of quantitative research lies in the fact that it designs the experiment in a tightly controlled condition at the expense of the less richness of meaning that researchers can possibly get from experiment participants.

Our research purpose is to identify how entrepreneurial SME owners make their company strategies, what kind of support do they seek and from whom in this process. There is nothing to prove or falsify. Since different SME owners have different experiences and opinions on this issue, we are trying to synthesize our understandings and interpretations from those in-depth interviews. So we are going to apply qualitative research method to explore and describe the reality out there as much as possible.

2.3 Grounded theory

Patricia & Barry (1986, p. 141) says grounded theory method is a systematic methodology most often used in social sciences aiming at generating theory through analysis of data. Jha (2008, p. 45)
thinks “grounded theory methodologists belongs to the category of qualitative investigators and they are also theory builders, i.e. theory emerges from the data thus deeply grounded in data rather than being very conceptual, abstract and tentative”. Compared to hypothesis-testing approach, grounded theory is developed in a reverse way by going out in the field without a hypothesis and then researchers use descriptive words to record what they hear and see. On the basis of close involving and observation, explanations are formulated on why the phenomenon happens. The great discovery of grounded theory (Glaser & Strauss, 1967) is that researchers start from empirical level and end at the conceptual level rather than traditionally the other way around.

Strauss & Corbin (1990) think there are four stages (Code, Concept, Category and Theory) researchers have to go through in order to formulate a grounded theory. In the “code” stage, the researches should identify what kind of data they want to gather and this is followed by the second stage to sort out and group the data of similar content and property from which concepts will be abstracted. In the “Category” stages, similar concepts from the second stage get synthesized to form a theory and at last researchers use the newly developed theory to explain the subject of a particular research.

In our thesis, based on the empirical data we got from in-depth interview, we developed lots of concepts like present performance, external influence, internal influence, potential analysis, intuitive strategy making, opportunity detecting, holistic thinking, spontaneity and improvisation, continuous learning process, company resilience development, opportunities and resources, strategy and administrative mechanism. From those concepts, we abstracted four categories: strategic awareness, strategic sensitivity, strategic flexibility and strategic fit. Further we use these four categories to illustrate the SME strategy formation theory.

There are two goals grounded theory is trying to achieve (Glaser & Strauss, 1967, p. 123-125), one is to conceptualize hypotheses based on ideas sorted out and generated from empirical data. The grounded theory method doesn’t aim to seek absolute truth but to explain and conceptualize what is the reason behind particular phenomenon. The other goal is to track, identify and understand the concerns of participants in the field, and how they try to solve and get out of the problem which in turn makes grounded theory close to real practice. Strauss & Corbin (1997) argue that “grounded theory doesn’t have to pass traditional statistical test because it is a series of statements that explain
the relationship between the concepts developed from empirical data”. Consequently, he further argues validity will be measured by fit, relevance, workability and modifiability and in this sense there is no right or wrong issue for grounded theory because it is only the matter of “to what extent this theory fits into the representing case”, “how much it’s relevant to participant’s concerns”, “ Is the theory able to explain the how the participant’s problem got solved “ and “ is this theory modifiable when new empirical data is gathered”.

By applying grounded theory methods, we successfully find the answers to our research questions. Of course it is not absolute truth but the answers can meet the requirements by fit the reality, being relevant and workable to shed light on SME strategy formation issue and also modifiable with new empirical data gathered.

2.4 Comparison among analytical view, systems view and actors view.

2.4.1 The analytical view:

Arbor & Bjerk (2009, p. 55) say “the analytical view is high dependent on the existing theory and a number of techniques which makes verification and falsification of stated hypothesis possible”. It assumes the reality is a fact that can be described as consisting of summative components. “The view’s assumption about reality leads to ‘the greater the number of proven cases, the stronger the explanation’”(Arbor & Bjerk, 2009, p. 55). The fact that reality is seen as factive and summative thus independent of its observers leads to a cause-effect relation which means that an event either must lead to another event by necessity or with a certain probability (Arbor & Bjerk n, 2009, p. 57). So the descriptions and explanations of reality are general and absolute, usually with representative cases. When studying new problems, the researcher/ consultant/ investigator can build on existing theory, especially in contact with the research front for the problem area in question. However, new results may falsify earlier results. It means the explanation is only factive in a certain span of time.

2.4.2 The systems view:

Arbor & Bjerk, (2009, p. 63) say “the systems view needs existing systems theory as a point of departure, which, however is not used in the same way as theories in the analytical view because the
systems view assumes that the whole in reality are more than the sum of its components”. For this reason, researchers with this view draw analogies with relevant existing systems theory based on similarities in structure and combine them with other findings (Arbor & Bjerk, 2009, p. 67). The knowledge produced is dependent on system, which means the description of reality consists of pictures of systems. These pictures, however, are normally not regarded as general but as valid only for specific systems classes. The result is explained by the purpose behind the driving force, so researchers with this view are reproducing finality relations by both explaining and understanding a particular result with a structural pattern.

Systems reality is assumed to consist of components that are often mutually dependent on each other and the structure of these components brings about synergistic effects (Arbor & Bjerk, 2009, p. 58). “So the results yielded by the systems view are structural models or representative interpretations delivered by creators of knowledge” (Arbor & Bjerk, 2009, P. 57). And this in turn leads to typical cases and certain general classification mechanisms for different kinds of cases. When studying new problems, the creator of knowledge is relatively free to draw analogies. However, these analogies must be adapted to the specific case which could mean a rather unique picture of the new system (Arbor & Bjerk, 2009, p. 67).

2.4.3 The actors view:

Arbor & Bjerk, (2009, p. 67) says “the actors view differs markedly from both the analytical and the systems view because it assumes the reality exists only as a social construction, which means it depends on observer’s own interpretation and understanding while the other two views assumes the reality is factive and independent of its observers”. The socially constructed reality consists of different levels of meaning structures. Human being and reality stand in a mutual dialectic relation to each other. This assumption of actors view means that situational contributions from previous actors’ research can only be considered as experiential material. Reality is thus regarded as consisting of a number of finite provinces of meaning that are shared by a certain number of people. The parts that are held in common by the group can be called an objectified reality which is not objective in the sense of the other two views (Arbor & Bjerk, 2009, pp. 144-149).
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Arbor & Bjerk, (2009, p. 67) say “various meta-theories give general starting points for the function of human consciousness and the social constructions of reality. The reality is understood through the knowledge creator’s development of understanding in interaction with the other actors in relation to different levels of meaning structures”. So this conceptual meaning is largely based on how different actors perceive, interpret, and act in reality. Through the understanding sought for, our knowledge of those processes that socially construct reality will grow. Arbor & Bjerk (2009, p. 60) further argues the result of actor’s view is presented in various forms of descriptive and idea-typified language and by emancipatory interactive action out in the field. The researchers will over time develop something we might call craftsmanship in creating knowledge, craft as creative activity instead of a repetition of routines, which will be helpful in dealing with new problems (Arbor & Bjerk, 2009, p. 75).

After reviewing literatures on SMEs’ strategy formation and what support and from whom they can get, we find there is no universal way to formulate strategy in SMEs. Further, the type of support got by SME owners can vary to a large extent. Given the context, conditions and circumstance contingent nature of SME strategy formation process and the lack of general theory to summarize and explain this process, we decided to use actors view. Because the analytical view is highly dependent on the existing theory and a number of techniques which makes verification and falsification of stated hypothesis possible (Arbor & Bjerk, 2009, p. 55), for our research topic, there is no existing SMEs strategy formation theory to verify or falsify and we are not seeking general and absolute truth on this process either, so analytical view doesn’t fit our purpose. As for systems view, it tends to draw analogies to existing theories and tries to build relations among different factors to construct a whole system (Arbor & Bjerk, 2009, p. 67). In our thesis, there is no good analogy to draw to existing theories and we don’t know what exact factors that impacts SMEs strategy formation thus we don’t think we can construct a system to conceptualize this issue. Unlike analytical view and systems view which are dependent on existing theories and independent of observers, actors view perceive knowledge as socially constructed and high dependent on actors (Arbor & Bjerk, 2009, pp. 144-149). There are lots of ambiguity, confusion and uncertainty in forming SMEs’ strategies, by taking actors view, we can be creative to use descriptive languages and objectified understandings to demonstrate this SME strategy formation process as well as the support and sources of support in this process. Furthermore, actors view also brings us flexibility to
observe how SME owners and consultants behave and react to changing circumstances under particular context since there is no absolute and objective reality (Daudi, 1986, p.133).

2.5 Comparison among interview, conversations and dialogues

2.5.1 Interviews

Bjorn, (2007, cited in methodology compendia, p.2) said “the main purpose of the interview is to collect the factual data of an objective kind and to get a mirror reflection of the objective reality which means the knowledge got from interview is not influenced by any individual. The idea is to set up a communication channel to transfer objective information from respondent to interviewer. The basic assumption is there is an objective factual reality to be mapped out. The researcher’s task is trying not to influence the interview in any distorting direction. A possible metaphor would be drawing a map”.

2.5.2 Conversations

Bjorn, (2007, cited in methodology compendia, p.3) argues that “the main purpose of the conversations is to collect subjective factual data, to get a more complete reflection of the subjective reality. Unlike interview, where the data collected can be compared to other materials, this subjective reality could be called private and cannot be validated from other information sources. The idea is to get other people’s personal feelings, opinion and interpretations, etc. The basic assumption is there is an experience of factual reality which is accessible. The researcher’s task in this case is to get those who participate in the conversation to open themselves and to convey their subjectively factual thoughts and understandings. A possible metaphor could be to fish or to mine”.

2.5.3 Dialogues

Bjorn, (2007, cited in methodology compendia, p.3) pointed out that “the main purpose of the dialogues is to get meaning and significances in the co-actors’ language and cultural worlds. The content got from dialogues cannot be seen as objective but as objectified, which belongs to typified language categories that are treated as objective even though they are not. The idea of the dialogue is
to create a forum for further co-creation of the social reality in a direction of interest to the researcher. Its basic assumption is that all meaning is socially constructed and there is no reality beyond this meaning. “The researcher’s task here is, apart from the other participants in the dialogue, not only to be an actor but also to be an observer- observactor” (ibid). That entails research to be both inside and outside the dialogue at the same time which demands a good level of skills”.

To summarize Bjorn, (2007, cited in methodology compendia, p.4) said “by dividing face to face research to three sub-categories and giving them different labels can provide better understandings of their possibilities and limitations for the researcher. In practice, it is difficult to know what a mix of different research methods means until we understand the meaning of different parts in this mix. So applications of face to face research is never as pure and simple as above discussed, it depends on researcher’s conscious and discretionary choice”.

In our thesis, we use in-depth interview; we prepare some questions before hand as guidelines for us to talk with SME owners and consultants, but we always reach beyond those guidelines. In practice, we feel it’s more like dialogues since we are actively involved in the topic we discussed and we contribute our own thoughts and opinions in the interaction with participants.

2.6 Limitations

We only interviewed a small number of SME owners and consultants within Sweden. And in our research, we don’t take into consideration macro factors such as culture difference, the level of economic development, the average level of education, etc. So the results we have found in this thesis cannot be universalized to any context without a second thought.
3. Literature review

3.1 Strategy theory in general

The term ‘strategy’ was first used in relation to military operations to distinguish the art of conducting a war from the task of directing individual battles. The first book on strategy is believed to be “The Art of War” written by Sun Tzu about 400 B.C. (Sun Tzu 1971). However, since then, the term has been extensively used in the field of management. And of course as management is both an art as well as science, it is not surprise that various concepts used in building management theory have been derived from the practical experience of managers in various contexts. Hence, there is no singly agreed definition of strategy. In this respect, before we proceed to strategy formation, we shall briefly review the definitions of strategy by some of prominent subject contributors between 1962 -1996.

