

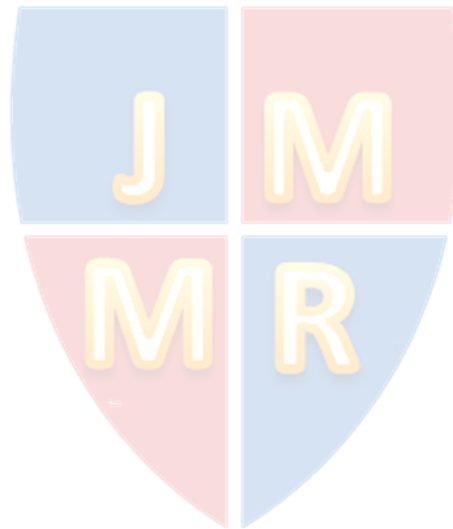
A synergistic approach to small business entrepreneurship

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ABSTRACT

A process model of the determinants of small business organizational entrepreneurial activities is proposed. The key variables are identified and the cause and effect relationships are highlighted. Specific variables such as environment, business philosophy, and personal attributes and their influence on the small business firm, its strategy, organizational variables, and performance are discussed. In addition, performance is separated into operational measures for short term evaluation versus long term measures for evaluation. The model provides insight into conducting future research as well as managerial implications in the small business organizational entrepreneurship field.

Keywords: Small Business Entrepreneurship, Determinants of Entrepreneurial Performance



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INTRODUCTION

Interest in small business and entrepreneurship is flourishing today (Bygrave, 1993; Carland and Carland, 2003; Covin and Slevin, 1991; Peterson, 1989). Thousands of small business owners and would-be entrepreneurs are seeking and identifying sources to assist in the successful management of their business (Davig; 1986; Peterson, 1989; Stoner, 1987). Until recently little has been known about the competitive strategies smaller firms tend to adopt for success (Davig, 1986; Lumpkin and Dess, 1996). Sexton and Van Auken point out that very few empirical studies of small business operations deal directly with strategic behaviors (Sexton and Van Auken, 1982). It is of interest to small business managers and entrepreneurs to gain insights into the overall strategies which guide small business.

Although small business is a significant segment of the American economy, the entrepreneurial portion of that segment has not been fully researched. The most fertile ground for management research may be small businesses. Specifically, small businesses provide the potential for entrepreneurial activity that is fundamental to economic in underdeveloped and developed countries.

DETERMINANTS OF SMALL BUSINESS SUCCESS

The literature on small business entrepreneurship reveals little on the competitive strategies small firms tend to adopt (Davig; 1986). It is generally recognized that smaller firms have opportunities not available to larger firms. These market opportunities can provide very profitable niches and competitive advantages to the smaller firm. Very few empirical studies deal directly with strategic behaviors of small business (Sexton and Van Auken, 1982). There are some exceptions. Vesper and Haglund (1978) examined strategic choices of job shops in the machining industry. Judd and Lee (1981) studied the tactics and financial measures of smaller firms under conditions of recession and inflation. Also, Neil (1986) examined the benefit of a small business developing a distinctive competence in order to remain competitive. Further, the advent of strategic planning has had mixed results in driving small business performance (Brews and Hunt, 1999; Carland, Carland, and Aby 1989; Miller and Cardinal, 1994; Schrader, Taylor, and Dalton, 1984).

An underlying premise of the small business entrepreneurship field is that critical determinants of success can be identified and applied to small business operations that lead to better performance. Managing these determinants should result in competitive success over the long run (Day and Wensley, 1988). The existence of such variables and their relationship has come under increasing study but with contradictory results (Robinson and Pearce, 1983). Some researchers have found positive relationships (Herold, 1972; Wood and LaForge, 1979), while others have found no relationships (Grinyer and Norburn, 1975; Leontiades and Tezel, 1980).

Research on small business organizational entrepreneurship is limited and inconsistent in its findings. Carland, et. al. (1984) identify the need for more conceptual models and studies to examine the small business entrepreneur. Also, they suggest the need for expansion of the entrepreneurial theme to broaden our understanding. This paper focuses on small business organizational entrepreneurship. A process model is proposed which identifies key variables that are hypothesized to relate to an entrepreneurial environment.

