FAME

Family Busin**e**ss
Sustainability
and Growth

Module 1

Fundamentals of SME Management

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Introduction to Fundamentals of SME Management

Welcome to the reader/training materials for the module Fundamentals of SME Management. These materials introduce the reader to key concepts, models, ideas and academic debate that are key to understanding the nature, management and workings of Small Medium Enterprises (SMEs). Established 'classic' business models are outlined, and contemporary academic and policy literature serves to show the state of current thinking, research and analysis.

The materials begin by offering a brief contemporary historical overview of SMEs and explains their role in a changing economy and society. Macro and micro environmental factors are discussed via an exploration of PESTLE as well as stakeholder theory. The role of government in promoting and encouraging SMEs is also addressed. The materials then move on to consider the issue of SME as well as family business growth and development; due consideration is given to the opportunities and constraints on growth. The role of entrepreneurs and owner managers is discussed in relation to the body of work around their personal attributes, skills and behaviours. Other areas covered include: leadership style, strategy implementation, entrepreneurial leadership, small business culture, decision making, competitiveness, corporate social responsibility, and entrepreneurial marketing. The materials conclude by looking at SMEs and internationalisation which includes discussion of the meaning and implications of globalisation.

The module comprises 4 sections, 17 units and various themes and issues – as indicated above - are covered in each one.

SECTION I: The Bigger Picture

Unit 1: Managing in the SME Environment

Entrepreneurs in the context of our times

To understand the context of the times in which SMEs and small family businesses operate it is necessary to explore some of the history and back-story that frames and informs the present. This section is intended to set the scene and is inevitably selective, partial and incomplete but does nevertheless give an indication of some of the bigger stories, issues and policies that shape today's SME world. It is intended to portray the bigger sweep of history rather than the detailed nuances. Whilst the term SME is used throughout this document it should be noted that part of the discussion also has relevance to small family businesses. It is therefore necessary at the outset to demarcate the two and Donckels and Frohlich (1991, p.149) helpfully draw attention to some of the distinctive characteristics of family businesses:

"The data reveal that family businesses are inwardly directed or closed family-related systems. Among their managers are fewer pioneers than "all-rounders" and organizers; as a consequence, their strategic behavior is rather conservative. Therefore, family businesses should be viewed as stable rather than progressive or dynamic factors of the economy."

Having noted this it is important to reiterate that the overall focus here is on SMEs, of which small family businesses are one constituent element. Moving on to note changes in attitude particularly with regard to the bigger picture, Thurik and Wennekers (2004, p. 141) describe well the post-war view of SMEs:

"In a time when large firms had not yet gained their powerful position of the 1960s and 1970s, small businesses were the main supplier of employment and hence of social and political stability. Scholars such as Schumpeter (1942), Galbraith (1967) and Chandler (1977) had, however, convinced the economists, intellectuals and policy makers of the post-war era that the future was in the hands of large corporations and that small businesses would fade away as the victim of its own inefficiencies. Policy in the USA was divided between allowing for the demise of small businesses, on economic grounds, on the one hand, and preserving at least some semblance of a small enterprise sector for social and political reasons on the other."

The post-war view described above has subsequently been challenged and today much greater emphasis and recognition is given to the importance of SMEs to national life, the economy and society. It is certainly the case that larger businesses continue to play an important part in economic life but the changes wrought by an innovative, dynamic market economy have been significant. As businesses and whole industries have gone into decline (e.g. shipbuilding, steel and chemical industries) and in some cases disappeared entirely new businesses and industries have emerged and grown to maturity (e.g. software and app developers, web design, computer programming, computer gaming industry). SMEs have played an important role in disrupting and transforming business, economic and social life for the better. Thurik and Wennekers (2004, p. 141) note that, "*since the 1970s, the world has changed considerably, and that this change has had consequences for the current policy debate.*"

Undoubtedly the shift in emphasis – to which Thurik and Wennekers (2004) allude - in favour of SMEs that came about in Britain in the 1970s can in part be attributed to the 1972 Bolton Committee which recognised the different characteristics of SMEs compared with larger businesses. A lot has changed since that time but today SMEs still suffer from fewer resources be that human, finance or technical.

The number of SMEs in the UK has grown, especially since the 1980s and entrepreneurship has been given greater prominence in public policy, government strategy and is today seen as a good thing. Entrepreneurship, SMEs and small family businesses offer new and additional routes into work, employment and business and through their product and service offering they add value to the businesses and communities they serve. Universities have had a role to play in bringing about this culture shift. Chell and Karatas-Ozkan (2014, p. 4) writes, "*In the UK, 1971, a 'Committee of Enquiry on Small Firms' was set up under the chairmanship of John Bolton. No University business schools included 'Entrepreneurship' as one of their offerings; now most do.*" Compared with the circumstances of 1972 today's university landscape in the UK and across Europe is in a number of ways very different.

Catering to the needs of SMEs, encouraging a culture of enterprise, driving innovation and encouraging entrepreneurship through the delivery of undergraduate, postgraduate and short course provision as well as through research, consultancy, business engagement, knowledge exchange and other activities are accepted as legitimate, worthy and valuable university activities. SMEs are important at an economic level in terms of job and wealth creation, at a social level in terms of community cohesion and strengthening the social fabric, and at an individual level in terms of individual self-worth, well-being and good mental health. The importance of SMEs has been noted by the OECD (2013) who write, *"In all countries most businesses are micro-enterprises, i.e. firms with less than ten employees; between 70% and 95% of all firms are micro-enterprises. In half of OECD countries, micro-enterprises account on average for more than 90% of total enterprises, with the highest proportion of micro-enterprises being found in the services sector."*

1.1. A Changing Economy and Labour Market

ver the course of the post-war period the structure of the UK and European economies has changed and is subject to continual change. The demise of traditional industries such as coal, steel, shipbuilding, clothing manufacture and engineering, and the shift to a service based economy has delivered new challenges and opportunities. It is these challenges and opportunities that SMEs are tasked to and are good at addressing. The decline of a job for life culture and the move to more flexible ways of working means that increasingly the emphasis is placed on the individual to continually learn and acquire new skills, and adapt to a changing labour market.

Today, throughout the course of their working lives people change jobs, have at times a portfolio of jobs, and have less permanency and more job insecurity compared to the immediate post-war period. As old jobs (e.g. coalmining) have disappeared, new jobs (e.g. web designer) have been created. New products, services and ways of working are the result of an innovative and dynamic market economy. Small Medium Enterprises (SMEs) operating in a dynamic market environment are seen to deliver a number of positive outcomes and are welcomed and encouraged by governments. SMEs contribute to and help deliver more resilient, innovative and dynamic market economies (Harrigan et al, 2011; Halabi and Lussier, 2014). Small (family) businesses help build diverse, self-sustaining economies that innovate, as well as encourage and promote entrepreneurship (Schumpeter, 1934). They drive forward research and development, and innovation and in doing so address problems faced by consumers by delivering new solutions in the form of products and services. SMEs create jobs and in generating employment they contribute to wealth creation as well as the social good (Amoros et al., 2013; Holmes et al., 2010). Seen as key to the development of an entrepreneurial economy and an enterprising society, SMEs serve to deliver business and economic growth, and with that greater social cohesion (Simpson et al., 2012; Unger et al., 2011). Thurik and Wennekers (2004, p. 141-2), write, *"In today's world small businesses, and particularly new ones, are seen more than ever as a vehicle for entrepreneurship, contributing not just to employment and social and political stability, but also to innovative and competitive power (Wennekers and Thurik, 1999)."*

1.2. Owner Managed and Entrepreneurial SMEs

Established owner-managed SMEs were originally started by an entrepreneur. Drawing a distinction between an entrepreneur and business owner Schumpeter (1934, p. 78) writes:

"But whatever the type, everyone is an entrepreneur only when he 'carries out new combinations' and loses that character as soon as he has built up his business, when he settles down to running it as other people run their business. This is the rule, of course, and hence it is just as rare for anyone always to remain an entrepreneur throughout the decades of his active life, as it is for a businessman never to have a moment in which he is an entrepreneur, to however modest a degree."

Building on the point made by Schumpeter (1934) it is worth noting that not all SMEs are necessarily entrepreneurial. In sum there a distinction within SMEs between those SMEs happy to operate within the parameters they know in terms of what they do, and those taking a more entrepreneurial approach to business life and growth. The literature recognises that in SMEs, owner mangers are dominant and that structures and ways of working are not complex or always formally laid down (Adams et al., 2012; Storey and Greene, 2010).