Chandler, (1962, p.30) defines strategy as: "The determination of the basic long term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out this goals".

Learned, Christensen, Andrews, and Guth's, Business Policy: Text and Cases, (1965, p. 17) define strategy as the pattern of objectives, purposes or goals and major policies and plans for achieving these goals, stated in such a way as to define what businesses the company is in or is to be in and the kind of company it is or is to be.

William F. Glueck (1976, p.15) defines strategy as “A unified, comprehensive and integrated plan designed to ensure that the basic objectives of the enterprise is achieved”.

Steiner and Miner (1977: p7) define strategy as:

The forging of company missions, setting objectives for the organization in light of external and internal forces, formulating specific policies and strategies to achieve objectives, and ensuring their proper implementation so that the basic purposes and objectives of the organization will be achieved.
Arnodo C. Hax and Nicolas S. Majluf (1988, p. 101), state that strategy can be seen as a multi-dimensional concept that embraces all the critical activities of the firm, providing it with a sense of unity, direction, and purpose, as well as facilitating the changes induced by its environment.

Kenneth Andrews, long-time Harvard professor and editor of the Harvard Business Review, published the first edition of The Concept of Corporate Strategy in 1971 and updated it in 1980. He defines strategy in his 1980 edition as: “the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals, and defines the range of businesses the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities.”

Michael Porter, another Harvard professor, in the publication of his 1980 book, Competitive Strategy, narrowed down and defined strategy on the basis of competitive strategy as “a broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals.” (In contrast with the wider definitions, Porter’s is much narrower, focusing as it does on the basis of competition).

In 1994, Henry Mintzberg professor of management at McGill University, took the entire strategic planning establishment to task in his book, “The Rise and Fall of Strategic Planning”. As a result, Mintzberg (1994, pp. 23-25) declares strategy did indeed have several meanings, all of which were useful. He emphasizes that strategy is a plan, a pattern, a position, a perspective and, in a footnote, he points out that it can also be a ploy, a maneuver intended to outwit a competitor.

### 3.1.1 Strategy Formation

As there is no single definition of strategy and there is no single process that strategy should be made. De Wit and Meyer (2010, p.108) argue that “There are many definitions of strategy and many ideas of how strategy should be made.” They further argue that the various strategy definitions are based on two camps. Those who consider strategy as a realized course of action and those consider it as an intended course of action. However, Mintzberg and Waters (1985, pp.257-272) emphasize that the two views are complementing rather than contradicting. “Intended
strategy is what individuals and organization formulate prior to action (a pattern of decisions) while realized strategy refers to the strategic behavior exhibited in practice (a pattern of actions)” De Wit and Meyer (2010, p. 108). They further empathize that behaviors can only qualify strategic if they follow a pattern directed at achieving organizational purpose. In creation of these strategies one has to follow either of the process of “Strategy formation or Strategy formulation”.

De wit and Meyer (2010, p. 108), after strategy formulation – the next step should be strategy implementation which is putting intended strategy into action to achieve individual and organizational purpose. However, this may not always be possible for one reason or another. “intended strategy sometimes ends up not being put in practice – plans can be changed or cancelled along the way” (ibid). On the other hand, realized strategy is made through “strategy formation”, they added. According to Mintzberg and Waters (1985, pp. 257-272), the fundamental difference between deliberate and emergent strategy is that whereas the former focuses on direction and control, i.e. getting desired things done, while the latter opens up this notion of “strategic learning”.

3.1.2 The main strategy formation activities

De Wit and Meyer (2010, p.55) argue that strategic reasoning process consists of a number of cognitive activities. Some of these activities are directed at towards defining a strategic problem while others are directed at solving a strategic problem. These activities are further divided into four general categories of activities: defining (Identifying, Diagnosing), solving (Conceiving and Realizing). Those strategic activities are intended for solving organizational strategic problems in different context by strategists in order to achieve organizational goals. Each of those category of activities raises a question and demands a solution. For instance, Identification (activities asks what is the problem to be addressed), Diagnosing (What is the nature of the problem), While Conceiving and Realizing address (How should the problem be addressed and what action should be taken) respectively.

Defining:
Identifying: It is about recognizing the exact problem to be solved. To do so strategist requires to fully acknowledge the problems and the surrounding challenges. This part of the reasoning process can also be referred to recognizing.
Diagnosing: It is a part of reasoning process. Once the problem is identified, strategist required to understand the main causes of the problem and its structure. Diagnosing is synonym with analyzing and reflecting.

Solving:

Conceiving: It is another part of reasoning process which can also be referred to as formulating or imagining. In finding solution for a particular problem, strategist has to recognize that there are more than one solution for solving strategic problems. The strategist requires to knowledgeably select right solution from various options available. Conceiving is a part of reasoning process that can be referred to as formulating.

Realizing: To get expected result a solution of each strategic problem needs a concrete and well planned number of activities to be carried out. Thus, it is essential for strategist to evaluate each action and its relevant consequence in relation to the objectives pursued. In other word, each activity should be contributing to the realization of objective to be achieved.

Those reasoning process activities are carried out step by step for identifying, diagnosing, conceiving and up to the realization of the solution.

Elements of a strategic reasoning process

Source: Strategy from De Wit and Meyer (2010, p.55)
De Wit and Meyer further subdivide those four general elements of strategic reasoning process into eight basic building blocks of the strategy formation process as indicated in the figure below. We shall briefly explain each of the basic building blocks of strategic formation process according to Wit and Meyer text book on Strategy (2010, p. 109).

Source: The main strategy formation activities – Source: Strategy from De Wit and Meyer (2010, p. 109)

Strategic issue Identification activities

In problem identification stage, it is crucial to understand key related activities

- **Mission Setting**: is an important activity in identification stage of strategy formulation. In mission setting, fundamental issues relating the purpose organization to serve will be outlined with respect to what domain and under which conditions. Among others, company’s mission may include its core values, beliefs, business definitions and purpose. The mission can either be formally captured in a mission statement, or can be informally internalized in as a part of the company culture (De wit and Meyer 2010, p.110).

- **Agenda Setting**: Apart from mission of the organization which is very fundamental for dealing strategic issues in the company, there are other important factors which have positive contribution to the focusing of the organizational attention of specific issue. Among others, cognitive map of the strategist – recognition of what is relevant in terms of environmental and
developmental issues, group cultures (what is discussible and what is not), communicational and political skills of the different actors and their sources of power (De wit and Meyer 2010, p.110).

Strategic issue diagnosis activities

In this stage, managers should fully understand the structure and causes of problems and issues to be addressed. This can be done by fully assessing external and internal factors of business.

- **External Assessment:** “the activity of investigating the structure and dynamics environment surrounding the organization is commonly referred to as an external assessment”, (De wit and Meyer 2010, p.110). Both scanning of market environment and the broader environment can be considered to be part of assessing company’s outside environment. In external environment one should not only deeply understand the underlying structures of the industry under investigation but also fully identify and analyze the characteristics and strategies of each important actor such as customers, competitors, suppliers, distributors, unions, governments and financiers (De wit and Meyer 2010, p.110).

- **Internal Assessment:** Unlike external assessment which focuses on the outside surrounds of the company, internal assessments are activities intended analyze the internal capacity and functioning of the organization. Internal assessment focuses on business system in which firm creates value and the organizational system that has been intended to facilitate business system. In business system one should fully grasp a knowledge on resources and the chain of value-adding activities that enable the firm to offer a set of products and service while in organizational system it is important to gain insights on structures of the organization, the process used to control and coordinate the various people and units, and the organizational culture as well (De wit and Meyer 2010, p.110-111).

Strategy conception activities

Conceiving refers to all activities that contribute to determine which course of action should be pursued to address a strategic problem or issue. Therefore, prior to any decision one should generate quite a number of alternative strategies to select from the right option rather than hastily or intuitively concentrating a course of specific action. In this strategic stage there are options: option generation and option selection (De wit and Meyer, 2010, p.110).
• **Option generation:** it is about creation of viable strategies. Generating potential strategies gives the managers opportunities to choose a particular strategy intentionally by knowing where each option leads to its expected out-come and its consequence. In option generation each strategy option is required to be fully outlined its related activities, goals, actions, tasks, responsibilities resource allocations, milestones and performance measures as well.

• **Option selection:** can also be referred to strategic decision-making. Various options generated in relation to solution of the strategic problems should be fully evaluated in respect of the results that managers are looking for. One way of doing so is look at every option and weigh against the goals, select the most appropriate one and implement accordingly.

Strategy realization activities

The best way to fully solve strategic problem is undertaking strategic actions that can bring out the result required. Therefore, in order to realize chosen strategy, managers need undertake actions toward the expected result while controlling the performance of the organization during the implementation in order to make necessary corrections, should there be some deviations (De wit and Meyer 2010, p.111). In this part of strategic formation process action taking and performance control are briefly discussed:

• **Action taking:** to solve potential problems, it is important that activities of selected strategic option be carried out to realize the expected out-come. Actions start from setting up and putting in operational to all relevant units so that business system let organizational system functions on a day-to-day basis.

• **Performance control:** as the selective action being carried out to solve a particular strategic issue, it is essential for managers to continuously assess whether these actions are in line with strategic option selected hence leading what has been anticipated. Performance control measures can either be informal or formal (systematic and structured performance control activities). Through performance control, various activities carried out by different company’s department can be measured against targets and goals set in advance. Performance control measurements provide managers deep insights on the direction of the firm in respect of intended strategy; hence take necessary actions should there be some deviations.
There are three types of strategies:

According to Pretorius, Maritz, (2011, p. 26), there are three types of strategies, namely:

1. Intended Strategy: Planned strategy but may not necessarily be realized
2. Deliberate or realized strategies: Strategies that are intended and realized
3. Emergent strategies: Strategies realized but different from intended one

3.1.6 The Paradox of Deliberateness and Emergence

For a strategy to be perfectly emergent, there must be order (consistency in action over time) in the absence of intention about it. (No consistency means no strategy or at least unrealized strategy-intentions not met.)

Deliberate and emergent strategy (Source: De Wit and Meyer (2010, p. 114)

3.1.3 The demand for deliberate strategizing

Mintzberg (1994, p.23-25) and Hax & Majluf (1996, p. 17) argue that Deliberate strategy provides the organization with a sense of purposeful direction while Emergent strategy implies that an organization is learning what works in practice. They further add that mixing both strategies is likely to help the organization to control its intended direction and at same time encourage the learning process. Mintzberg points out that the broad outline of strategy can be deliberate while
details are allowed to emerge during the implementation process. Furthermore, in their influential article, “Of Strategies, Deliberate and Emergent”, Mintzberg and Waters (Sept. 1985, pp. 257-272) as shown in figure 2.2, mention that comparing intended strategy with realized strategy allows us to distinguish deliberate strategies (realized as intended) from emergent strategies (patterns or consistencies realized in the absence of intentions).

In real sense a firm’s realized strategy is hardly either deliberate or emergent one. And this is why Mintzberg and Waters (ibid) are in the view that few strategies are purely deliberate or emergent, but usually a mixed between the two. Of course, this is not without reason. It is in line with the basic assumption that the firm’s external and or internal environments affects the direction of the firm in respect of its goals, competitive strategy, and sometimes selling, marketing and production strategies as well. For example, if a firm is not a market leader almost any new competitive strategy brought forward by its rivals such as production of substitute products or change of marketing and selling policies will send an alarming signal to the former. Such changes from competitor strategy may demand from leaders of the respective firms to accept the inescapable realities; hence reframe their former strategy at least partially. Moreover, personal change also affects the deliberate strategy of a firm as the leaders changed. Sometimes, some restricting in the firms production factors may become eminent and finally influences the realized strategy.