SMALL BUSINESS ORGANIZATIONAL ENTREPRENEURSHIP FRAMEWORK

Knowledge on small business management and organizational entrepreneurship is fragmented even with the increased emphasis placed on small business in the literature (d'Amboise and Muldowney, 1988). The literature indicates that entrepreneurship evolves from several perspectives contingent upon forces that influence the entrepreneurial process. A comprehensive framework of small business organizational entrepreneurship is presented as indicated in Figure 1 (Appendix). Several predictors of entrepreneurship have been examined in past research (Carland, et. al., 1984; Carland, Carland, and Aby, 1989). These predictors can be organized into five broad categories: environment, business philosophy, personal attributes, strategy, and organizational variables. Each of these variables is discussed below.

Environment

The external environment of a firm concerns the demand for adaptability and change necessary to survive. Organizations with such environments will have to become more innovative and entrepreneurial in their activities. A firm's environment may have two levels, the macro (remote) and the competitive environment. The macro environment includes the societal, economic, technological, and political factors that affect an organization. Competitive environment is the more immediate environment which the organization faces on a day-to-day basis.

The literature identifies three critical characteristics which have been found to be related to entrepreneurship. They include dynamism (Miller and Friesen, 1982; Zahra, 1986), hostility (Miller and Friesen, 1982), and heterogeneity (Zahra, 1986). Each characteristic represents how well an organization identifies opportunities that are matched with its strengths and adapts to exploit or develop those opportunities successfully. Environmental dynamism is the amount of change required by the small business firm due to actions of competitors, customers' tastes, advances in technology, and the rate of inflation. Environment hostility is the prevalence of negative factors to the small business firm such as price, product, competitor distribution, regulatory restrictions, and community perception of the small business firm. Heterogeneity is the number diversity of external elements with which the small firm has to contend to be competitive. Such elements may relate to the breadth of competitors, product lines, and other stakeholders.

Business Philosophy

Another factor influencing small business found in the literature is business philosophy. There are three main philosophies cited in the literature (Lawton and Parasuraman, 1980; Petersen, 1989). The three philosophies included: market orientation, sales orientation, and production orientation. A market orientation is a philosophy accepted by all people in the firm in an integrated effort to satisfy customers and to reach satisfactory quantitative goals. A sales orientation is a philosophy based on persuading potential customers to buy the firm's product offering. A production orientation is a philosophy based on producing good quality goods and services which will basically sell themselves. Firms with a market orientation will center on markets, fulfillment of market's needs and wants, customer satisfaction, market opportunities,

product opportunities, use of the marketing tools of promotion, pricing, channels/stores, and research to change and to react to the environment in gaining a competitive advantage over competitors. One empirical study on small firms indicated that only about one-third of the firms have adopted a market orientation compared to large firms who typically adopt this business philosophy.

Personal Attributes

A critical causal variable in the model are the personal attributes of the small business entrepreneur. The key attributes that are most critical are identified in Figure 2 (Appendix). The interdependency among the attributes is depicted by the di-directional arrows. The four key attributes of a small business entrepreneur: needs, values, managerial knowledge and skills, and experience.

Needs

An essential attribute that has been identified as a driving force determining the level of entrepreneurial activity is termed the need for achievement, n-ach (McClelland, 1961). If this need has been given a high degree of importance by the entrepreneur the individual will attempt to satisfy this need by being successful in the small business. A successful entrepreneurial venture requires not only a commitment of money, knowledge, and energy, but also requires an emotional commitment. This emotional commitment can be referred to as persistence, passion, and a general belief in the product or service. The need to achieve drives the entrepreneur to insure the small business's success by developing entrepreneurial activities that will influence customers and other stakeholders positively about the business.

Values

An important attribute of the entrepreneur and the small business's culture is the ethical expectations that guide the basic values of the entrepreneur and the individuals within the small business. Small business entrepreneurs establish the ethical philosophy of the small business firm's culture in the ways an entrepreneur behaves and personal commitment to values, trust, and integrity. Trust implies accountability and reliability. Trust is the glue that maintains a firm's integrity and values (Bennis and Nanus, 1985). The basic values of the small business entrepreneur become the ethical philosophy of business conduct for the firm. The values of the small business entrepreneur are manifested in the image, reputation, and integrity of the small business firm's products or services.