1.3. Summary Remarks

SMEs typically have a flat organisational structure and do not always take a strategic view (Stokes and Wilson, 2010). Despite this and as Busenitz, Gómez and Spencer (2000, p. 994) point out:

"Entrepreneurship research has focused broadly on the development of smaller firms (Acs, 1992; Aronson, 1991) and more narrowly on the founding and success of firms that are introducing new products to the marketplace (Schumpeter, 1934). In both cases it is argued that these firms are the ones that provide the impetus for economic growth (Reynolds, 1997; Rondinelli & Kasarda, 1992)."

SMEs and entrepreneurship are important to us all and they help address customers problems and they contribute to the communities they serve. They help diversify and thus strengthen the economic base and enrich the communities they serve and in which they are located. They are a legitimate and growing area of academic research and continue to serve as one tool for government to use to deliver economic growth and societal uplift. It is perhaps worthwhile concluding this section as Thurik and Wennekers (2004, p. 140) do when they write, *"that government's central role in entrepreneurialism for the economy is, by its very nature, enabling. Furthermore, entrepreneurship is acknowledged as a driver for economic growth, competitiveness and job creation."*

Unit 2: Turbulent times

It is important to recognise that there is no all-encompassing and accepted definition of the term SME. In Europe, a small and medium-sized company employs from one to 249 employees and has a yearly turnover of to two to fifty million Euros. There are different definitions according country and institution context and there are different ways of classifying and categorising SMEs (Kilviluoto et al., 2011; Smallbone et al., 2010; Unger et al., 2011). Despite the definitional difficulties it can be noted that SMEs, small family businesses and entrepreneurs operate within the constraints set by the macro environment and also use this to seek out opportunities. Westhead (1997, p. 127) points out that, *"Family firms are regarded as an important phenomenon throughout the world. It is, however, surprising to note that empirical research surrounding the ambitions, 'external' environments and strategies of family firms is scarce."*

2.1. PEST Analysis

PEST Analysis is a simple and widely used tool that helps to analyse the Political, Economic, Socio-Cultural, and Technological changes in the given business environment. This helps the decision makers understand the "big picture" forces of change that the firm is exposed to, and, from this, take advantage of the opportunities that they present.

2.1.1. Political Factors

Within the Political dimension factors affecting SMEs include whether or not the government of the day prioritise a small business enabling environment. Questions to be asked might include:
When is the country's next local, state, or national election? How could this change government or regional policy?
Who are the most likely contenders for power? What are their views on business policy, and on other policies that affect your organization?
Could any pending legislation or taxation changes affect your business, either positively or negatively?
How will business regulation, along with any planned changes to it, affect your business? And is there a trend towards regulation or deregulation?
What is the likely timescale of proposed legislative changes? Are there any other political factors that are likely to change?

2.1.2. Economic Factors

Within the Economic dimension factors affecting SMEs include the level of unemployment, inflation, interest rates, recession, recovery, and economic growth. Questions for SMEs to consider are:

How stable is the current economy? Is it growing, stagnating, or declining? Are key exchange rates stable, or do they tend to vary significantly?
Are customers' levels of disposable income rising or falling? How is this likely to change in the next few years?
What is the unemployment rate? Will it be easy to build a skilled workforce? Or will it be expensive to hire skilled labour?
Do consumers and businesses have easy access to credit? If not, how will this affect your organization?

2.1.3. Socio-Cultural Factors

Within the Social dimension factors affecting SMEs include opportunities presented by culture and diversity. Schumpeter (1943, p. 132) writes, *"To undertake such new things is difficult and constitutes a distinct economic function, first, because they lie outside of the routine tasks which everybody understands and, secondly, because the environment resists in many ways that vary, according to social conditions, from simple refusal either to finance or to buy a new thing, to physical attack on the man who tries to produce it."* Questions to be addressed by SMEs include:
What is the population's growth rate and age profile? How is this likely to change? Are generational shifts in attitude likely to affect what you're doing?
What are your society's levels of health, education, and social mobility? How are these changing, and what impact does this have?
What employment patterns, job market trends, and attitudes toward work can you observe? Are these different for different age groups?
How do religious beliefs and lifestyle choices affect the population?Are any other socio-cultural factors likely to drive change for your business?

2.1.4. Technological Factors

Within the Technological dimension factors affecting SMEs include the opportunities presented by the growth of social media, the internet, mobile communication as well as robotics, automation and the opportunities emerging from bio-technology, genetic engineering and the human genome project.

Craig and Moores (2006, p. 1) found *"that linkages between established family firms and innovation may be substantially stronger than currently assumed by many."*
Westhead's (1997, p. 127) research *"confirmed that family companies faced a number of unique issues that influenced their competitive stance. Interestingly, family companies that were resistant to change and unaware of emerging industry and market opportunities were markedly less likely to have focused upon technology concerns in order to improve their competitive position."*

Zahra, Neubaum and Larrañeta (2007, p. 1070) write:

"Family firms need strong technological capabilities to acquire and maintain market share, grow their operations, earn profits, and create wealth. Building these capabilities requires family and non-family members to share and integrate their knowledge about the industry, competition and technological trends. According to the knowledge-based view of the firm, these knowledge sharing practices can occur formally and informally. Though familial ties enhance formal and informal knowledge sharing within family firms, jealousies, rivalries and concentration of power can stifle this sharing. Results using data from 209 family firms show that formal and informal knowledge sharing practices are positively associated with the strength of family firms' technological capabilities. Furthermore, the number of generations involved in management strengthens the relationship between both formal and informal knowledge sharing mechanisms and family firms' technological capabilities, while the percentage of top managers who are family members strengthens the informal knowledge sharing–technological capabilities relationship." Questions for SMEs to consider might include:

-Are there any new technologies that you could be using?
-Are there any new technologies on the horizon that could radically affect your work or your industry?
-Do any of your competitors have access to new technologies that could redefine their products?
-How infrastructure changes affected work patterns have (for example, levels of remote working)?
-Are there any other technological factors that you should consider?

2.1.5. Legal Factors

Within the Legal dimension the need to comply with legislation in the area of tax, and health and safety affect SMEs. Questions for SMEs to think about include:
What legislation is currently going through Parliament that might impact on how we do business?
What recent court cases have had a bearing on how and what businesses do?
Are we fully compliant with the law on health and safety, equality, and with tax?
Environmental Factors
Within the Environmental dimension factors affecting SMEs include concerns around global warming, de-forestation and among other things the natural environment. Questions for SMEs to consider include:

Are we adequately communicating our environmental credentials?
-How might we work differently to reduce waste and recycle more?
-What can we do to reduce our carbon footprint?

There are *variations of PEST Analysis* that bring other factors into consideration.

These include:
PESTLE/PESTEL: Political, Economic, Socio-Cultural, Technological, Legal, Environmental.

PESTLIED: Political, Economic, Socio-Cultural, Technological, Legal, International, Environmental, Demographic.

STEEPLE: Social/Demographic, Technological, Economic, Environmental, Political, Legal, Ethical.

The macro – Political, Economic, Social, Technological, Legal, and Environmental (PESTLE) – environment is largely uncontrollable and is something SMEs need to be aware of and to operate within. The PESTLE macro-environment is also sometimes referred to as the external environment. SMEs learn to adapt to the challenges presented by macro-environmental changes and factor this into their ways of working.

2.2. Summary Remarks

Drawing together the aforementioned discussion of the macro-environmental factors influencing, shaping, constraining and offering opportunities to SMEs helps shape understanding of some of the bigger issues. There are nevertheless some identifiable trends that can be gleaned from scanning the external environment. Aronoff (1998, p. 181) *"identifies 10 "megatrends," which are evolving changes fundamental to understanding and working with family businesses. Identified trends include focusing on generational transitions rather than business succession; team management and ownership as a developing norm; the increasing importance of strategic planning in family business; increasing financial sophistication; increasing managerial professionalism; refining retirement; expanding roles for women; increasing sensitivity of professional service providers to family business; and increasing availability and quality of family business education and consulting."* The megatrends identified by Aronoff (1998) are shaped by and interact with the aforementioned macro environmental factors and serve to demonstrate how the macro and micro environments connect. The next section explores the SME micro environment.