Mintzber, Hax and Majluf are not without support in their views on deliberate and emergent strategy. Pretorius, Maritz, (2011, pp. 25-31) in their article on "Strategy making: the approach matters", indicate that the difference between two strategy approaches is just a matter of flexibility. According the figure below, they argue that in deliberate strategy approach both the means and the end are specified while emergent strategy approach is vice-verse as such both the end and the means are flexible. Furthermore, as can be seen in the figure below it is sometimes possible that firms pursue their strategy through consensus between the two rather than either pure deliberate or pure emergent strategies. For further details once can look at (box 1, box 2 and box 3) below.

Strategy-making elements and their relative position associated with each approach
Box 1

Henry Mintzberg, arguably one of the most trenchant critics of planning, says that planning cannot produce strategies because it is a programmatic, formalized and analytical process; it is rather what happens after strategies are decided, discovered or simply emerge.

Box 2

“Ends” can be defined as “the major, higher level purposes, mission, goals or objectives set by organizations, each of which (should there be more than one) significantly influences the overall direction and viability of the firm concerned”; and “means” can be defined as “the patterns of action which marshal/allocate organizational resources into postures that, once implemented, increase the probability of attaining organizational ends”.

Box 3

According to Parnell (2000, p. 39) first level strategies (associated with deliberate strategy) are generally governing orientated or more predictive in nature such as direction setting, first mover or contemplative as a second mover. Second level strategies (associated with emergent strategies) by contrast, are more practical and pragmatic, suggesting more specific ways in which the organization can be positioned relative to its competitors.

Sources: Pretorius, Maritz, (2011, pp. 25-31)
3.2 SME’s strategy formation theory in particular

A lot of attention has been given to the strategy formation process in entrepreneurial SMEs. Karami & Azhdar (2007, p. 31) argue that the rapid growth and success of some entrepreneurial SMEs can be attributed to their awareness and capabilities of engaging in strategic planning. There are generally two different ways of approaching this strategy formation process in SMEs. Some focused on developing theoretical framework for strategic planning upon which a scientific discipline could be based. Others make a departure by investigating strategic planning practices in entrepreneurial SMEs and try to find out a pattern beneath the seeming chaos which can further testify whether the preexisting theory is right or not. There are “Rational Model of strategy” and “intuitive learning model of strategy” demonstrating the above difference.

3.2.1 Rational Model of Strategy

Chaffee (1985, p. 93) summarizes that “traditionally, researchers pursue an optimum strategy for a given context and strategic plans are based on a linear way of making decision. It means the formulation of strategy is seen as a rational process which involves the analysis of company controlled resources and external environments as deep and thorough as possible”. The essence of this rational planning model comes from the fact that great faith and effort have been put on gathering the hard factual information for strategic planning and control. Consequently, lots of research techniques, such as portfolio analysis (also known as BCG matrix), General Electric business position matrix, Porter’s model of industry attractiveness, etc, have been developed to offer a link between organization and external environment and help managerial decision making.

Hamel (1996, p. 78) argues that the “Rational Planning Model is adaptive only in the sense that it believes only through proactive engagement in keeping up with external change, which is moving ahead of organization, can organization survive and prosper”. O’ Gorman & Cunningham (1997, p. 89) believe rational model is the key to SMEs’ success since it makes uncertainties clear, ensures all the alternatives are considered and may assist managers to deal with potential investors.
With the guidance of this model, some researchers made attempts to identify more specific strategy for entrepreneurial SMEs. For example, Miles & Snow (1978, p. 103) develop the niche strategy, which is an accepted norm since it tells SMEs to avoid direct competition with LSEs (large scale enterprises) and channel the scarce resources to less exploited market. Murray & O’ Gorman (1994, p. 181) advise SMEs should compete with Large Scale Enterprises (LSE) by product differentiation, innovation, high quality and SMEs need to do everything in their power to explore the unique strengths. Sandberg and Hofer (1987, p. 22) conclude that SMEs should enter industries of high growth rate, of heterogeneous demand, of supply shortages or evident disequilibria.

### 3.2.2 Intuitive Learning Model of strategy

Although the rational planning models have dominated the strategy making field for a very long time, over the years, several prominent researches have different insights on this issue. Quinn (1980, p. 58) argues that the strategy formation is a logical incremental process where managers formulate and implement strategies in an intended, gradual manner to minimize risk while remaining opportunistic and flexible to change. Mintzberg & Waters (1982, p. 481) see strategy not just as fixed planning efforts in the beginning but more as a pattern and organizational habit in a series of decisions made over time. Mintzberg (1987, p. 70) highlights the empirical reality that strategy emerges over time may not always be realized as intended. Johnson (1992) argue that the “powerful administrative and cultural forces often make strategy formulation and execution process entangled together which result in the fact that strategies is a combination of what will work in practice as well as what should have been done”.

The tacit assumption in intuitive learning model is that organization is not solely governed and guided by a formal strategy and strategies are not the outcome of a highly analytical and rational process; it can both be deliberate and be emergent in nature (Mintzberg, 1979, p. 585). While rational model focuses on the external environment, the intuitive learning model focuses on internal dimensions of organization, such as history, culture, leadership and human resources, etc.(Meyer & Heppard, 2000, p. 171).
3.2.3 Strategy Formulation Phases in SMEs

Based on the findings of some other researchers, Karami & Azhdar (2007, p. 36) summarize and develop “the phase theory”, which means the strategy formulation process in entrepreneurial SMEs manifested an obvious phase pattern over time. This process changes its content along the way of entrepreneurial SMEs’ development. In general, strategy formation in SME’s practices doesn’t conform in any way to the rational model of strategy. Karami & Azhdar (2007, p. 38) point out that SMEs seem to evolve from an intuitive and informal quasi-strategy formation phase to a stage where SMEs are characterized by a more explicit and clearly defined formal strategy (see the following Figure).

The first phase in the strategy formation process in SMEs is named by Karami & Azhdar (2007, p. 38) as quasi-strategic phase, features by little or no planning formality, the pursuit of multiple goals and a very individualistic style of making strategic plans with the owner’s view predominating. In the early stage of SME’s development, unlike the managers in an established company who develop a strategy influenced by the past company experience, the owners are in a position to experiment how to plan strategically and to a large extent formulate strategy based on their intuition and imagination of how strategy should be in this stage. Therefore, in this quasi-strategy phase, the planning process is very informal in the sense that the strategy is only spinning in the founder’s mind and verbally communicated to the employees without detailed goals to fight for. Karami & Azhdar (2007, p. 38) interview some SME entrepreneurs and found it was extremely difficult for them to get
on the road in the early days. It is clear that lots of business start-ups lost their way because the uncertain, unstructured nature of this quasi-strategy phase.

Karami & Azhdar (2007, p. 39) say the term “defining episode” in the phase two is used to describe the transitional period from phase one to phase three. It signifies a significant change from the past, either characterized by the SME having a serious financial crisis or by the SME successfully surviving from the early hardship. The second phase is typically characterized by opportunism, trial and errors, unproven ideas at work and half-conscious struggling. “All the mistakes that were made in this phase will result in the emergence of cautious environmental scanning and internal problems detecting”. Most SMEs in this phase experience crisis and in the struggling people become to explore the hard reason behind the undoing, to remember and learn from the experience of failure and also become aware of the importance of a guiding strategy.

McCarthy & Leavy (2000) observe three SMEs and found long term strategies were formulated as a result of in the aftermath of all kinds of mistakes, the managers developed the awareness to hold the formal meetings with employees to look back into past company performance, internal resources and external environment, thus started forecasting the future over a three years period. Karami & Azhdar (2007, p. 39) point out “a possible reason for this change could be the risk-taking role played by the founders during the former two phases may prove to be no longer appropriate and founders may also lose credibility when making wrong decision based on intuition and imagination thus it is imperative to make formal strategies beforehand as guiding principles to show the company which direction to work towards”.

3.2.4 Environmental Scanning Theory

Karami & Azhdar (2007, p. 40-41) states that the aim to scan the environment is to identify strategic factors that are going to determine the future development of the company. The easiest and most common way to conduct environment scanning is through SWOT analysis to analyze external elements like opportunities and threats and internal factors such as strengths and weaknesses. For external scanning, another frequently use model would be PEST analysis (political, economical, social and technological). And on the industry level, it needs to take into consideration the government, local community, suppliers, customers, competitors, creditors, employees, relative
associations, etc. In contrast, the internal environment of the firm is comprised of the variables within the organization itself such as corporate structure, culture and resources, core competencies.

Different researchers have different views on how many stages environmental scanning consists of, and based on types of firm and stages of development, the level of scanning complexity also varies. Fahey, Kling and Narayanan (1981, p. 36) identify three stages of scanning: irregular scanning, intermittent scanning (partial integration of activities with objectives) and continuous scanning (structured opportunity seeking).

But Jain (1984, p. 125) thinks scanning practices can be divided into four distinctive phases: the first is primitive phase with no specific effort being put into; the following is situational phase characterized by sporadic scanning (there is awareness of the need to scan but no system has been introduced to exercise it); then it is followed by reactive phase which features unplanned and unstructured activities; at last it is proactive phase with rigorous and intensive scanning practices.

Choo (1999, p. 22) states that environmental scanning involves both looking at information and looking for information. He categorized scanning into four different types: undirected viewing (exposed to massive amount of information with no specific need in mind), conditioned viewing (directs attention to selected kinds of topics and certain types of information), informal search (looks for the knowledge and understanding to probe deeper into a specific issue, but most often unstructured and unplanned) and formal search (makes a deliberate and planned effort to retrieve specific information systematically, often with structured, pre-established procedure and methodology). Choo (1999, p. 23) further points out in order to gather all relevant materials to enable informed decision making, it’s imperative to engage in all four modes of information viewing and searching.

Raymond, Julien and Ramangalahy (2001) conclude that SMEs’ environmental scanning process doesn’t necessarily evolve from stage to stage on a linear basis. It can rather bypass certain stages or reinforce scanning in another stage if situation changes rapidly. For example, when SMEs face strong threats or its operating environment becomes more uncertain and hostile, scanning tends to be more complex and elaborated than usual.
Larry, Fann and Nicolaisen (1998) find that some SMEs do include environmental scanning in three business strategy formulating processes. They summarize that most SMEs’ environmental scanning mainly conducted by owners/managers themselves. SME owners/managers consider business environment as stable and they don’t perceive traditional sources of business information from consultants, bankers, lawyers, etc. as valuable. Instead, they seek specialized information from internet and magazines and use families and friends as personal advisors.

Although some researches show that environmental scanning in SMEs are unstructured, unplanned and informal, Analoui & Karami (2003), based on their observation in many SMEs, they conclude that in many cases scanning is a mix of informal and formal practices, contingent upon the kind of information required and the urgency of need.

Finally, it has been argued by Berry (1998, p. 463) that SMEs owners’ strategic awareness to scan the environment and their perceived benefits from this process determines SME’s engagement.

### 3.3 Potential Contributors to SME Strategy formation

Chakravarthy (1997) points out the strategy process that guides business growth in larger firms has been fully articulated and debated while in Small and Medium Enterprises (SMEs) the opposite is true, hence it is yet to be understood and described by business researchers. Moreover, a number of researches indicate that entrepreneurs in SMEs plan in a unique way compared to the standard approaches in textbooks (McCarthy, 2003). Furthermore, most of strategic decisions are believed to reflect the attitudes and personal leadership of the entrepreneur. As a strategist and decision maker, entrepreneur develops the vision, mission and strategies, and implements them (Kraus, 2007). Therefore, as stated by (McKenna, 1996), owner’s personal goals and strategic orientation are likely to have a major impact on the enterprise’s strategy.