Managerial Knowledge and Skills

The ability to succeed in small business requires a variety of managerial knowledge and skill. Basic skills include communication, conceptual, interpersonal, administrative, and entrepreneurial. Small business entrepreneurs need business acumen and essential skills to guide the firm and achieve survival. Also, the wealth of knowledge a small business entrepreneur possesses that can be directed toward customer education about products or services is essential. The knowledge can further entrepreneurial activity within the organization to enhance growth,

profitability, and long term success. The level of knowledge and skills a small business entrepreneur brings to the business will greatly enhance the business' probability of success.

Experience

There are two key dimensions of experience that may affect the small business entrepreneur's probability of success. The dimensions include: background and the number of years and variety of responsibilities in the industry. The relevance of each dimension is contingent upon the environment and the opportunities identified within the environment. The experience of the entrepreneur is important in a business venture when identifying opportunities and the entrepreneur pursues them. The more experience the entrepreneur has in the industry of the business venture then the greater probability of success in the business. If the industry is very dynamic and requires rapid change due to technology, governmental actions, or competitors' actions, then the entrepreneur's experience in the industry is essential for the business' success.

Strategy

Strategy is another causal variable identified in the process model. Hofer and Schendel (1978) suggest an organization's performance is closely aligned with its strategy. Strategy has been defined as a pattern in the stream of an organization's decisions (Mintzberg, 1978). The pattern of decisions represents an organization's and management's objectives for future intentions based on present skills and resources given the environment opportunities available (Miles and Snow, 1978; Rumelt, 1974).

The Miles and Snow (1978) typology has been used to examine entrepreneurship. Clearly the type of strategy a small business organization adopts will have an impact on its entrepreneurial climate. Burgelman (1984) used the Miles and Snow typology to examine the entrepreneurial activity within organizations. The prospector strategy exhibited more entrepreneurial activity than the defender strategy. In applying the typology to banks, McDaniel and Kolari (1987) found that banks classified as prospectors or analyzers considered new product development opportunities to be more important than those typed as defenders. Davig (1986) also used the Miles and Snow typology to examine 68 small manufacturing firms. Davig (1986) found that different strategies emphasize different competitive factors. Defenders are characterized predominantly as focusing on prices, on-time delivery and product quality. While prospectors also focus on price competitiveness, they combine price competitiveness with uniqueness. These studies and others have demonstrated strong support for a relationship between strategy type and entrepreneurship (Miller, 1983; Miller and Friesen, 1982; Zahra, 1986).

Organizational Variables

Another group of causal factors influencing entrepreneurship are called organizational variables. Organizational variables include: structure, scanning, adaptability, and competitive intensity. Kanter (1983) suggests that structure can affect the entrepreneurial climate of a small business. She identifies centralization of authority as a key characteristic influencing the firm's entrepreneurial climate. An organization that maintains centralized authority will likely have less entrepreneurial activity.

Environmental scanning is another variable influencing small business organizational entrepreneurship. The process of systematically searching and assessing information about the external environment is termed environmental scanning. Small businesses that collect, synthesize, and correctly assess information about their competitive forces will achieve better success in the long term. Scanning information may include availability of suppliers, competition in product/service quality, dwindling product markets, degree of lobbying efforts by competition, customer preferences, membership in outside groups and associations, and tracking of competitors' strategies and tactics.

An organization's adaptability to meet customer needs and environmental constraints represent another factor influencing entrepreneurship. The extent to which an organization can adapt its material and process in producing products/services is related to its entrepreneurial climate. The more adaptive and flexible the organization is, the more entrepreneurial it may become.

Finally, the competitive intensity of the small business organization may be a cause and/or a function of its entrepreneurial activities. A small business's intensity is reflected by its physical location, customization of product or service, number of stores, use of external expertise, breadth of product lines, number of customers, new products/services, and product categories that are stocked and sold.