Unit 3: SME micro environment

3.1. Introduction

SMEs have a degree of control over the micro-environment as it typically comprises their stakeholders with whom they interact, negotiate, and network, relationship build and influence. Schumpeter (1943, p. 132) writes, *"To act with confidence beyond the range of familiar beacons and to overcome that resistance requires aptitudes that are present in only a small fraction of the population and that define the entrepreneurial type as well as the entrepreneurial function. This function does not essentially consist in either inventing anything or otherwise creating the conditions which the enterprise exploits. It consists in getting things done."* In order to 'get things done' and to 'make things happen' it is necessary to work in co-operation with stakeholders.

3.2. Stakeholder Theory

Stakeholder theory (Freeman and Reed, 1983; Freeman, 1984) explores the relationship businesses have with groups that have an interest in what they do and as such it is useful way of exploring the micro (stakeholder) environment. Freeman and Reed (1983, p. 91) defined a stakeholder as *"any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives."* Post, Preston and Sachs (2002, p. 8) argue that *"the stakeholders in a firm are individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities and who are therefore its potential beneficiaries and/or risk bearers."* SMEs have many stakeholders and they include suppliers, government, local communities, natural environment, owners, family, employees, and customers. Stakeholder theory challenges the shareholder view of the world by bringing suppliers, government (local and national), community groups, the environment, and employees into the management thinking and decision making. The voice of stakeholders represents a range of interests and views that includes but is not restricted to that of shareholders. Stakeholder theory is a legitimate way of exploring the micro-environment of small family businesses and SMEs.

Stakeholder groups have different degrees of importance and wield varying amounts of power according to the issues they seek to advance and claim they make (Mitchell et al, 1997). Trying to balance the competing and diverse interests of SME stakeholders requires tact, negotiation and good people management skills. Mitchell et al. (1997, p. 869) pointed out that *"managers give priority to competing stakeholder claims."* Positive and constructive stakeholder relations, be they normative or instrumental are a means of improving profit (Donaldson and Preston, 1995). Having a wide stakeholder network can help SMEs achieve a degree of competitive advantage. Businesses, including SMEs that work well with stakeholders are, it has been suggested, likely to deliver stronger performance (Jones, 1995). In a similar vein, Michelon, Boesso and Kumar (2013) suggest that linking stakeholder management with CSR improves financial performance, and this obviously can include that of SMEs. Jensen's (2002) notion of enlightened stakeholder theory advanced the case that involving all stakeholders would better realise maximum value and ideal solutions to the benefit of all concerned. Stakeholder theory should not be equated with socialism (Philips, Freeman and Wicks, 2003). Stakeholder theory adds value and delivers a number of long term benefits (Agle et al, 2008). Different stakeholders have different requirements and needs, and managing their expectations is the art of good SME and small family business stakeholder management. It is safe to say that the stakeholder micro environment for small family businesses is both more complex and stable given the family aspect. It can be more complex as the mixing of family with business can bring additional challenges. It can also be more stable as the families can offer emotional, financial and other types of support to businesses.

SMEs and small family businesses have some degree of influence and control over the micro-environment. They can listen to, talk and consult with their stakeholders and from these conversations can influence decisions, shape agendas, adapt to change, and have a degree of control over their own business futures.

Unit 4: Government, SME and family businesses

4.1. Introduction

The role of government is to set the conditions and provide the overall framework within which SMEs and small family businesses can operate and grow. Government's role is to encourage and enable business start-up, growth and succession. Ideally they set the overall legal framework by which SMEs produce and trade; they create an education system that delivers educated, skilled, trained and work-ready employees; they provide a stable economy in which SMEs can securely plan for their future; and they set a regulatory and tax and spend environment that is fair without being onerous, or at least that is the desired state. Drawing out the distinctions between government's role in the managed economy compared with that in the entrepreneurial economy Thurik and Wennekers (2004, p. 147) write:

"Government policy in the managed economy was largely about control. High certainty with respect to technology and stability of mass consumer markets dictated that it was known what to produce, how it should be produced, and who would produce it. This led to a predominance of scale economies. The role of government was to constrain the power of large corporations, which were needed for efficiency under mass-production but posed a threat to democracy through their concentration of power. Under the managed economy the policy debate aimed at competition policies (antitrust), regulation and public ownership of business. In the entrepreneurial economy these constraining policies have become increasingly irrelevant. The central role of government policy in the entrepreneurial economy is enabling in nature. The focus is to foster the production and commercialisation of knowledge. Rather than focus on limiting the freedom of firms to contract through antitrust, regulation and public ownership, government policy in the entrepreneurial economy targets education, increasing the skills and human capital of workers, facilitating the mobility of workers and their ability to start new firms, lowering administrative burdens for small business and promoting knowledge transfer to innovative new enterprises."

Today's situation is one in which government uses the tools at its disposal for example education, training and 'light-touch' regulatory regime to enable and empower citizens to consider starting a small business, or working for a SME. Government can do so much and rightly or wrongly the onus is increasingly being placed on citizens to take and make their own opportunities, to establish wealth creating and self-sustaining businesses. From small business start-ups some may prosper and grow into medium sized and even larger businesses. A lot of start-up businesses fail in their first year of trading. Government should be seen as a friend and champion of SMEs as they provide the tax base from which government public expenditure is funded. It is in government's interest to encourage enterprise and entrepreneurship and to work with SMEs. Government should seek to build a diverse business base and thereby deliver a more resilient economy from and in which SMEs can prosper.

European countries have different policies, practices and approaches to SMEs and the environment in which they operate. All are committed to having thriving SMEs but the approaches they adopt vary according to country specific circumstances. This point has been made well by Busenitz, Gómez and Spencer, (2000, p. 994) when they write that, "*firms are embedded in country-specific institutional arrangements. For instance, unique institutional structures guide firms' strategic activities and help determine the nature and amount of innovation that take place within a country's borders (Nelson, 1993).*"

It is certainly the case that different countries have different levels of entrepreneurial activity and this borne out by Global Entrepreneurship Monitor (GEM) data http://www.gemconsortium.org/data. The differences in the GEM data can in part be accounted for by policy initiatives and interventions, culture, and among other things levels of taxation and regulations. Busenitz, Gómez and Spencer, (2000, p. 994) also point out that, "*Differences in national institutions may also bring about different levels of entrepreneurial activity across countries. Casson (1990) argued that an infrastructure that enhances cooperation between a country's entrepreneurs will facilitate problem-solving activities and increase entrepreneurial activity.*"

Within the SME category family businesses are one distinct and heterogeneous element. Government has tended to equate the two as being broadly similar. Though it is safe to assert that more work could be done by government to better understand and inform the ways in which their decisions on policy take account of and influence family businesses. Westhead and Cowling (1998, p. 31) write, "*This study confirms that family companies are a numerically important group of businesses. Policy makers and practitioners must, however, be aware that the scale of family firm activity in any developed economy is highly sensitive to the family firm definition selected.*"

Governments throughout the EU champion SMEs and provide the legislative and economic frameworks as well as the educational and cultural environment which support business start-up and growth. Different European countries have different rates of entrepreneurship but all recognise the importance of SMEs to the economy and national life.

End of Section Reflective Questions

1] Think about how the world has changed in the course of the past 30 years. How have these changes impacted on SMEs and family businesses, consumers, and citizens?

2] How can Pestle analysis be used for understanding SME environment / setting in which they operate?

3] What is stakeholder theory and how might it help businesses add value to what they do?

4] How constrained are SMEs by the circumstances and environments in which they operate?

5] In what ways can Governments encourage, develop and help growth of SMEs?

SECTION II: Making Things Happen

Unit 5: Making, taking and managing opportunities

5.1. Introduction

This section looks at how SMEs make, take and manage opportunities by scanning the environment and taking responsibility for their own actions. Recognising and acting on opportunities are key to SMEs ways of working and doing business.

SMEs and small family businesses are in a number of ways different from their larger counterparts. They differ in terms of their size, scale of operation, turnover, human resource capability and their ability to raise finance. These constraints also serve as opportunities with regards to operating in new and innovative ways that traditional larger firms do not. As such this brings potential for SMEs to find creative solutions to the constraints they encounter as a result of the market environments in which they are situated and from which they operate. Scanning the environment, recognising opportunities and acting on them are key to SMEs working and their success. As SMEs and small family businesses grow, the skills of management are increasingly deployed and called upon. There are opportunities within the business to acquire new skills and learn by doing as well as in more formal education and training settings. Gartner (1989, p. 28) writes, "*Entrepreneurship is the creation of new organisations is not offered as a definition, but rather, it is an attempt to change a long held and tenacious viewpoint in the entrepreneurial field. So we move to understanding entrepreneurship as a behaviour.*" Opportunity seeking is a form of entrepreneurial behaviour.