In decision-making process entrepreneurs are likely to be flexible and opportunistic. In this regards, in her famous article on Causation and Effectuation: Toward a Theoretical Shift From Economic Inevitability To Entrepreneurial Contingency, Sarasvathy (2001, p. 250) mentions that according to effectuation theory, in their decision-making process, entrepreneurs begin with three categories of the “means”: they know who they are, what they know, and who they know. That means apart from their ability in personal and firm level, their available knowledge in personal and
firm level, they count on who they know (social networks, organizational resources, social and political institutions). This phenomenon applies to entrepreneurial SME owners who have limited capital and knowledge within their firms. Apart from other things, SME owners require and look for trustable information and advisory sources to turn for advice in strategic decision-making should it be necessary. These sources are widespread from professional, business and personal sources (Burke & Jarrat 2004, p.126). Among others, owner’s family and friends, board of directors, accountants, lawyers, bankers and management consultants are important sources of information (Burke & Jarrat 2004; Voordecker, Gils and Heuvel, 2006). Below we shall briefly look at each these sources.

3.3.1 Family

Family is quite influential in defining SME strategies. As commented by Kets de Vries (1993), “80 percent of all business are family controlled, in the widest sense of the term, in that family has a significant say in the company’s strategic direction”. Regarding individual influence of business strategy (Rezsohazy, 2001) argues that managers act and look at the world through the glasses of their values. Family members are not different from this. Burke and Jarrat (2004, p. 128) argue that family values are at the center in defining business strategy and emphasize that “the family spirit will very much determine prevailing attitudes, norms, and values in the company”. And of course to some extent according Kets de Vries over 300 interviews with business executives revealed that family logic takes precedence of business reasons in respect of strategy definition (ibid). Hence, it is clear that family influence in business strategy is quite immense and it is very likely that no outside advise can be integrated with the business unless it passes through the family. However, the influence of the held family values in which most of external inputs go through before they are fully integrated in firm’s strategy does not stop firms outsourcing and seeking valuable advises from professional sources.

3.3.2 Accountants

Accountants are among most important sources of assistance available for SMEs. According to (Bennett and Robson 1999; Gooderham et al. 2004), independent researches constantly indicate that accountants are first-choice advisers to SMEs. In general ACCA, an important organ in financial regulations, recognizes how such factors are significant in success, productivity and the growth of SME, hence campaigns for fairness (Hampton, 2005).
Furthermore, Burke & Jarratt (2004, p.128) point out that “accountants have the capacity to offer value added advises in wide spectrum of management issues”. Among others, accountants, understanding the limit resource of SMEs, provide classified and timely financial reports to their clients hence lead them take necessary strategic decision in various contexts. For example accountants reveal financial status of the firm on very particular time of period and based on the available data one can forecast future income and relevant expenses as well. Despite of the apparent contributions of accountants and their proximity to their clients, some authors (Sewell, 1994; Burke, and Phelan, 1996) depict that small business practitioners believe that most of the chartered accountants do not possess skills necessary for provision of advisory services in respect of firm’s expansion.

3.3.3 Customers

Another important source for SME strategy definition is its customers. Some SMEs might choose to seek advices from their consumers rather than outsourcing it to professional service providers and inside capacity. Burke and Jarratt (2004, 128) note that “In seeking to satisfy and retain customers, firms can of course relate to the other firms as well as to end customers”, In this respect, the consumers being both intermediately, and sometimes the end users of products and services, can provide SMEs feedbacks and advises on the quality, test, substitute and cost of each product.

3.3.4 Board of Directors

To order to understand the role of board of directors in SME, basically one should reflect on Resource dependence, Counseling and controlling theories. These theories fully reflect various roles of board of directs in SME in different contexts. According to Pfeffer (1973), and Pfeffer and Salancik (1978) in resource development theory directors improve firm’s capacity in dealing with external environmental factors, reducing of uncertainty and raising funds necessary for its continuity and growth. However, motivation and cohesion, size and diversity of the board has direct relationship to its contribution to the business and should be considered.

In counseling and advisory theory, the role of board of directors in SME is very important. They are expected to be actively involved in firm’s business and create trust and personal working relationship with the CEO. As noted by (Donaldson and Davis, 1991. Peace and Zahra, 1992) board’s involvement in SMEs is based on ‘Stewardship’ and they provide expertise and skills that are not
available within the firm. Bennett and Robson (2004, p. 96) argue that the diversity of directors is likely to reduce the need of firm to seek external assistance and equally encourages openness and information sharing of the staff.

Controlling is another important theory. In this approach as noted by (Jensen and Meckling, 1976; Norburn and Birley, 1988; Daily and Dalton, 1992, 1993) board of directors inserts more effort in controlling, overseeing and evaluating the performance of the senior managers and the CEO. Through controlling board of directors limit the incentives of agent and make sure that shareholders’ interests are not compromised.

The role of directors in small firms usually substitutes the functions to be supplied by external source or by recruiting of senior managers being used in either source or counseling/advise and they are likely to improve the firm’s performance. It is also worth to mention that the more educated the owner-manager the more likely to use the external consultants (Crabtree and Gomolka, 1991; Atkinson and Meager, 1994; Wynarczyk et al., 1993). Then, if that is the case, one can argue that the educated entrepreneurs are likely to know more the needs of their firms in respect of external help and more confidence they have on the knowledge and expertise supplied by professionals. However, according Bennett and Robson (2004, pp. 95-113) it is difficult to identify and generalize the values offered by board of directors and it is likely to be depend on the managerial needs and the unique situation of each firm.

Although, the board of directors in SME plays different roles according the aforementioned theories, it is clear that they are likely to provide the SME expertise, skills and advise may otherwise be required from outside resources such as accountants, consultants, and friends.

3.3.5 Management Consultancy

George Munchus (1993, pp. 21-25) argues that experts in various fields mostly refer themselves “consultants to management”. However, those who only offer advice on the management process itself can legitimately be called management consultants. Since its earliest days, management consultancy has maintained close links with strategy and organization (Greiner and Poulfelt, 2005, p. 75). In this respect, Canback (1998, pp. 3-11) defines management consulting as “those who provide general management advice within strategic, organizational, or operational context, and who are institutionally organized in firms”. This definition is brief and to the point; yet, it does not fully
cover all the key points of management consultancy. It is also important to recognize that there is no single holistic and conclusive definition of management consulting. Therefore, further define more deeply to this term; we consider another definition which is quite comprehensive. As George Munchus (1993, pp. 21-25) notes that there is a definition which is new and has gained widespread acceptance. Munchas adds that definition is not from the consultants but rather from academia:

Greiner and Metzger (1983, p. 7) defines “Management consulting as an advisory service contracted for and provided to organizations by specially trained and qualified persons who assist, in an objective and independent manner, the client organization to identify management problems, analyze such problems, and help, when requested, in the implementation of solutions”. The authors of this definition again give another more practical definition including what management consultants do:

Management consulting is an uncertain and evolving process conducted by a foreign intruder who muddles through by performing various problem-solving activities, while trying to maintain high professional standards and still attempting to meet the needs of the client.

George Munchus, (1989, pp. 21-25) extracts a number of key points from the two definitions. Those key points emphasize the role of management consultant, whether everyone is qualified to be management consultant and the essential characteristics of management consultants. Here is list as provide by Munchus:

(1) Management consulting is an advisory service rather than decision making makers

(2) Everybody can not qualify to be advisor.

(3) Consultants’ advice should be objective and independent.

(4) Actual process of management consultant is yet to be known.

(5) Outsiders can be an instrumental in defining the problems they are called on by insiders to solve.

Both of the above definitions indicate that management consultants are truly external rather than internal in respect firms that are working with. Kubr (1996, p. 230) supports this argument by noting that “objective and independent” implies a financial, administrative, political and emotional independence from the client whom they serve for.
Brian Bloch, (1999, pp. 115 - 118) notes that “Management consulting is big business and booming in Europe and elsewhere”. In fact, it has been on the raise and successful in terms of revenue and employment. Moreover, Drucker (1979, pp. 1-5) suggests management consultancy is an extraordinary and indeed truly unique phenomenon. He further points out two reasons why the industry exists:

Management skills, techniques and knowledge are best learned through exposure to and experience with many different companies in many different industries. In this respect, typical executive is in short of such exposure. As Drucker notes, “He works with the same organization, or at most, with very few cross industry experience. He lacks exposure and cannot gain it. Nor can he simulate it.” Consultants are rather different. They work with various firms and got new exposure and replicate best practices.

Drucker observes that executives desire for objective insights into their management problems. There is an empirical research that shows clients turn to outside consultants primarily for new ideas, proficiency, impartiality and objectivity (Gattiker & Larwood, 1985, pp. 19-29). McKinsey & Company suggests the below are listed six reasons to hire an external management consultant that makes sense in many situations. They

1. provide competence not available elsewhere;
2. have varied experience outside the client;
3. have time to study the problem;
4. are professionals;
5. are independent; and
6. have the ability to create action based on their recommendations (Bower, 1982, pp. 4-6).

Greiner and Metzger (1983, p. 8) also underlined following six reasons that clients use consultants:

• they provide independence and unbiased judgment.
• they present new ideas and fresh approaches.
• they possess the ability to diagnose problems and evaluate solutions.
• they perform tasks with technical skills infrequently needed.

• they supplement present skills of staff and management.

• they implement systems and train employees.

According to Appelbaum and Steed (2005, pp. 68-93), there are also some other reasons for hiring consultants expressed by other scholars:

• The movement towards leaner and flatter management structures.

• The need for an objective review of what is happening within a company.

• The consultants act as catalyst in stimulating and proposing new ideas (McLarty & Robinson, 1998).

In this context, we can argue that management consultants are unique in respect of the contribution expected by the various business owners. Basically they provide fresh and second perspective on strategic issues in the organization. Among others, it widely agreed that they are professionals who have a great exposure of experience in their field of knowledge. For instance unlike CEOs who mostly stay in one or two firms in their whole career, management consultants work with different companies dealing different problems thus can replicate best practices. Since they are unlikely to have personal interests in the firm, they also provide independence, objective and unbiased view regarding to the selection of various options to solve firm’s operational and strategic problem.

According to Schein (1990) there are three broadly identifiable models of consultation: purchase expertise, doctor-patient, and process consultation:

(1) Purchase-of-expertise is about when clients are looking for consultants to provide independent perspective on particular challenge. At this model of consultancy, focusing of relationship between the two sides may not be an important issue as such. It is almost give and take process.

(2) The doctor-patient model – consultant is expected to diagnose clients organization problem. Due to their experience and competency and diagnostic capacities, consultants are expected to identify organizational strategic problems and respective solutions. Unlike purchasing expertise, this model calls for creation of strong and trust between client and consultant.
(3) The process consultation model regards the consultant as a facilitator. Here the consultant is expected to give the clients relevant expertise. In process consultation model both roles and tasks are different and clearly clarified. Consultants provide different perspective and alternative solution to the problem on hand while the final decision is left to client.