PERFORMANCE CRITERIA

The present framework uses a two stage conceptualization of small business performance. The first stage measures the outcomes of entrepreneurial activities that small businesses employ to be successful. The outcomes include: number of full-time employees, size of selling area, marketing budget, advertising budget, number of inventory stockouts, number of times inventory turns over annually, sales per square foot, sales per employee, sales per man hour, labor percentage costs, and gross margin percent. These are objective measures a small business may use for internal assessment of performance as well as comparison among key competitors. Other measures need to be included that may or may not translate into economic benefit. Additional measures that may be useful are idea generation for products and services, new process proposal, and employee satisfaction.

The second stage of performance is at the output or organizational level. Most small business performance is typically measured in the short run. Frequent short run measures often used are gross profit, net profit, sales, cashflow, and market share. To ensure long term survival other measures need to be utilized. Small business entrepreneurship success is contingent upon how adapting and enduring the organization is in the competitive environment.

MANAGERIAL AND RESEARCH IMPLICATIONS

There are several relationships in the model which can be further discussed and expanded for research purposes as well as for managerial application. The principal relationships among key variables are highlighted in the form of propositions.

- P1: The greater the entrepreneur's personal attributes before starting the business, the Higher will be Stage 2 performance outcomes.

The personal attributes include needs, values, managerial knowledge and skills, and experience. When these personal attributes are high or strong for the small business entrepreneur the probability for success is high. When the personal attributes are low or weak then the success for the small business is diminished. Often the degree of success for a small business may be contingent upon a single attribute or a combination of the attributes. If any of the attributes are not sufficiently strong then the small business will suffer and possibly fail.

P2: The greater the match between personal attributes and strategy, the higher will be Stage 2 performance outcomes.

The match between an entrepreneur's personal attributes and the strategy chosen may impact the success of the small business firm. A successful business in a mature industry experiencing slow growth may be one who emphasizes efficiency, offers minimum product lines with dependable quality, and basic no frills service. Also, an entrepreneur's experience, knowledge, and skills familiar with the mature industry experiencing slow growth is better matched with a status quo or defender type strategy. Similarly, if the industry is experiencing rapid growth and change then the entrepreneur who characterizes a similar background, skills, and experience may be better matched with an innovator type strategy.

P3: Given the strategy, the better the match with organizational variables the greater will be the Stage 2 performance outcomes.

An entrepreneur who is an innovator type will generally emphasize organizational variables that encourage entrepreneurial activities. Innovators work best with organic or decentralized structures so decision making is forced to the lowest possible level of expertise. Creative thinking and adaptive behavior is encouraged or the norm. Defenders will be more centralized because they feel no one can make decisions as well as they can. Also, defenders do not encourage entrepreneurial behavior or thinking for fear of failure or having to endure the cost of failure.

P4: The more the industry's environment changes the greater the need for the entrepreneur's personal attributes.

The industry's environment is critical and can determine the need for the entrepreneur's personal attributes. When the environment is dynamic, highly intensive, and hostile then the entrepreneur's personal attributes will be affected. When the entrepreneur is highly committed, has a high need for achievement, and confronted with unethical competitors' actions, the entrepreneur's values and ethical philosophy will be essential. The strong values and ethical philosophy will determine the entrepreneur's response to the environmental conditions. The stronger the entrepreneur's personal attributes, the faster and better the response to environmental changes that are required.

P5: The more the environment changes then greater the need to adopt a matching business philosophy.

When the environment is very dynamic and requires rapid changes due to customers' demands, government regulations, competitors' actions then a matching business philosophy is also essential. Small businesses adopting a market orientation will react faster to environment changes than other business philosophies. When the environment is fairly stable with minimum changes in customers' demands a production or sales orientation may be more successful.

P6: The match between an entrepreneur's personal attributes and business philosophy will lead to greater Stage 2 performance outcomes.

An entrepreneur's personal attributes impact the business philosophy that will lead to the better performance. The higher the need for achievement, ethical philosophy, and skills, the greater the probability of adopting a market orientation for a business philosophy compared to the other philosophies. A market orientation tends to work better in meeting customer demands while reinforcing key personal attributes. A production orientation requires less interaction with the customer and offers fewer opportunities for reinforcing personal attributes because of its internal focus to the firm.

P7: The adoption of a strategy is determined by the business philosophy of the small business entrepreneur.