5.2. Different Types of Opportunities

Schumpeter (1934, p. 66) identified a number of different entrepreneurial opportunities when he wrote:

"Development in our sense is then defined by the carrying out of new combinations… This concept covers the following five cases: 1] The introduction of a new good – that is one with which consumers are not yet familiar – or a new quality of good. 2] The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially. 3] The opening of a new market that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market existed before. 4] The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created. 5] The carrying out of the new organisation of any industry, like the creation of a

monopoly position (for example through trustification) or the breaking up of a monopoly position."

There are a series of tasks involved in making, taking and managing opportunities and they typically involve research (e.g. gathering data by scanning the environment), networking (e.g. making, maintaining and growing a contact network), and among other things recognising, creating and realising value. Opportunities arise and change and are in part identified through problem recognition and the attempt to address it. Where others see problems entrepreneurial SMEs see opportunities and act on them. Meeting customer needs in new (e.g. new product or service) or different and usually more efficient ways (e.g. new ways of accessing product or service), as well as being able to identify new and often niche market segments, and to offer something (e.g. brand value proposition) that competitors can't are key ways of acting on opportunities (Hulbert, Brown and Adams, 1997). An opportunity provides space for value creation and realisation. This space is time bound and limited – opportunities are transient moments in time. Opportunities emerge from the macro- and micro-environments and are addressed through the market (Shane, 2012). Value can only be realised when the product or service designed to meet customer needs actually addresses those needs and is recognised as doing so by customers. Identifying and acting on opportunities should ideally help customers address a problem by providing a solution in terms of a product or service. Involving customers in the realisation of opportunities so that the product or service is aligned with market expectations as well as market demand is integral to the value creation process (Alvarez and Barney, 2008). Different market segments have different needs and problems that they want addressing and as such opportunities can be spotted by identifying a problem faced by a particular segment that is not currently being addressed. Growing markets as well as competitor weaknesses also provide business opportunities.

5.3. Socially Constructed and Opportunities Lost

There are different ways of seeing and interpreting opportunities. They emerge and are created from perception of wants, needs, market gaps, chance events and among other things new technology. They emerge from a social context and are realised through and in that context. In other words whilst opportunities are real they are nevertheless socially constructed. They are made sense of from, through and in particular situations that are perceived though the entrepreneurial lens of those who elect to act on them. Wood and McKinley (2010, p. 66) researched and developed "*a conceptual model of entrepreneurial opportunity production from a constructivist perspective.*" Opportunities are not just scanned and identified but as part of that process they are socially constructed and thereby realised.

Opportunities are not only made (socially constructed) but are also identified, missed and lost. Wood and Mckinley (2017, p. 18) write, "*The endogenous formation of entrepreneurial opportunity has become an important theoretical perspective. Research to date focuses on initial opportunity creation dynamics leading to venture formation. This excludes the ongoing enactment of opportunity that takes place after venture founding. We focus on this* *phenomenon, arguing that opportunities must be continually reproduced through maintenance of consensus among stakeholders about their viability. If consensus fails, the objectivity of the opportunity is 'destroyed' in a process we label 'opportunity de-objectification.'"*

5..4. Opportunity in International Markets and Long-Term Orientation

In today's global market place SMEs have opportunities to promote and sell their products and services. The growth of the internet and associated social media platforms allow SMEs to communicate and to promote their brands and business interests internationally. This brings a number of challenges to the respective businesses that pursue an internationalisation growth strategy. Writing about these matters in relation to family businesses Graves and Thomas (2006, p. 207) note that, *"family firms can face unique challenges in building their managerial capabilities - - - -the managerial capabilities of family firms lag behind those of their nonfamily counterparts as they expand internationally, particularly at high levels of internationalization."* Making, taking and managing opportunities on an international basis is increasingly something that SMEs are taking on board and working towards.
Having a long–term orientation is a common feature of family businesses and it can shape the opportunities they seek and those they pursue. As such it is important to have some understanding of this. Lumpkin, Brigham and Moss (2010, p. 241) have researched in this area and interestingly they report that:

"Long-term orientation (LTO), defined as the tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period, is a common characteristic of many family businesses. Prior research is equivocal regarding whether an LTO contributes to or detracts from family firm outcomes. Of particular interest is the extent to which family business can be entrepreneurial given an LTO. Drawing on the concept of entrepreneurial orientation (EO), propositions that relate long- and short-term management time horizons of family firms to five dimensions of EO (innovativeness, proactiveness, risk taking, competitive aggressiveness and autonomy) are developed. Specifically, we propose that an LTO will be positively associated with innovativeness, proactiveness, and autonomy but negatively associated with risk taking and competitive aggressiveness."

Opportunities emerge, arise and are made at the point of business start-up, through the growth stage and throughout the life-cycle of a business. The environment changes, markets adapt, customer tastes change and all of this presents opportunities that are taken as well as those that are missed.

Unit 6: Growth and Development

This section looks at the issues surrounding and concepts and models used to explain the growth of SMEs and family businesses. First, it considers the objectives of organisations and how SMEs and, more specifically, family firms differ in these objectives. It then considers the strategic resources available to family business as a means for achieving growth. The theme is developed further with the subsequent section explaining various models and frameworks for growth in family businesses and then explanations for growth being achieved, including decision-making processes. The subsequent sections then look at constraints on growth in SMEs and family businesses, and the strategic choices available when considering the future direction of the firm.

Family Business Growth and Development

6.1. Objectives of organisations

Whether SMEs, multinationals or any other form of organisation, it is necessary to plan the future of their organisation. A fundamental part of this involves the setting of strategic objectives. The strategic objectives must be in line with the mission of the organisation (the reason why it exists) and the vision (where they want to be in the future). The objectives of organisations often listed as the triple bottom line (Elkington, 1997): profit; planet; and people. However, they are usually split into two categories: financial objectives (relating to the profit aspect of the triple helix) and non-financial objectives (which basically involves any other aspect, be it people or planet).

Some examples of financial objectives are: to increase turnover to over $3 million in the next 5 years; or to increase total revenue by 15% annually for the next 3 years. These examples of financial objectives can be separated into two further types: the first two examples relate to financial growth and the second two relate to financial efficiency (controlling the costs). Non-financial objectives often involve the customers, staff, suppliers, and systems (e.g. technologies, or policies and procedures). Some examples of non-financial objectives are as follows: to ensure future sales to existing customers; or to set up a CRM system (customer relationship management).

Consider the context of the family firm then economic prospects appear paramount at first glance, but within the concept of familiness it can be seen that leaders of family firms also have objectives relating to family welfare, which include secure employment for family members, succession of family members and other personal interests such as protection of the 'family wealth'. Arregle et al. (2007) refer to this as *dynastic stability*. Schein (1983) and Dyer (1992) both found that leaders view their family firms as extensions of themselves and this lens pushes leaders of family firms to not only look at the profit of the firm but also income generation that can be passed across family generations, or as Habbershon and Pistrui (2002) refer to it: *transgenerational wealth*. In a nutshell, leaders of family firms may be seen to "act in ways that protect their vision, family business reputation, and survival or continuation of their business lineage" (Lim et. al, 2010: 200).

6.2. Strategic resources

Familiness has its positive and negative impacts on business operations, as well as the short and long-term performance of the enterprise. The impact is positive when trust, sincere communication, unconstrained devotion, long term interest are present in the organisation (Klein, 2008; Milton 2008). However negative influence emerges when the organisation is driven by short term interest, manifested in apathy, rigidity, nepotism and inertia (Feito-Ruiz and Menéndez-Requejo, 2010).