3.3.5.1 Success Factors for an Ideal Client-Consultant Engagement

According to Appelbaum and Steed, (2005, p. 77), there is an argument that executing process of consulting activities by consultant will affect the relationship with the client and consequently the success of the project. He further lists a number of success factors he believe will lead to favorable project outcomes:

✓ competent consultants;
✓ an emphasis on client results VS consultant deliverables;
✓ clear and well communicated expectations and outcomes;
✓ visible executive support;
✓ an adaptation to client readiness;
✓ an investment up front in learning the clients environment;
✓ defined in terms of incremental successes;
✓ real partnership with consultants;
✓ inclusion of the consultants through the implementation phase

3.3.5.2 Consulting and Client Relationship

The relationship between business advisors and client is that of delivery of business services that is knowledge based and intangible. O'Farrell and Moffat (1991, pp. 205-221) argue that business advisors/consultants primarily “supply expertise and enhance the value of the all other sector's outputs, including that of the other services”. In general and For SMEs in particular, most of the management consultants undertake dealing with some business needs that SME owners believe cannot be undertaken internally due to lack of time or knowledge or other resources. Among
others, consultants are crucial during the startup phase of SMEs whereby they give expert in terms of establishment of the firms, administrative related issues such government rules, regulation, and also preparation of Total Quality Management certificate ISO9000 for manufacturing industries. According to Professor Philippe Daudi, ISO certification is tiresome and long process in which almost all the manufacturing based firms are looking for yet they rarely have an expert within their respective firms. And that is why there are so many consultants who are specialized in ISO processing.

In consulting-client relationship, management consultants due to their independence can also provide clients to unbiased view and practical solution to some difficult tasks that are necessary for their engagement. Through their change management expertise and human resource knowledge, management consultants may engage and give viable solutions to challenging political and non-political and strategic issues on behalf of their clients. And of course with their technical expertise they do not only identify areas of improvements and innovation but also stimulate the client to change and adopt desired practices (http://www.exponentialtraining.com).

3.3.5.3 Paradoxical aspect of client and consultancy relationship

In his article on the paradoxical repertoires of management consultancy, Andrea Whittle (2006, pp. 424-436) disclosed a quite a number of paradoxes related to consultancy. Andrea asserts that paradoxes are an outcome of the many, often conflicting, interpretive repertoires (IR) used to understand management consulting and outlined them in respect of: The marketing of consultancy (advocate and advisor, interested and independent); Consulting knowledge (scientist and storyteller, bespoke and standardized); The client-consultant relationship (ally and enemy, facilitator and leader). However, for sake of convenience of this topic we shall briefly look at the paradoxical aspect of the client-consultant relationship: ally and enemy, facilitator and leader.

Ally and enemy

It is quite practical, often, to conscious enough about the relation of consultants to the power and politics in the client organization. In terms of relationship some authors emphasize that consultants, are nothing but allies and friends of certain groups (Bloomfield and Danieli, 1995, pp. 23-46; Fincham, 2002, pp.67-86), while others argue that they are a rubber stamp for company senior decision makers to enact favorable acts (Shapiro et al., 1993, pp. 89-95; Fincham, 2002, pp.
67-86; Salman, 2002, pp. 247-259). For instance, COEs may be willing to implement unpopular organization re-structuring and due to internal challenges may use consultants to legitimize it. That means instead of using other management channels, through consensus building consultants can also be used to suppress opposing ideas in the group (Fincham, 2002, pp.67-86). And of course, if that is the case, the impartiality and objectivity of consultancy services will be undermined. Others consider consultants as foe or enemy thus constitute a part of the conflicts within opposing client groups rather than the solution (Sturdy, 1997, pp. 389-413; Fincham, 1999, pp.335-351). In this respect, should that be true, consultants will have both friends and enemies within the client firm. Therefore, consultants can be both allies and enemies.

Facilitator and leader

Consultant as a facilitator or as leader is related to who defines the problem, the way of solving it, and have power to act upon (Lashkarbolouki, Panahi, and Moghaddam, 2011, pp.82-94; Werr & Styhre, 2003, pp. 43-66) consider consultants as authoritative leaders who provide expert advice and interventions to their clients. On the other hand, other researchers indicate that an alternative approach for consultants is facilitative role (Fincham, 2002, pp. 67-86). In this approach consultants are pure advisor rather than authoritative. However, one danger of the facilitative approach is that clients may over influence intervention and mislead the intended changes (Shapiro et al., 1993, pp. 89-95). In conclusion, both authoritative and facilitative positions have their own short comings in the eyes of clients. For instance, some clients may argue that consultants are too directive while others are in the extreme opposite in that they are not directive enough.

The consulting continuum
SMEs literature indicates that although SMEs often have greater need in buying external assistance than the larger firms, yet they are reluctant in doing so (Birley and Westhead, 1992; Storey, 1994). This literature also reveals that the Size of SME has more influence on engaging external consultants whereby the smallest firms mostly seek external assistant to the least extent compared the medium-sized firms which have between 50 -100 employees (O’Farell and Moffatt, 1995; Bennett and Robson, 1999). This kind of reluctance in SME in using external service (DE, 1991; Storey, 1994) lead some governments and organizations to establish public financed support system that provides SMEs consultancy services to meet their respective demand. For instance in Sweden ALMI is a respectable public finance business consultancy firm that assists SME in setting up, innovation and financing phases. Same applies to Britain. Among others TECs, LECs, Business Link, and Business Shop/connect (Bennett and Robson, 1999, p. 15) are public agencies intended to provide professional advisory service to emerging entrepreneurial SMES. These institutions together with private business consultants are important for the growth and continuity of various kinds of SMEs. For example, in the USA, Chrisman and McMullan (2000) point out that outside assistance in the very early stages of firm’s development can have a positive impact to its subsequent development. In the same vein, McGee and Swyerr (2003), in USA, found that owner-manager of newly established firms heavily rely on external sources of business assistance more than mature firms which depend on mainly their internal sources to address uncertainties (Lewis, Massey, Ashby, Coetzer and Harris, 2007, p. 553). Both examples are clear indication to what extent that SMEs need extra help and existing reluctance in which most of governments are aware of and respond accordingly by establishing publicly financed agencies to play this role. Of course, this is a positive development and good news to young entrepreneurs in various countries pursuing this policy.
These publicly financed institutions provide from general management consultancy to specialized services based on unique problems that faces various SMEs in which it is very unlikely to be solved internally for one reason or another. Basing the general perception that consultants are qualified in their field of expertise, together with their broad understanding of management, they are not only expected to provide a fresh point of view but also be able to exercise an objective and unbiased point of view (Krentzman and Samaras, 1960, p. 139). In fact, experts unequivocally advocate the use of external outsiders to small business managers, among others, in strategic planning, securing financing and day today operations (Krentzman & Samaras, 1960; Robinson, 1982). On the other hand, some researches indicate that small businesses believe that they need more help in fields of accounting, finance and marketing. However, Peterson (1984) depicts that strategic planning to be major importance to Small business managers. Peterson is not alone in his view. Chrisman & Lislie (1989, p. 39) are also in the view that although strategic issues are very likely to be of great importance, yet majority of small businesses may not recognize it. Furthermore, according to (Bruno, Liedecker, & Harder, 1987; MacMillan, Zemann, & SubbaNarasimha, 1987; Sandberg 1986) strategic factors may be as the major determinants of small business failures as management and financial resources. Thus, in this context, it is fair to argue that although SME owners-managers may concentrate on day today operational problems of their business due that their apparent effect of short-term performance of the firm, it is very likely that most of such operational problems have hidden roots of strategic problems. Therefore, it is worth to argue that provision of solutions to SMEs’ apparent operational and administrative problems with the attention of strategic consideration will likely to helpful. This is where outside management consultants with their broad understanding of management can provide assistance to SMEs. Such consultants can either be professional public appointed advisors, or work for private consulting firms.

3.3.5.4 SME Manager and Consultant Relationship

The relationship between the consultants and SME managers is not one way communication. It is rather dynamic interactive process whereby the two sides co-produce results. According to Bennett and Robson (2005, pp.255, 271) advice is primarily a process which requires an active participation and exchange of information between the consultant and clients. Such active interaction facilitates a joint production whereby the client and the consultants are co-producers. For an exchange of business advice to be successful (ibid) personal relationship must be developed to spearhead trust
between the two sides. Bennett and Robson (ibid) further emphasize that this relationship combines task-interaction between the clients and the advisor where they exchange information on problems to be solved and different options and means available.

They further state that through these interactions, clients’ capacities in terms of handling various businesses related issues are directly improved. SME manager’s management capacity is built, his knowledge base is also increased and of course his ability to cope with changes in business environment is improved. However, exchange of skills, knowledge and experience between the client and consultant is not without barriers. There are information asymmetry between the seller and the buyer which requires to be solved and the best way of doing so is to create an intensive interaction between the two sides (Bennett and Robson, 1999). As noted by (Nyar 1990; and Gallouj, 1997), this information asymmetry derived from the lack of knowledge of the client towards the characteristics and quality of service offered by the seller. However, this information asymmetry has solution. Clark (1995, Chapter 4) introduces three main remedies for information asymmetries: contractual structures, regulation (and self-regulation), and reputation or ‘brand’. In contractual structure, clients and consultant signed a detailed contract that covers specification of products expected, contingent fees, post-deliver, conditions of the performance, bonus and penalties. Regulation is about the rules and procedures set forth by the government to make sure non-biased relationship between the different sides by restricting non-qualified individuals and companies to enter the market while self-regulation are procedures, rules and regulations. Reputation and brand is another way of reducing the information asymmetry. Among other things, they are based on the relationship with clients, reputation of individuals and consultancy firms, the general image of the quality and also recommendation from third party (Clark, 1995, Table 4.2). The next section, discusses development of the relationship between SME owner-manager and consultant.

3.3.5.5 Development of SME Manager and Consultant Relationship

The relationship between SME manager and consultant needs to be gradually developed to build trust between the two sides. In part of SME manager, the expectation is that consultants add value to their firms by providing necessary skills and competencies that are not available within their firms. Apart from the technical expert, sense-making, visioning, inventing and relating are capacities that every firm is looking for to gain competitive edge against their rivals hence may lead clients to re-use the consultant’s services. However, as Maister, Green, and Galford (2000, pp.69-84) point out
in their insightful book ‘The Trusted Advisor’ that trustworthiness is the result of interrelated components: credibility, reliability, intimacy, among others. In fact, technical expertise only may not be enough in the long time relation in the absence of trusted relationship. Greiner and Poufelt (2005, pp.158-159) also mention other elements that are critical to build relationship such as high-quality work, respect of client, and trust.

Operational and Administrative Problems face owners-managers of small firms

Krentzman and Samaras (1960, p. 127) argue that owners-managers are likely to be facing an operational problem hence use most of their time in fire-fighting rather strategizing their business. To justify their arguments, Krentzman and Samaras (1960, p. 127) listed number of reasons:

· Important customer demands lower price
· New products will be soon in the market (substitute to his product)
· One important employee leaves/ or becomes sick
· Unions required a new contract from him
· Owner-manager’s demanded that she should reduce office working hours.

3.3.5.6 Reason for rejection:

Although SMEs require consultants as much the large companies (Birley and Westhead, 1992; Storey, 1994), there are quite a number of fears that lead SME owner-managers to completely decline the service or fears that at least have immense impact in their decisions of using the available consulting opportunities. Among others, Krentzman and Samaras (1960, pp. 130-133) mention: Fee Fears, Failure Fears, Wrong Man Fear, Competitive Fear, and Lost Time Fear.

Fee Fear: Executives of SMEs see that a higher fee of consultants is a main barrier for them to invite professional consultants. Before they decide to hire consultant they may consider all other alternatives that this money can be spent to their firm, for instance, they may prefer to buy a machine or one more computer instead. They may not also sure whether fees for consultancy are worth for the outcome.
Failure Fear: Executives of SMEs may consider that using external consultants is a sign of weakness and failure. Such prejudgment creates a moral dilemma on Executives’ decisions. For instance, the executives may recognize the need for professional consultants to solve some burning issues, yet they think doing so leads them to sacrifice their pride thus drop the option.