The strategy chosen for the firm is determined by the business philosophy of the small business entrepreneur. When a marketing orientation is preferred it is matched better with an innovator type strategy. The innovator is responsive to customer demands, identifies new opportunities in the market and pursues them as effectively as possible. A production or sales orientation focusing on efficiency with limited products or services is better matched with a defender type strategy. The defender is concerned with a status quo approach of doing business, focusing on cost, efficiency, and preserving present operations without expanding into new products or services.

P8: Environmental changes will be a major influence on the strategy chosen.

A small business firm's strategy will be greatly influenced by the extent of environmental changes that are required. When environmental changes are rapid and dynamic an innovator type of strategy will lead to better performance. The innovator tends to scan the environment for opportunities that match with the firm's strengths and pursues them. A defender or status quo type of strategy tends to work best when the environment is fairly stable and the intensity of change is slow. The dynamism and change intensity of the environment can influence the strategy chosen by the small business entrepreneur.

CONCLUSIONS

A process model on the determinants of small business organizational entrepreneurial activities has been proposed to identify the key variables. The model highlights the cause and effect relationships among key variables over time and provides insight into conducting future research. Specifically, it integrates environmental variables with the business philosophy and personal attributes of the small business entrepreneur as important influences on the small

business firm, its strategy, organizational variables, and performance. In addition, performance is separated into operational measures for short run evaluation and feedback as well as global measures for long term evaluation and feedback.

In developing the model, the paper raises several broad research issues. First, research is needed to establish the conditions under which entrepreneurial activities are appropriate in developing small business success. Research shows the findings are mixed. Clearly, there is a need to explore more carefully the entrepreneurial activities that lead to greater success among small businesses. How important are contextual variables in determining the entrepreneurial activities of small business.

Second, research needs to examine the relationship between entrepreneurial activities and first level outcomes of the small business. This line of research may provide important insight into activities that develop competitive strategic behaviors for small businesses.

Finally, the entrepreneurial process is characterized as a multidisciplinary approach. A variety of entrepreneurial activities have been proposed which are grouped among 5 broad categories. This line of research is consistent with the emerging theory of small business entrepreneurship and may better visualize the process that shapes the strategic behavior of the firm.

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Appendix

Figure 1

Determinants of Small Business Organizational Entrepreneurship

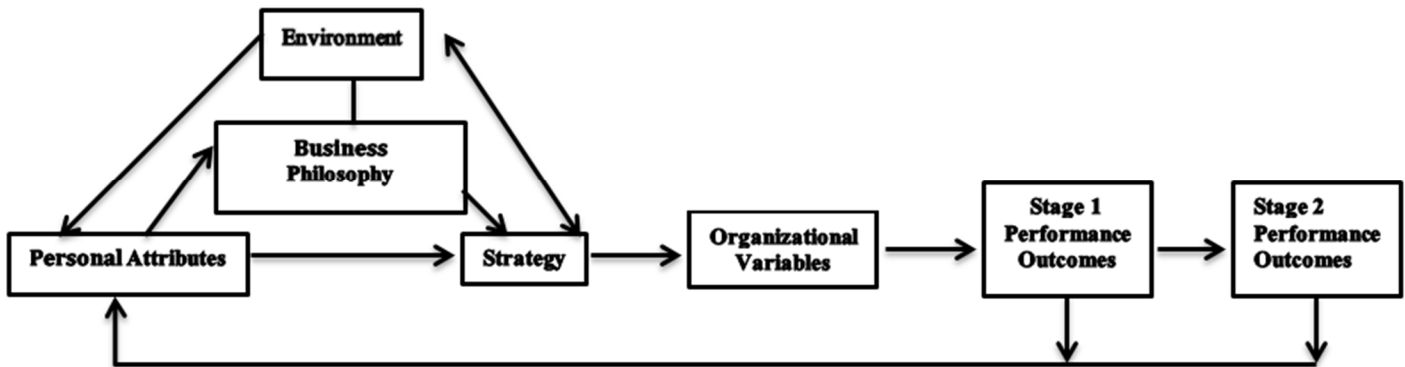


Figure 2

Entrepreneur Personal Attributes