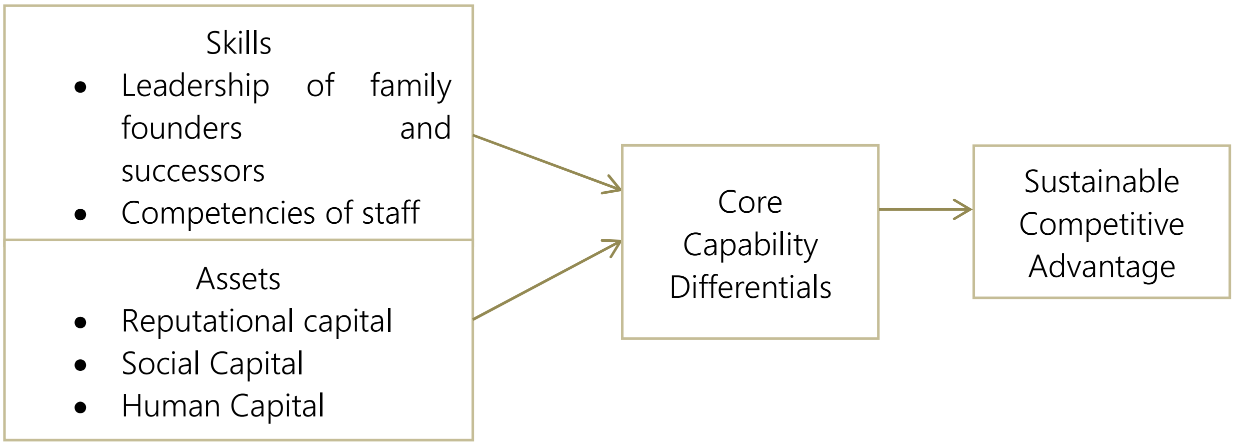
If one considers the resources of family firms in terms of capital, then a number of researchers have indicated the types of capital available to family firms as follows:

Table 1. Types of capital within family firms

Author	Types of capital within each model	Focus
Filep (2012)	• Human Capital of family members • Social Capital • Survivability • Patience • Governance structures	Internal External Both Both Internal
Dyer (2010)	• Human Capital • Social Capital • Financial Capital	Internal External Internal
Poza (2007)	• Span of responsibility (of managers and owners) • Ownership structure • Market / customer focus • Protection of family name and reputation • Relationships between family, owners and management	Internal Internal Internal External External Internal

If one considers the basic resource-based model then sustainable advantage achieves core capability differentials in firms through skills and assets. If one also takes Filep's (2012) detailed breakdown of capital within family firms, then it is possible to merge these two models together to create a strategic resource model for the specific context of family firms. This can be seen in the following figure:

Figure 1. A strategic resource model of sustainable competitive advantage in family firms



6.3. Stage models of growth

Kimberly & Miles (1980, p. ix) highlight how firms develop, or don't: „… the cyclical quality of organizational existence. Organizations are born, grow, and decline. Sometimes they reawaken, and sometimes they disappear". Several models have been developed to describe and analyze the different stages that family businesses go through during their existence. Some take the governance within the family perspective, others take the physical change in size, and so on. These perspectives are looked at and is followed by an overview of SME growth in general.

The basic three-stage model summarizes the family business lifecycle, providing they do not decline or fail at an earlier stage, from the perspective of family governance issues:

Stage 1: The Founder(s)

At this stage, the founder owns and manages the business, and is highly driven and committed. Although the founder will make decisions, it may be necessary to consult experts or other contacts (e.g. through networking) for advice. To ensure transition to the next stage, the founder will need to groom family members for succession.

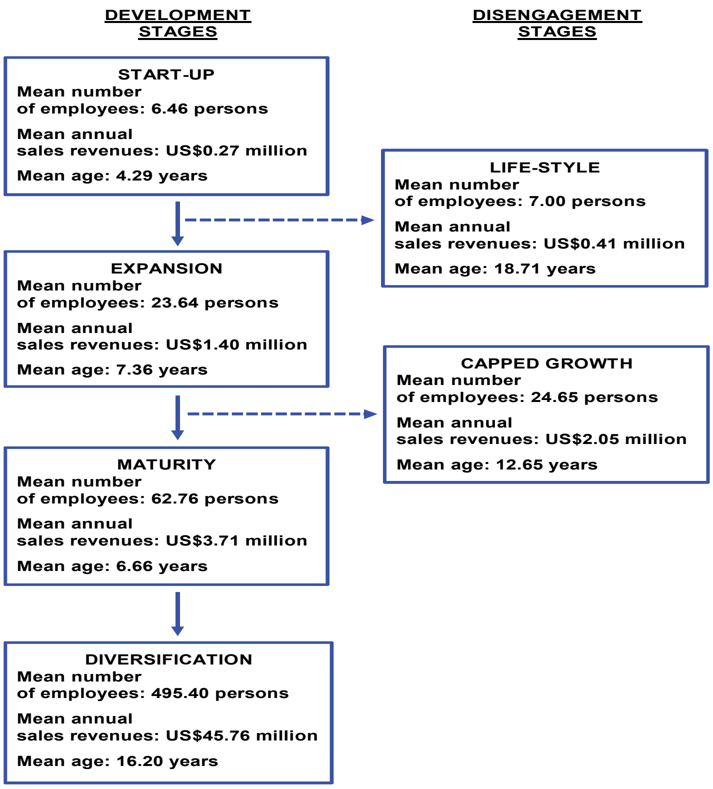
Stage 2: The Sibling Partnership

Management and ownership is transferred to other family members and as decisions are no longer taken by one person, governance is more complex than the previous stage. Thus, there is a greater need to keep the peace between all owner-managers (hence communication is key) and start setting up processes and procedures that were not necessary in the previous stage with its smaller size and informal systems.

Stage 3: The Cousin Confederation (Cousin Consortium or Family Dynasty)

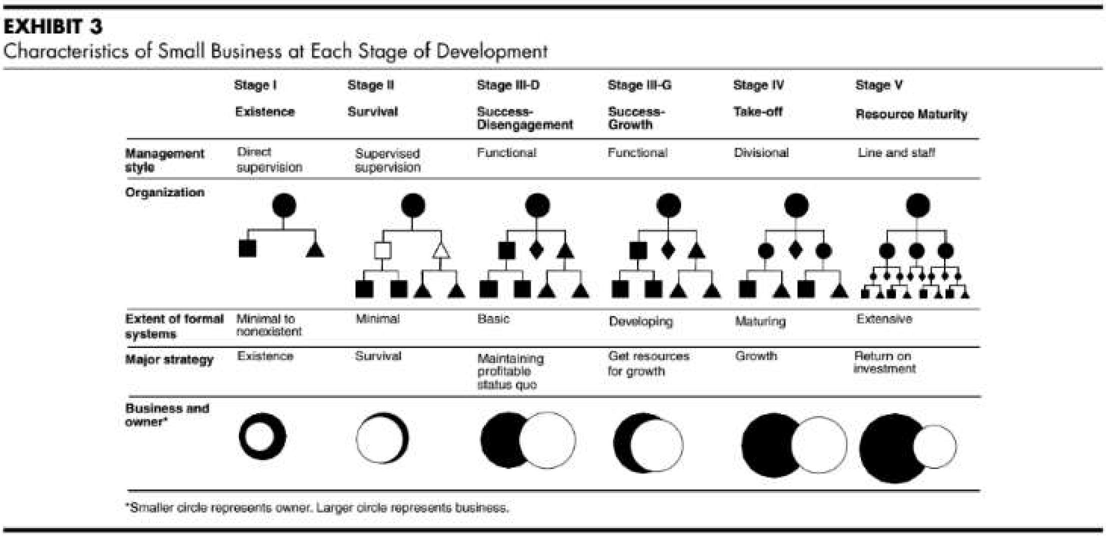
Governance becomes more complex as more family members are involved. More people involved in governance leads to more diversity of ideas and values. This, in turn, leads to a higher likelihood of conflict than in the previous stages. There will be a need to establish and communicate a shared vision and mission to ensure all members are 'on board'. At this stage of growth, new family members joining the company will need to establish shareholding rights, dividend policy and clarity of their roles in the organisation.
As can be seen, each stage presents different challenges and issues from a governance point of view. However, it is also important to consider a life-cycle in terms of revenue, number of employees and so on. Hanks *et al*. (1993, p. 9) examined 133 manufacturing SMEs from 'high technology' industries in the United States, and developed a life-cycle model with four development stages and two disengagement (or arrested development) stages:

Figure 2: Enterprise Life-Cycle Model



It is interesting to note that this model does not include a decline stage as in some other models (e.g. Smith et al. (1985), and the reason for this is that organization decline may actually occur at any stage of the organization life cycle (Hanks et al., 1993).
A more generalist model of growth for SMEs, but covering a range of perspectives, can be seen in the following figure:

Figure 3. Characteristics of SMEs at each stage of growth



Whilst stages of growth give us an idea of how family businesses and other SMEs evolve, Gibb & Dyson (1984) claim that much SME growth is reactive rather than pro-active. Furthermore, Fombrun & Wally (1989) claim growth may occur in surges, rather than fixed stages and Merz et al. (1994) further oppose the concept of growth stages as they reject the assumption that all firms grow in a linear and predictable fashion. These point bring us towards the questions of how organisations grow, and will be covered in the following section.