Wrong Man Fear: Most consulting firms are likely to have a convincing or persuasive person as CEOs or put him in the front line to negotiate with clients. Should the contract been signed, consulting company may assign another person rather than the one negotiated to serve the clients. Then, client may find the new person not as convincing as the previous one. Latter on the same executive may become very reluctant on hiring consultants because he might be assigned to wrong person.

Competitive Fear: Small business-owners are reluctant on information sharing. They fear that if they share specific and important information about their business with the consultant that other client of the consultants may get their secret. They only share crucial information with those consultants they can trust.

Lost Time Fear: Time is an important factor for SME owners. They may prefer to do something else they think more important instead of spending couple of hours with consultant. Krentzman and Samaras (1960, p. 132) argue that “he (small business manager) is afraid that he will have to spend a great deal of his valuable time talking with the outsider he hires”.

Another important factor to mention according to Krentzman and Samaras (ibid) is that unlike big firms, small firms are interested in hard fact on what benefit should they actually be getting from the intervention of consultant. “nearly 50% of the non-users are seeking evidence of success a given consulting firm has had in the past, so that they may relate this experience to their own situations, and in turn, select the consulting organization that will best fit them”, They add.

Among different literatures bankers, lawyers, trading institutions, business associations, social media including internet, websites, national and regional economic institutions, and professional networks, are considered to be strategically influential in SME decision-making process. Due to turbulence of its environment and its weak internal capacities, it may be inevitable for SME to seek information and advises from external resource. In this regard, various sources (Kent, 1994; Bloom, 1992;

In their research article on “the influence of information and advice on competitive strategy definition in small – and medium-sized enterprises”, Burke and Jarratt (2004, pp. 134-135) depict two tables (I & II) indicating the information sources and their contribution to strategy decisions and value of sources for strategic advices. Table I indicates different sources and what each one contributes in respect of strategy decisions. Among others, the contribution of such sources is widespread from functional advice, problem solving, sharing practical experience, provision of technical information.

<table>
<thead>
<tr>
<th>Table I Information sources and their contribution to strategy decisions</th>
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<tbody>
<tr>
<td><strong>Source</strong></td>
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<td>Accountant</td>
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<td>Buying group</td>
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<tr>
<td>Customers</td>
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<tr>
<td>Chamber of Commerce</td>
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<tr>
<td>Firm (in-house)</td>
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<td>Industry association</td>
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<td>Internet</td>
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<td>Media</td>
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<td>Networks</td>
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<tr>
<td>Representatives</td>
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<tr>
<td>Solicitor</td>
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<td>Trade shows</td>
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<td>Wholesalers/suppliers/ manufacturers</td>
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Table II further categorizes these strategic sources according to their perceived value of contribution from high-value sources to low-value sources of strategic advice. Sources in high-value strategic advice include: business associates, personal associates and promotional channels, while sources in low-value strategic advices include professional associates such as: accountants, bank advisors, business and financial advisor and solicitors.
4. Research results analysis

We use semi-structured in-depth interviews to gather empirical data. We interviewed four entrepreneurial SME owners in total, all of their companies have experienced more than three years
consecutive growth. Two of them are our friends Salman and Mohamed. Salman, 28 years old, has education background in computer science and he started an SEO (search engine optimization) company four years ago in Kalmar and now has 11 employees. Mohamed, 27 years old, has education background in finance and management control and he started a money transfer company six years ago in Stockholm and now has 18 employees. Another two SME owners David and Johan are the long term clients of Salman’s company. David, 48 years old, has education background in business administration, started a commercial real estate company ten years ago in Stockholm with a focus on warehouse and light industry properties and now employs 63 people. Johan, 42 years old, has education background in applied physics, started a traffic safety and informatics company 12 years ago with expertise on radar sensors and now has 46 employees. We will use SME1, SME2, SME3, SME4 to represent these four companies respectively.

We also interviewed one SME expert Professor Johannisson and three consultants Johansson, Athinna and Erik. Johannisson is a professor in Linnaeus University and he has a SME research center in Växjö. Johansson is currently a professor in SME research field in Linnaeus University in Växjö and former private business consultant with ten years of experience in SME. Athinna is a public consultant working in ALMI, Kalmar. She focused on raising awareness of the importance of strategy for SMEs and teaches SME owners how to formulate a strategy. Erik is a private consultant working in a management consultancy firm with eight years of experience in providing services to SMEs.

In our thesis, we consider SME owners, SME managers and CEO of SME as the same concept, and in the following analysis, we use SME owners to represent all of them.

4.1 SME owner’s approach to make strategy

4.1.1 Internal influence & External influence

All the owners tell us a big part of their time was devoted to the current project and the next potential project, formulating a competitive strategy for them equals creating more added values for their current customers and potential customers. They don’t make generic strategy that takes into consideration every possible aspect that concerns their company. The first time you ask them if they
scan the internal and external operating environment, they say “not really”. But as we probe deeper, they would tell us things like “we got more clients by improved customer service (SME2)”, “we reduced our cost by new technical advice (SME1)” and “a friend of mine suggest we should export our products to other countries (SME4)”. So they do know in their heart it’s important for them to notice changes occurred to their companies and getting something out of it.

In the interview, the majority of owners convey the idea that “company resources are almost static, opportunities are dynamic and both of them are important. Time and financial resources are often the hard constraints of growth. Finding opportunities itself is not enough, you need to find necessary resources to transform opportunity into practice”. When SME owners conceive strategy, they must consider what resources they can possibly get and rethink if the opportunities they can see are in line with the resources. If they are not fit with each other, the so-called opportunity could be a fancy trap.

4.1.2 Current performance & potential estimation

In the interview, on the surface level, we find the formal decisions SME owners make have significant impacts on the current status of their respective companies. On a deeper level, the formal ideas they have in their mind and the existing way of doing business further influence their future development. They barely pay attention specifically to this “system inertia”, but they do know what makes them get here and what is important to their future growth. “Technology, talents retention, existing service base, new business ideas” (SME1), “trust and brand building” (SME2), “company liquidity, fixed physical assets, the experience in negotiation with different clients, the ability to raise capital and quick decision making” (SME3), “personal networking ability and product innovation” (SME4). All of these factors are considered to be influential to current and potential performance of the SMEs. We sort out these factors into four different categories: the resource based factors, the experienced based factors, opportunity based factors and the control based factors.

This is also in line with De wit and Meyer’s (2010, p.110) strategy definition process. They argue that strategy definition includes identifying (mission setting and agenda setting) and diagnosing (inside and outside assessment). Because the small and simple nature of SME’s organization and business,
SME owners can easily notice what the current problem of the company and they naturally jump to diagnosing phase.

4.1.3 Intuitive, implicit strategy making & holistic thinking

SME owners make strategic decision based on the judgment and understanding of the situation by themselves with advice from their personal networks and some of them have board of directors to talk to. All the owners have strong personalities; they dare to take risk even if sometimes it’s not calculated. Strategy in SMEs is largely implicit with very little systematic strategic planning. For them, it seems that strategy comes into their mind naturally through years of practice without extra effort to make it intentionally. Usually it is an iterative process whereby they go forth and back to take every contingency into consideration and put forward measures against every scenario or prepare resources for opportunities. So we can see they are not really thinking structurally and instead they are trying to bring all the factors into consideration simultaneously. They are in a constant state of balancing “means” and “end” in order to formulate a good viable strategy for different conceived scenarios. From the interview, we notice that they all possess the ability to think holistically. They are capable of putting together every small piece of the company and analyze surroundings with instant judgments to know the implications of any particular change.

According to De wit and Meyer’s (2010, p.110) perspective, SMEs now are generating options and selecting options, but it’s their cognitive activities which only happens in their mind. The process is highly contingent on SME owner’s personality, knowledge, experience and their networks. The viability of options being generated and selected, to a large extent, depends on the judgment of SME owners and the quality of their networks.

4.1.4 Opportunity detecting & improvisation

From the interview, we see all these entrepreneurial SME owners have really good business sense. Maybe with cumulative experience, they enhanced their brain reflex to naturally detect potential opportunities. SME owners are constantly monitoring dynamic environment because they are most often orders driven rather than long term stable core business. So in order to survive and grow, they have to detect potential opportunities in the market.
In the end of the interview, when we ask four SME owners whether they think strategy helps them reduce uncertainty and works to guide their companies’ developments, we get answers like “strategy is just one side of the coin, normally with strategy communicated throughout the company, every employee knows which direction to go and what they should do. But reality is reality, things barely go directly towards the target, when we bump into opportunities, we may drop the original plan and consider about alternative strategy. The more uncertain we perceive the environment, the less planning we are going to make”. So here we conclude SME strategy formation is an ongoing process of developing alternatives, it’s not like once you formulate a strategy; it stays eternally workable. SME owners and their core employees are in a spontaneous interaction with business environment and when opportunities emerge, they will improvise in order to strike the best possible balance between original schedule and perceived change. Consultant Johansson says from his consulting experience “SME strategy formation process is a combination of systematic planning and spontaneity, a combination of proactivity and reactivity”.

Our findings proved Mintzberg and Waters’ argument that very few strategies are purely deliberate or emergent, but usually a mix of the two. We also prove that Pretorius, Maritz’s (2011, pp. 25-31) judgment that the difference between two strategy approaches is just a matter of flexibility.

4.1.5 Continuous learning process & company resilience building

During the interview, we asked four SME owners “have you ever formulated not-so-good strategy that leads your company to a crisis”. Salman, Mohamed and Johan think they never experienced strategic failure, but sometimes they do feel “you think you can implement the strategy, but actually you can’t”. Maybe there are always gaps between perceived environment and objective reality. There are always many practical issues which are out of SME owner’s calculation. They tell us “in a lot of occasions, you can never think it out; you can only find it out in a hard way by struggling against unexpected problems”.

So from the interview, we know something is unconceivable either because it’s too complicated to be known beforehand or because we are too inexperienced. SME owners are learning by doing,
conceptualizing pattern out of practice and use this knowledge and experience to formulate a better strategy.

Because strategy formation process in SMEs is also a learning process, so the entrepreneurial SMEs we interviewed exhibit varying degrees of resilience. These companies have endured lots of internal and external shocks and managed to survive. Consultant Erik says “company resilience developing and contingency conceiving are complementary to each other. If SME owners don’t think they can take every contingency into consideration and prepare for them, they’d better build a resilient company to effectively deal with disruptions”.

This trial and error approach also corresponds with Johnson (1992) argument that “powerful administrative and cultural forces often make strategy formulation and execution process entangled together which results in the fact that strategies is a combination of what will work in practice as well as what should have been done”.

4.1.6 Strategy & administrative mechanism

In the interview, four SME owners all more or less talked about “a good strategy formulated does not equal a good strategy implemented”. In the strategy conceiving process they always keep “how my company is going to implement it” in mind. We quote David to illustrate the importance of the match between strategy and administrative mechanism. He said “the administration in my company has two sides, one is hard side: company structure and the other is soft side: managerial skills. Every time I sit together with members of my steering committee to talk about strategy, we are starting from company strategy and then go all the way down to the business strategy then further to specific tactic. I am in charge of inter-departmental coordination”. SME owners at least subconsciously pay attention to how to make administration and strategy go along with each other.