6.4. Explanations of growth

Theories to explain growth give us the lenses through which SME growth can be examined and understood. *Static equilibrium* theories focus on the achievement of economies of scale and minimisation of long-run unit costs as a means to growth and one outcome of this theory is that there is no limit to a size that a business may grow to (O'Farrell & Hitchens, 1988). *Stochastic models* of firm growth give credence to the complexities found in the growth process and that "many factors affect growth and, therefore, there is no dominant theory" (O'Farrell & Hitchens, 1988, p. 1370).

O'Farrell & Hitchens (1988) found empirical evidence to support Gibrat's law for manufacturing SMEs – Gibrat (1931) derived the *law of proportionate effect*, which says that growth rates are independent of the size of the business. The *strategic management perspectives* on SME growth focuses on how owner-managers react to their internal and external environment. This involves the perceptions and other cognitive processes of the owner-manager, decision-making style, constraints, and so on.

Entrepreneurs face the challenging task of making decisions whilst in a state of uncertainty (McKelvie, Haynie and Gustavsson 2011). For larger companies, Mintzberg (1998) claimed there where 10 strategic schools or approaches that highlighted the

mixture of ways in which decisions are made on how growth can be attained. These 10 approaches involved three prescriptive schools (design, planning and positioning), which assumed that the future environment is predictable and stable, whereas the other seven descriptive schools see strategy formulation as an emergent and evolving process.
The issue of whether owner-managers react to their future environment or control it, is seen in the two approaches of *Causation* and *Effectuation* (Sarasvathy 2008). Causation takes the view that the future is predictable in the context of given information, like in the prescriptive schools of Mintzberg (1998). In contrast, effectuation involves something more organic than structured and making decisions based on interest or gut feeling, and thus, it's more about evolved rather than planned development. The differences between these two approaches for entrepreneurs' strategic choices can be seen in the following table[1]:

	Market	**Logic applied**	**Process**
Causation Research and decide	Research normally assumes and explicit or implicit intent to capture a new or latent market. This is often pushed by a visionary individuals searching for and exploiting assumed opportunities.	The search logic is straight forward, there are a finite set of possibilities that are looked into. The analyses may be done with a variation of instruments, models, to test the assumptions (or cause and effect outcome), That what does not fit the quest or purpose is often rejected.	Most importantly, because the goal is predetermined at the start, the research and use of models tends to evolve along the lines of what has been thought through only. So it does not evolve over a course actual experiences. Surprises are in this context often seen bad, unwelcome disturbances.
Effectuation Transformation and evolution	The creation of a new market or development does not need to be intentional, or even the result of foresight or creative imagination. It can be as simple as to fulfil an individual's motivations a consequence of people just doing things they think are possible and worth doing.	The logic is to transform the possibilities into opportunities. Local possibilities are used, locally available means are used to do, learn by doing, improve by doing in small pragmatic steps.	The transformation is dynamic and interactive. It is the actions and interactions with the stakeholders that will self-select the entrepreneurial process that leads to particular development. Transformation may or may not lead to new markets. Surprise is welcome and will be used for new insights.

For decision making, Ojala (2009) found that entrepreneurs rely on partnerships and networks to grow due to a lack of resources and experience. Schreier et al. (2017) found that this reliance invokes a certain degree of trust – especially when considering the future of the business. They found national differences in the person trusted from one country to another as Thai SMEs have a strong reliance on
relatives and trusted friends, and Swiss SMEs networks come from coincidences and opportunities
As a final note in this section, Hanks & Chandler (1992) point out that not all SME owner-managers are able to, or maybe even want to grow their business and in these cases, comfortable survival takes precedence as the key business objective. This brings us to the topic of aspects of limitations on the growth of SMEs.

[1]http://www.vanderleestconsult.nl/blog/read/sme-or-development-developing-business

6.5. Constraints and options for growth

When it comes to SMEs growing, the decision to expand may be based upon contrasting the current benefits of operating an SME with the benefits of running a larger company. A large company has the advantages of economies of scale, global reach, a vertical, mechanistic hierarchy, stable markets and more resources (Daft, 2016; 346-347). They also have the means to provide greater social support for the local community and a greater resilience to economic shocks and disasters than smaller firms.

Providing greater support might be of interest to social entrepreneurs and the economic benefits attractive to commercial (traditional entrepreneurs). However, SMEs – and particularly family businesses -sometimes prefer not to take the step and grow. This is partly due to being in a 'survival comfort zone' and also because the advantages may be perceived as lost in a larger organisation, such as high responsiveness to change, flexibility, and a flat structure with straightforward operations.

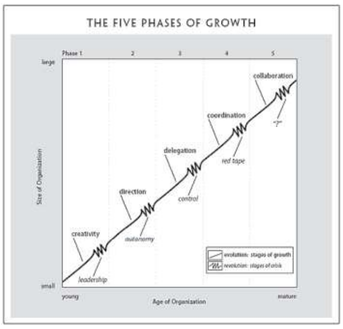
6.5.1 . Crises to manage

As the SME grows it also requires certain elements to enable growth. One of those elements is leadership: as the company grows, the number of employees also grows and owner-managers are presented with far more management issues, even though they might prefer to focus on the buying and selling of a product. This is a crisis period when the owner-manager either has to restructure or find managers that are willing and able to do it for him (Daft, 2016). A failure to do so will result in the growth being constrained.

If the leadership crisis is resolved then the owner-manager then has to ensure than all the employees are on-board with the company vision and mission. This is called the *collectivity stage*, as members need to feel part of a collective. Following this, there is a need for the owner-manager and other leaders to delegate to lower staff as they gain confidence in their work and the organisation.

The crises have been listed by Greiner (1998) under five phases of growth or 'evolution' and the crises are labelled as 'revolutions'. Each growth phase results invokes a crisis that the owner-manager has to deal with in order to move onto the next phase. A failure to do so may result in growth being constrained. The following figure indicates the five phases and crises to be handled:

Figure 4. The five phases and crises of growth



Source: Greiner (1998: 4)

These crises may seem insurmountable to the owner-manager either through a lack of experience or motivation to change working practices. One alternative option for growth is to opt for a form of company developed by Jack Welch, ex-CEO of General Electric, called the big-company/small-company hybrid. This form grows in size to have the resources and reach of a large company, but keeps a flexible, flat structure, with autonomy for the employees. As this type combines both the advantages of large and small companies, it is often referred to as an ambidextrous approach.

6.5.2. Maintaining the status quo

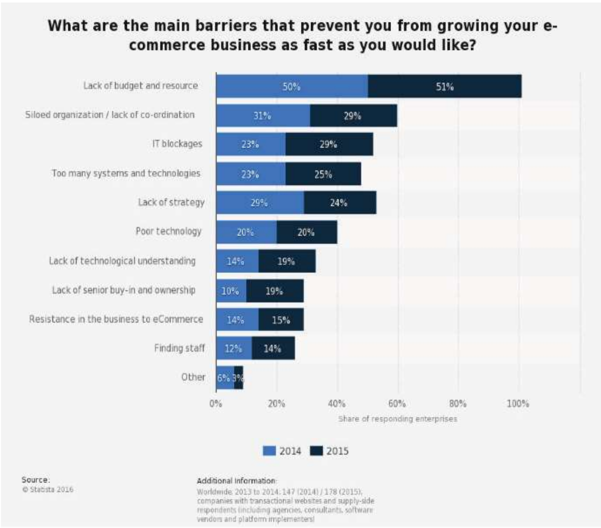
Beyond the perceived benefits of growing into a larger company, Holmes & Zimmer (1994) referred to the possibility of 'capped growth' in SMEs (see earlier figure of the Enterprise Life-Cycle Model) as being based around risk aversion. Owner-managers would prefer to loss some of their current accumulated wealth by 'standing still' rather than take on the higher risks involved in expansion.

For family businesses, the risk of growth is also seen as a risk of losing the family control of a business (Socio-Economic Wealth). Gomez-Mejia et al. (2011) examined 360 family and non-family controlled firms and found that family firms diversify less both domestically and internationally than non-family firms. This lack of diversification was seen as due to a desire to preserve the status-quo. Even if an SME has the financial resources to expand through mergers or acquisitions, Gomez-Mejia et al. (2015) found that rather than lose some socio-economic wealth, they would avoid acquiring on-family firms.

6.5.3. External constraints

Even if the owner-manager is planning to grow, there are many external constraints that will either limit the options available or delay the expansion itself. The following list is not considered exhaustive but may give a sample of general areas which owner-managers will need to consider prior to expansion: lack of finance; legal issues; corruption; lack of government support; a lack of experience or expertise. However, the sector and industry in which the SME is based will have a large impact upon the range of constraints (e.g. size of the market, competition, growth of the market), as can be seen in the following example of e-business:

Figure 5. The main constraints to growth for e-business



Source: Statista (2016)

If one considers the constraints as generally surmountable for growth, then the next thing to consider are the options that may be conducive to growth in SMEs

6.5.4. Options for enhancing growth

Andrews (2010) examines case studies for growth in SMEs and found a number of best practices that could give an SME a greater chance of achieving growth and overcoming many of the constraints that have been considered in this section. The six best practices can be seen in the following table:

Table 3. Six best practices for owner-managers

Nurturing Survival in the Sibling Partnership	**Driving Succession with Cautiousness then Confidence**	**Developing Distinct Roles Based on Passion**
Balancing Professionalization with a Family Feel	**Focusing on Skilled People**	**Making Transitions with Symbolic Change**

Source: Andrews (2010: 34)

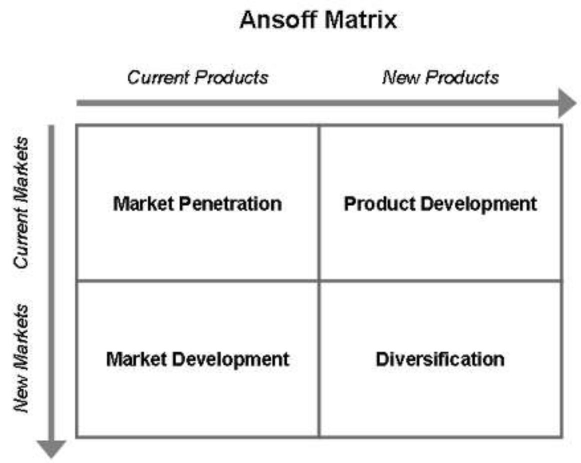
As can be seen in this table, the best practice involves preparing for the expansion through ensuring family members are ready for succession, clarifying roles based upon personal interests and drives, maintaining competitive edges achieved through familiness, developing the employees for expansion and ensuring that transitions are made incrementally.

These aspects relate well to empirical research on constraints to family businesses. Amiri et al. (2013) examined 88 family businesses and found correlations between growth and risk taking, managerial skills, interest of people to participate in the business, strategic insight and innovation orientation. Interestingly, Amiri et al. (2013) found no correlation between growth and the governance of family businesses.

6.5.5. Options for direction of growth

Generally for businesses the options for growth involve the markets and products. This is shown in the Ansoff matrix and other models:

Figure 6. Business options for growth with the Ansoff matrix



Whilst these options could be possible for an SME, there is a theory that options are in fact limited when SMEs are in the same industry and 'co-evolve' (Carney & Gedajlovic, 2002). SMEs co-evolve as a result of similar strategies as well as positive feedback from the environment (signals). This results in the allocation of resources to support existing capabilities and expelling new initiatives, which result in strategic inertia (Schreyögg & Sydow, 2011). This inertia is also caused by a combination of dependence on particular markets and rigidities that develop over time with regard to resources and capabilities (Friesl and Heracleous, 2017).

Unit 7: Entrepreneurs and Owner-managers

7.1 Introduction

This part of the module is concerned with particular aspects of entrepreneurs and owner-managers. Nordqvist and Melin (2010) summarized the main aspects of this area with the actor-activity-attitude framework (3A model). *Actor* refers to the distinctiveness of the family unit that is characteristics to this type of business. *Activity* concerns entrepreneurial actions, and *Attitude* regards entrepreneurial orientation (Zellweger, Nason et al., 2013) and other personal resources as a means for competitive advantage (Chirico and Salvato, 2016). These three themes topics and many others will be covered in this section to present an overview of owner-managers and entrepreneurs.

The next section considers the personal attributes, skills and behaviour of them as well, in the context of how they compare to the managers and entrepreneurial types of larger organisations. It looks at business start-up motivations and specific entrepreneurial attitudes and styles, and how these may affect strategy implementation. Finally, it considers the culture of the small family business and how specific values and norms characteristic of this form of business may affect its activities as well as its success or failure. This entails a consideration of the concept of familiness, cultural diversity, both on an organisational and national level, and cultural barriers.

7.2 Defining entrepreneurs and owner-managers

If one looks for a suitable term for the person that is responsible for small enterprises then many emerge. Many of the terms indicate a particular interest or activity in the business, such as entrepreneur, owner and manager. However, these activities can be combined, and likewise, the terms are also combined as follows: entrepreneur-owner, entrepreneur-manager, owner-manager and even entrepreneur-owner-manager (Jennings and Beaver, 1995).

This section focuses on the individual owner that has set up a business and is managing the small business. This owner-manager could also be considered a entrepreneur in the basic meaning of the term. Merriam-Webster put forward a definition that fits our view of an owner-manager as "*one who organizes, manages and assumes the risks of a business or enterprise*". However, some experts argue that a true entrepreneur is more than this[2].

A true entrepreneur is looking for opportunities and making a difference. In other words, it's about finding something new and applying it to a market, identifying a need and filling it. Steve Spoonamore, is a serial entrepreneur and a member of Forbes' list of America's most promising companies and explains true entrepreneurs as follows[3]:

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[2]https://www.forbes.com/sites/brettnelson/2012/06/05/the-real-definition-of-entrepreneur-and-why-it-matters/#c7760de44562

[3]https://www.forbes.com/sites/brettnelson/2012/06/05/the-real-definition-of-entrepreneur-and-why-it-matters/#2ce53ae84456

"there are people who love to sail the ocean or climb mountains, and more power to them – but it's nowhere near as interesting as taking a technology nobody has heard of, finding a market for it and launching it to your customers. That's satisfying".

The owner-manager has to climb the mountain of building a business from scratch, and the entrepreneur sees potential and adapts a technology to fill a need in a particular market. Thus, some owner-managers may be entrepreneurs in its true meaning, but not all.

7.3 Personal attributes, skills and behaviours of entrepreneurs and owner managers

Entrepreneurs and owner-managers of small firms differ from managers of multi-nationals and other larger organisations. Bridge et al. (1998) make the following distinctions for smaller businesses:

- Absence of Functional Managers: as mentioned earlier, the management of a small business remains with one person, necessitating certain skills and attitudes.
- On-the-Job Learning: small business owners are often new to running a business, despite some expertise or experience in a given industry. The missing knowledge of running a business is generally acquired on the job.
- Investment and Resources: the money invested in the business is often personal money rather than received from Venture Capitalists or other impersonal investors. This can lead to an unwillingness to spend money, or a greater focus on short-term returns, when compared to counterparts in larger organisations.
- Discontinuities and limitations: when a large company is overloaded, they may apply for a bigger budget, temporary staff or extra help from another department. In a small business, there may only be one or two people and the labour cost of two extra staff would double i.e. be too high for the small business.
- Identification with the business: A manager in a large multi-national will not have the same personal link to the business as a founder who set up the business and watched it grow
- Values: as will be seen later in this section, the values upheld in a small business will be those of the owner-founder or entrepreneur and can be observed throughout the entire business from quality standards through to the treatment of employees.

Driel and Poutsma (1989) also compared SMEs and larger companies and found differences in personal entrepreneurship and direct personal work relations, and division of work. Personal entrepreneurship relates to the personal (financial) contribution to the company that the owner-manager or entrepreneur has made. In small businesses, the degree of work division was found to be lower, whilst at the same time there is a higher degree of autonomy (van Driel & Poutsma, 1989).

In Europe, a small and medium-sized company employs from one to 249 employees and has a yearly turnover of to two to fifty million Euros. Therefore, entrepreneurs and owner managers play a key role in small to medium-sized companies. They have to manage a range of business activities from budgeting and marketing through to human resource management tasks. In many cases, a small business outsources functions such as human resource management or may not perceive them as necessary in the early stages of development of the business.