Consultant Athinna says “when the company is small, the owner needs to do everything from cleaning to strategy making. As the company grows bigger, they need to recruit and divide the company into different divisions and functions in order to enact company strategy by breaking it down into lower level strategy like business strategy and operational strategy”.
4.2 Influential Actors in defining SME strategy

4.2.1 Reliance on self

In the interview and discussion sessions regarding to who are influential actors in SME strategy, it has been clear that SME owners were the center for defining business strategy. Most of the strategic initiatives were almost based on the knowledge, the experience and personal networks of SME owners. “I know this business more than anybody else… so as a manager I have to analyze challenges and think the best way to deal with”, Business owner comments. In fact, the word ”I” has been dominant in the interview instead of word “we” as the managers explain how the strategic decisions are initiated or implemented.

It has also been observable that most Entrepreneurial SME managers prefer business reasons than the logic. That means majority of Entrepreneurial SME managers are profit and business oriented rather than just having fun of what they are doing. This is the opposite of typical SME managers who do not give care of growth and development in his business. Another SME manager argues “I am here for the business, where I understand to be profitable is where I want my company to go”. He added that “my company is in light industries… If I see an opportunity in real estate business I will go for it…Of course, I consult with my family and board – even if they think it is not our line of business. I sometimes tell them profit matters”. This case basically supports the argument that the definition of strategy in SMEs is often perceived as person centered rather than process driven (G. Ian Burke, Denise G. Jarratt, 2004, p. 127). A number of researches supporting the influence of manager in defining SME strategy are enormous. Nahavandi and Malekzedah (1993) and Hitt and Tyler’s (1991) emphasize that the style and personality of the manager by any means can not be separated from strategy definition process of SME.

In this context, through in-depth discussions with SMEs owners, we observed that sometimes they also use “we”. “We rely on ourselves – during the start up phase of our business my wife and I sat together and decided to invest the firm. We did it and it was successful. Prior to my decision I consulted with a professional investment consultant – he discouraged me and really that affected me a lot… fortunately my wife insisted that we should stick to our plan” (SME1). This sheds a light to the extent that family members define business strategy over the professional advisors.
During Semi-structured interview, although some of the business owners may not realize the strategic value of these resources, it has been notable that there are other important sources that provide information and advice which have impact in some of their business strategic decisions. These sources include business colleagues, professional networks such as former classmates and lecturers, representative and suppliers, internet, media, trade shows, bank advisors and lawyers.

4.2.2 The higher the risk, the higher demand of external assistance

Regarding the level of decisions (operational and strategic), it has been apparent that SME managers understand when they need external help on particular issue and when they are to rely on themselves. “Themselves” could mean owner, his staff and his family who are always in a reachable distance to the business strategic decision thus likely to be consulted if it’s necessary. “I am very confident with day to day operations of my firm…. I do not want to consult with anybody…. But when there is a decision that has apparent risk, I should consult with my wife, my staff and board of directors, you know, I do not want to be blamed if we fail” (SME2). In the interview, we understand that owners have clear idea where the strategy and operational decisions meet; hence they mostly seek assistance for strategic matters. “You know I cannot sign business contract unless my lawyer reads it and gives me an input and make clear for me all relevant implications. I made one mistake in a business contract sometime back, since then it taught me a lesson”. (SME1).

It has also been clear that four of the business owners interviewed prefer to outsource financial reporting work of their respective companies lest that they may incur taxation and reporting mistakes that cost them their businesses. “in decision making process, I can extract financial information from the accounting records – but for reporting I prefer to find outside assistant – you know these financial regulations are creating fears to all of us”(SME4).

In a similar vein, we noted that one of the most important reasons that SMEs have board of directors from the outside is to get professional and valuable input in business strategic decisions. “our company has well established and active board of directors –they help me a lot regarding to strategic related decisions. I rely a lot on them and they know about the company” (SME3). This claim is line with Pfeffer (1973), and Pfeffer and Salancik (1978) arguments, in resource development theory, that directors improve firm’s capacity in dealing with external environmental factors, reducing uncertainty and raising funds necessary for its continuity and growth. Lack of time by the owner also encourages outsourcing important service. “at the end of
each year, we always make inventory calculation. We need to know what stocks we have in our stores but our regular staff have no time to do this demanding work. So we hire external auditor to save time” (SME4). To the business owners, high risk means an action that leads the firm or the owner to a financial loss or legal action.

### 4.2.3 Cost and secrecy and personal chemistry matter in buying external professional assistance

During our interview, two SME owners are familiar with different sources of external assistance available for them. Some of the responds mention that buying external professional assistance depends on various factors. Consulting fee, secrecy of the matter and personal chemistry are among them. For instance, one business owner commented “If I want to buy a professional service I need to think a lot about the cost... I ask myself whether it is worth to buy an idea rather than tangible products…If cost is high I will go for an alternative” (SME1). “I do not like revealing my business specific secrets to any person” (SME3).

“Sometimes there can be important issues that I consult with external trusted management professionals and I am willing to pay for one I know and trust - not everyone” (SME2). “When I am in need of outside assistant I check if there is any institution I know for free”. It has been another observable phenomenon that SME owners do not seek external assistance and buy it when it is available within their respective firms or free of charge in public supported institutions. To some extent this may depend on the kind of challenge exists. For instance technical know-how functions are outsourced when appropriate capacity is not within the firm. However, some strategic related matters, owners have no problem finding consultant from their trusted-advisors and buy their services. However, this depends again on the kind of relationship between owner and the external advisors.

### 4.2.4 Tension and information gap between clients and professional consultants.

Some small business owners have admitted that they sometimes face difficulties in choosing the right consultants to hire when they are in need. One clear obstacle was how to know the right consultant and how to evaluate the outcome. One consultant comments “Most often the relationship between us (as consultants) and clients is not easy at the beginning”. He mentions that SME owners get challenged in choosing the right consultant as they may not be clear about what
they are exactly looking for; others are in doubt how they can measure the outcome. “for example, I sometimes worry if result is worth the cost”, (SME1). In fact, most of consultants agree that there is always tension between the client and the consultants in the early stage of their engagement.

One management consultant mentions that “Sometimes our new clients feel insecure about relations and reluctant on the outcome, we curb this tension—together; we thoroughly discuss the expectations of our client and put them in a contract”. “I have no problem with any consultant as long as I trust the firm which sends him and he meets my expectations” (SME1). Others go further and insist even if they need any other external assistance outside these fields, they still go through those consultants they know and ask for recommendations of whom to be contacted with. In fact, no one has been in doubt about the importance of trust between the client and consultants. The positive indication is that professional consultants understand the skepticism of the business owners hence struggle to fill this gap as much as possible.

This tension and insecurity between the client and consultant and mechanism they develop to deal with such challenges might not be surprise. These challenges are the outcome of information asymmetry between the seller and buyer (Bennett and Robson, 1999) and there are different ways of overcoming it, including intensive interaction between the two sides. In fact, it is obvious the more the interaction between the client-client the more likely to overcome such challenges (ibid). As noted in literature review (Nyar 1990; and Gallouj, 1997), this information asymmetry is derived from the lack of knowledge of the client towards the characteristics and quality of service offered by client’s inability to assess actions taken by the seller. Clark (1995, Chapter 4) introduced three main remedies for information asymmetries as: contractual structures, regulation (and self-regulation), and reputation or ‘brand’. In contractual structure, both sides (client and consultant) sign a detailed contract that covers specification of products and services. In our semi-structured interview both consultants and business owners in one way or another implied on existence such information asymmetry between them and each one prefers a particular mechanism to deal with this challenge over another.

“I used to ask myself what if the consultant copies your ideas and gives to his clients” (SME4). “Although I was desperately in need of external professional assistance, I was too hesitant to invite professional consultant at the early stages of my firm. As both my demand and the business grew, I had to try” (SME3). “I would have been very reluctant in using external consultants if ADMI
had not been offering a free consultancy services” (SME2). “Sometimes I used to feel ashamed for not able to take care of my baby (means my small business)” (SM1). Most of owners admit that, in early stages of their business, they were quite skeptical in asking for outside assistance due to consultant fees and competency among others. These claims are not without supports. Krentzman and Samaras (1960, 130-132) state that there are number of fears that prevent business owners to use consultants - fear of time, fear of fee, fear of competency and fear failure. Such fears are mostly common in small business more than the middle ones.

4.2.5 No single management consulting process

All most all the interviewees have sought an advice at least once from a professional management consultant of both private and publicly financed consultants. “I seek assistance in highly strategic issues that needs expert opinion” (SME3). “sometimes in informal settings – I discuss with my advisor on business issues and get input” (SME4). “ She (his advisor) listens to me very carefully, asks me clarification what I mean for almost everything related to the topic; she likes to understand issue within the context. Then we discuss the matters together – look all alternatives and consequences and leave me more confidence and try to solve the problem” (SME1). “When I ask a solution of single management problem my advisor prefers to tell me a different story on the same. He likes to give me various practical examples of same cases he experienced during his professional career and finally leaves me to take the option I want” (SME4). During the interview, we found that there is no single agreed process for consulting process. As issues in which clients discuss with consultants are varying from single operational issue to strategic ones, the process also may vary. In other words, business owners seek assistance from a management consultant to solve a management problem or to get a new perspective on a matter. “Management consulting in strategy formation is all about storytelling and story making; there is no single formula to go through” professor Johansson.

Probing below the surface, it is understandable that some business owners seek their professional advisor just for confidence building. That means they may know which their strategy fits their organization but want to confirm it from their trusted advisors. Others seek an expert input so they do not only get solutions for specific problem but also get the skill and competency. “we had internal management conflict in our company few months ago – then we hired a management consultant to solve it; he provided 8 hours training on communication skills and conflict resolution;
it worked well for us” (SME1). “When I meet my advisor (management consultant), he does not restrict himself on advising me on current issues only. He tries to tap necessary resources for my business… One year ago, he facilitated financial resources I required to expand my business… he did it through his networks” (SME1). It is not also surprise to know that management consultants do not only provide assistance on those strategic and operation matters in question. Rather they can be resourceful for the clients in terms of creation of business opportunities, connecting profitable networks and sometimes open a window for business opportunity. Of course the overall goal of using consultancy services is to bring change to business and add value. This multiple roles of consultants is supported by Dwyer, (1987) and Riddle (1986) who argue that consultants are essential for the process that primarily generates change to the business through provision of pool of knowledge which finally leads to production based on a joint activity of the buyer and seller.

4.2.6 Advices and feedbacks from end users have strategic values

Complexity and competition of SME environment tend to lead many firms to reach their intermediary subsidiary and end users of their product for advice and information. SME owners want to know how their subsidiaries/agents see their products, substitutes, the prices, existing markets, challenges and of course the view of the end user. “we sell technical equipments … I get feedback from the users… they tell me the problems they meet in using the equipment … sometimes we have to review the whole system… this is especially important for us when the product is new” (SME3). “We need to know what kind of services at what price our competitors are providing,. we got this information from our partners – who also rely on individual clients – we need necessary adjustments” (SME2). “Physically we are not so close to our end uses yet we know how the feel and what they exactly want… Our agents give us a feedback about our products.. Almost every year we conduct a survey about our products through subsidiaries – we go closer to the end user to see what they feel like and it helps us improve our products” (SME4). The views and importance in which SME owners attached to consumers and their influence to business decision is immense.

In fact, such kind of closeness between SME owners and clients is not surprise. SME owners seem to be detached and uncomfortable if they are not close enough to their intermediary and end users of their services. Of course this is not a new phenomenon. Burke and Jarratt (2004, 128) note that
“In seeking to satisfy and retain customers, firms can of course relate to the other firms as well as to end customers’. In real sense, subsidiaries and end users/consumers can provide SME necessary feedback and information regarding to how their products and services are seen by the consumers; what are available substitutes, who are competitors. Such feedbacks and information finally affect the way of thinking and strategy making process of the SMEs.

Respondents definitely agree on that no outside actor can better influence the business strategy than their respective consumers. This is observable in most of modern business entities whereby internet communications facilitate the interaction between the producers and customers. “Our customers determine what we want to offer in the market – they are our representatives; we established Customer Information System (CIS) whereby we interact and see the feelings of our customers – this system brings us close to end users as well” (SME3). Various researches (Peltier, Schibrowsky, Schultz, 2003; Reinartz, Thomas, & Kumar, 2005) indicate how the invention of Customer Information Systems (CIS) and related data-driven technologies have increased the ability to understand consumers/customers, particularly in terms of developing mutually beneficial relationships. In fact, Such examples are clear evidence on the increased influence of the consumers/customers in defining the firm’s strategy and the awareness of such reality towards business owners is also very common.

4.2.7 Boards of Directors in entrepreneurial SMEs are influential actors in strategy making

Four SME owners interviewed have active Board of Directors in their respective businesses. Three out of the three SME owners have selected their board of directors outside their firms while other one selected them from company senior managers (partners). It has also been apparent that business owners understand the necessity of board of directors. For instance one business owner compared his strategic decision making process before he had board of directors and after he had and commented “initially, I had no Board of Directors in my firm because it was small and sole proprietorship. In strategic decisions I rely on myself, my staff, my family and my friend; however, when the company grew bigger I felt the importance of Board of Directors to oversee the firm’s performance and give strategic inputs; I selected competitive board of directors from outside the company; now they contribute to set firm’s strategic plan and contribute strategic decisions” (SME3).

“One year after I established the firm , I realized that I need more funding and more business ideas. Then I got business partners not only to co-finance the firm but serve as a board of the directors
and contribute knowledge, business ideas and experiences as well. We all work together thus able to reach each other at anytime to discuss business issues (SME2)

In both cases there are indications that there are relationships between the growth of business, the need of strategic decision and contributing board of directors. Who is going to be a member of directors depends on what one is looking for. Here both (SME1 and SME2) were looking for competency, expertise and fresh ideas to share the burden of the founders. Yet they are different – some prefer outside board of director while the others choose them from inside – probably his partners. There are also cost implications. “In the setting up stage, ALMI, a consulting firm financed by Swedish government, helped me a lot in establishing and funding as well. Then I realize that firm needs some people who have technical expertise in ICT/IT and in marketing – instead of hiring them - I got partners who have the required expertise and they become the board of directors as well. I do not need board from outside- they cost time and money and may not contribute much” (SME2).

The business owners and SME consultants interviewed have different views on the level of involvement of Board in business activities and their strategic implications. “We decide together who is to be employed, at what salary, development of new services, and expansion plans. We have brought together our professional skills and knowledge and experience” (SME2).

Regarding the role of board of directors in SME, Athinna – senior business consultant in ALMI, points out that during the first assessment of their new SME clients, she asks them whether their respective firms have Board of Directors and what they do. “If SME has skilled and active board of directors, it stands a better chance to have a good strategy”. She further explained when SME owners select Board of directors, they take into consideration what kind of company they are, what do they want to do, after that, then they choose who is to be brought into the steering committee to help SME owners to get the company where they want it to be. “It is neither about I know him nor about I have close relations with somebody; it is all about competency…. Finding and establishing proper guys to work for the company as board of directors is a high level strategy. It’s all about proactive attitude”, Athinna concludes.

In brief, it is apparent that strategic role and the importance of board of directors, regardless of they are insiders or outsiders, are widely understood by both entrepreneurial SME owners and the institutional partners. Both business owners and business consultants mention that active and
competitive board of directors is instrumental for the growth and continuity of SME. During the interview of different owners of various SME firms we also found that board of directors play active roles in all important decision-making process of their respective firms including employment, expansion, auditing, and remuneration of senior managers. Some of the respondents admit that board of directors are the highest strategic organ of their firms. The responses from the interviewees have immense support in academia (Pearce and Zahra, 1992; Johnson et al., 1996; Forbes and Milliken, 1999; Hillman and Dalziel, 2003) regard board of directors as one of major elements in the governance framework, influencing firm’s performance. (Zahra and Pearce, 1989; Borch and Huse, 1993; Johannisson and Huse, 2000) also argue that well-functioning boards of directors in small and medium sized private firms is a good governance practices that contributes to the creation of firm value, improved company structures, (financial) results and firm continuity.
5. Conclusion

We want to use a metaphor to illustrate the strategy formation in SMEs. The SME operating environment is chessboard, all the factors that should be considered in strategy making process such as clients, employees, suppliers, government, financial institutions, labor union, law etc. are chess pieces and SME owners/managers and their competitors are players.

We consider this chess board as a nonlinear, complex and dynamic system. The chess piece interacts with one another and a change in one piece will lead to the changing relations with other pieces. It’s this interdependency among different pieces that make operating environment dynamic and uncertain. To a large extent, prediction is based on the past experience. Under the context of complex system, limited can be learned about the future by studying the past because history in this case barely exactly repeats itself. So the strategy here cannot be focused on long-term planning because rather than committing large amount of resources to forecast the future, it would be wise for SME owners/managers to think about different scenarios and make the company geared towards being flexible to adapt to change.

Here we also want to point out the difference between fundamental rules for the game and patterns and guidelines that strategy consists of. Knowing the rules of how to move the chess piece doesn’t make a good player, it’s just for beginner. The master always tries to enhance their cognitive ability and insights by strategically deploying the pieces. They won’t take one step unless they can see three steps ahead and within these three steps the operating environment is not as turbulent as outside these three steps which guidelines and patterns can be developed to deal with uncertainty, ambiguity, complexity, and inconceivability and in this short span of time. Strategic thinking is more important than putting strategic plan on the paper, it must be in the mind first.

The strategic awareness and strategic sensitivity of SME owner combined with strategic flexibility and strategic fit on the company level make SME strategy formation an emergent, opportunistic and intuitive process. Strategy in SME is dynamic and it has been refined and modified on a regular basis by information, suggestions and opportunities encountered in the daily operation thus supporting the Mintzberg’s (1978) notion of strategy as realized pattern and strategic thinking is more important than strategic planning. We draw three charts to illustrate the process.
Strategic formation in entrepreneurial SMEs and influential actors in this process
The biggest difference between strategy formation in large firms and strategy making in SMEs is the level of formality and the level of sophistication. SME strategy formation most often only happens on the cognitive level and in constant change as SME owner’s perception changes. By formulating strategy in mind, they can effectively deal with chaotic operating environment and with lower cost. The SME owner's cognition absorbs, mobilizes and synthesizes all the “metadata” like experience, knowledge, skills, networks, etc in a spontaneous manner in order to generate awareness, sensitivity and flexibility to deal with constantly changing chaos.

Our findings on who influenced SME strategy formation process is in line with many researches. A number of researchers indicate that entrepreneurs in SMEs plan in a unique way compared to the standard approaches in textbooks (McCarthy, 2003). That why it is often argues that definition of strategy of SME is person centered rather than process driven (Burke & Jarratt, 2004, p. 127). Moreover, most of strategic decisions are believed to reflect the attitudes and personal leadership of the entrepreneur. As a strategist and decision maker, entrepreneur develops and implements the vision, mission and strategies (Kraus, 2007). Hence business owner are center for defining SME strategy making process. However, that does not mean that SME owners do not need information and advisory assistance from other sources. Due to complex and turbulent SMEs environment, the sources available to provide such services has been on the increase. In this respect entrepreneurial business owners, in the process of defining their firm’s strategy, seek information and advice from a wide array of professional, business and personal resources. These sources can be included but not limited to: Owner's family, board of directors, accountants, management consultants, media, internets, websites, regional and national economic institutions, professional networks, business associations, and government supported institutions.
According to Donckels & Fröhlich, (1991) and Corbetta & Montemerlo (1999) the dominant population of SMEs are family owned. This dominance has not been without effect. Family has a significant influence in company’s strategic direction (Kets de vries, 1993). Family spirit, values, attitudes and norms become instrumental in decision making process of company (Burke and Jarratt, 2004, 128). In an interview with executives of over 300 family controlled business, Kets de vries (1993) found that family logic often overrules business reasons in respect of strategic decision. The family power of influence may to same extent let them screen all outsourced advisory sources before they are integrated with firm’s business strategy (ibid).

Another influential actor in SME is board of directors. Board of directors can either be inside or outside. (Pearce and Zahra, 1992; Johnson et al., 1996; Forbes and Milliken, 1999; Hillman and Dalziel, 2003) state that board of directors is regarded as one of the critical elements in corporate governance and influential in firm’s outcome. Initially, this phenomenon was widely understood in the context of large organization (Charkham, 1995). However, recent researches indicate how pervasively the managers understood the importance of well-functioning boards of directors in small and medium sized private firms (Zahra and Pearce, 1989; Borch and Huse, 1993; Johannisson and Huse, 2000). During our in depth interview with entrepreneurial SME owners, it has been apparent that importance of active and functioning board of directors is well understood regardless of whether they are from inside and outside. However, it is quite difficult for us to generalize the value in which board of directors create in different firms. This has lent an evidence to Bennett and Robson (2004, pp. 95-113), who argue that identifying and generalization of the values offered by board of directors is quite difficult and to a large extent it depends on the managerial needs and the unique situation of each firm. Some of the SME managers prefer that their board of directors to be within reach and actively contribute both operational and strategic decision of the business.

Accountants are also an important sources of information and advises available for SME. According to (Bennett and Robson 1999; Gooderham et al. 2004), independent researches constantly indicate that accountants are first-choice advisers to small and medium-sized enterprises (SMEs). Furthermore, Burke & Jarratt (2004, p.128) points out that accountants have the capacity to offer value added advises in wide spectrum of management issues. It is also worth to mention that accountants are sometimes in short of management skills which limits their level of contribution to financial side.
Professional management consultants are undeniable sources in provision of management advises, skills and competency in which business firms could not find within their respective companies. Drucker (1979, pp. 1-5) states that management skills, techniques and knowledge are best learned through exposure to many different companies in many different industries and this is an opportunity full exercised by management consultant. In the literature of SME, it is widely argued that SMEs often have a greater need than larger firms to buy in external assistance, but a greater reluctance to do so (see e.g. Birley and Westhead, 1992; Storey, 1994). However, that does not mean that all entrepreneurial SME managers have faith on such services throughout the existence of their respective firms. In fact, there are evidences that majority of interviewees, sometime in the past, were quite reluctant in approaching management consultants in general and those privately owned ones in particular for one reason or another. Fear of competency, fear of time, fear of failure, and fear of the fees were among the barriers mentioned during the interviews. In fact, there has not been an apparent evidence of relationship between the level of the education of entrepreneur and his use of management consultants.

It is also worth to mention that there is no agreed management consulting process. This mainly depends on the particular needs of the various business ventures. The process varies as the individual’s needs do.

Other notable advisory sources that can influence the strategic decision of SME mentioned by interviewees are included consumers, bankers, lawyers, professional networks, public economic institutions. Some of the responds can call these sources as consultants since they are providing advises while others admit the important role of such sources yet reluctant to call them consultants. Media including internet, journal and websites is also mentioned to be important sources of information.
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Linnaeus University – a firm focus on quality and competence

On 1 January 2010 Vaxjö University and the University of Kalmar merged to form Linnaeus University. This new university is the product of a will to improve the quality, enhance the appeal and boost the development potential of teaching and research, at the same time as it plays a prominent role in working closely together with local society. Linnaeus University offers an attractive knowledge environment characterized by high quality and a competitive portfolio of skills. Linnaeus University is a modern, international university with the emphasis on the desire of knowledge, creative thinking and practical innovations. For us, the focus is on proximity to our students, but also on the world around us and the future ahead.