Although the previous section made a distinction between owner managers and entrepreneurs, there are some similarities. For example, they are both overworked and, because of this high workload, they don't have enough time to deal with all management tasks. Here are some of the other characteristics:

7.3.1. Short-termism

Entrepreneurs and owner-managers also focus on short-term actions and thinking. Therefore, they make decisions on a daily basis or week by week. There is often a single line system in small and medium-sized companies. This means that only the owner manager or the entrepreneur has the right to reach a decision. Consequently, management tasks concentrate on them. This leads to owner manager's or entrepreneur's accumulations of tasks and excessive demands. Because of often missed skills and knowledge and also lack of time and lack of personnel, small and medium-sized enterprises commission business consultants (if they have sufficient funds) who have the tasks of defining and realizing opportunities.

7.3.2. Creativity

An owner manager should be creative because of the need to develop constructively company policies, systems and procedures. In other words, the creativity is required for the business to function effectively. An entrepreneur not only thrives on the creative process, but cannot set up a business before the creative aspect has come into play by perceiving a need and finding the means to satisfy that need.

7.3.3. People skills

Assertiveness is needed with the various stakeholders such as suppliers, accountants, or staff, but he should be sensitive as well when he has to mediate differences of opinion between employees or when he has to deal out criticism to employees. But he also needs the competence in motivating the employees – this is especially important as any staff employed will be required to undertake a range of tasks and activities. It is not unheard for a staff member to be involved in marketing, finance and logistics. Discretion and trustworthiness are essential behaviours which an entrepreneur or an owner manager should have because he knows or works with individual-related data.

7.3.4. Knowledge

An entrepreneur or an owner-manager should have knowledge in aspects of accounting such as budgeting, marketing techniques, networking and many other areas, since the business often rests on their shoulders alone. One particular aspect of knowledge that is worth consider is that of 'newness' i.e. being new to the arena of running a new small business.

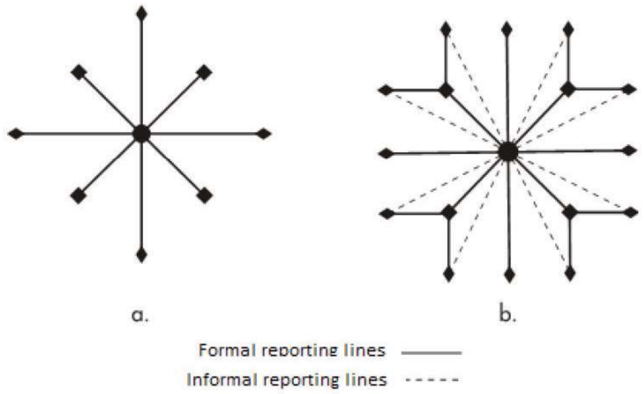
Owner-manager of young firms have to contend with particular difficulties that have been classified as part of the "liability of newness", which may lead to a greater chance of failure. The causes for failure are all based on the need to learn something new and include: new roles that have to be learned; new routines to solve problems; establishing new social relations with strangers; and new connections with those who use their services (Stinchcombe, 1965). This need to learn and develop during the course of growing the business leads to a make or break situation: Carroll (1983) found that organizational death rates decline with firm age. Phillips and Kirchoff (1989) found that three out of five new firms fail within their first six years and Nucci (1999) also found this regardless of industry, size grouping, or region. The new situation was found by Freeman et al. (1983) to depend upon the cooperation of the owner-manager with strangers, whereas older organizations have developed stable and established networks. In a nutshell, the owner-manager is faced with a steep learning curve.

Turning from the similarities to the differences between entrepreneurs and owner-managers, then some characteristics can be seen as specific to one of the two only. Looking first at entrepreneurs, they have the following distinguishing characteristics:

- Drive to solve problems (*mastery*). Littunen (2000) see mastery as increasing after the start-up phase and, conversely, control by powerful others decreases.
- *Opportunity recognition* skills were found in a study by Sambasivan et al. (2009) to increase venture performance and these skills acted as a mediator between the qualities and skills of the entrepreneur, and venture performance
- *Alertness* (Sambasivan et al., 2009) also has been found to improve venture performance
- *Prior knowledge* of the given area in which the entrepreneur plans to fill the need is also a contributor to better venture performance (Sambasivan et al., 2009). In relation to prior knowledge, some studies have found that the majority of entrepreneurs (56%) are educated to Bachelor degree level (Okoye and Adigwe, 2015).
- *Social network skills* are needed to establish relationships for collaboration and as a means of overcoming the limited resources and knowledge. Networking is so intense on the part of the entrepreneur, when compared to managers of large businesses that Burns (2002) compares it to the spinning of spiders webs and this is also borne out in the informal organizational structure where staff are also encouraged to network and, thereby, the web gets bigger still. However, with these social networking skills and an informal structure, the entrepreneur communicates

directly with all staff, which would be impossible in a larger organisation and has been found to have a limit of around 20-30 employees (Lobontiu and Lobontiu, 2014). The following figure highlights this different approach using social network skills:

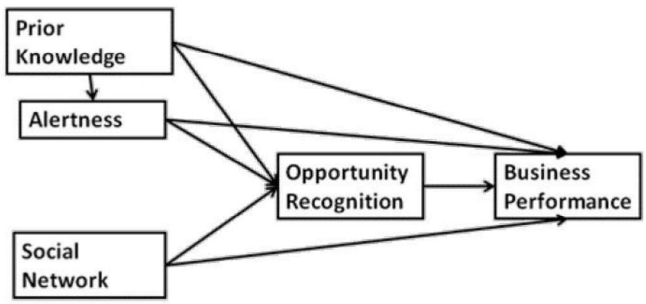
Figure 7. The growth of the entrepreneurial spider's web



Source: Burns, P. (2002)

Social network skills are also seen as a part and package with alertness and prior knowledge that constitute the means by which entrepreneurs recognize opportunities, prior to setting up a business. This is shown in the following figure:

Figure 8. Three key entrepreneurial characteristics and their effects



Source: Lim and Xavier (2015)

In this way, one can see the interplay between skills and how the three characteristics lead to the enhancement of opportunity recognition skills, as well as firm performance.

- *Vision-centred*. According to Mintzberg (XXXX) in his book *Strategy* Safari there are ten schools or approaches to strategy. The main focus of the entrepreneurial school is on the leader and his / her vision. The vision is a representation of a strategy existing in the mind of the leader and perhaps can be considered as a vision of the organization's future. The vision is thus seen as an image rather than some advanced plan. As such, the School considers the mental processes of the leader as well as the issues of typology, traits and talents of a leader and entrepreneur.

- Regardless of the differing concepts of a leader and an entrepreneur, Mintzberg's Entrepreneurial School also considers the *intuition, wisdom and experience* that the leader / entrepreneur employs as a means of strategy formation, although it seems that such strategy formation is an almost semiconscious process.
- The entrepreneur is the key to strategy formation in this School, the vision is promoted by the leader under his close personal control so that specific aspects can be reconsidered if necessary. This implies that *power is centralized* with the leader and that the leader is likely to be the head of the company, founder or CEO.
- *Risk-taking*. The entrepreneur is often characterised as a risk-taker, although entrepreneurs such as Richard Branson, claim that this is calculated risk-taking, rather than a simple gamble.
- Gubitta and Tognazo (2017) highlight that a strong drive or *passion* to achieve is also required from entrepreneurs. However, passion can be divided into two types: harmonious passion and obsessive passion. The claim that harmonious passion prevails over obsessive passion among entrepreneurs and propose that harmonious passion positively affects entrepreneurs' subjective career success, while obsessive passion has a negative or no impact on it.

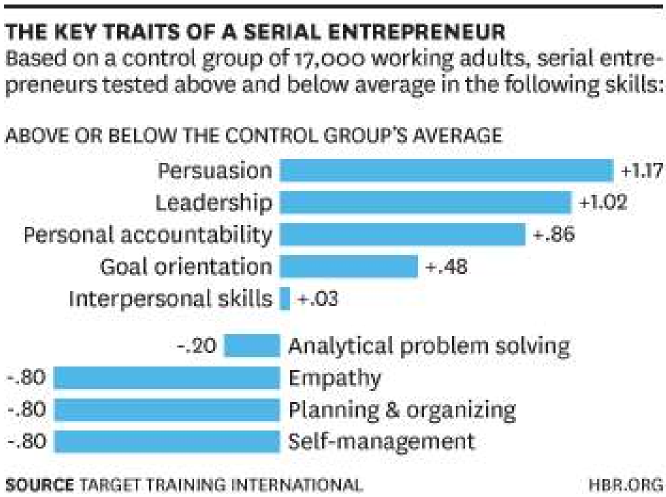
There are also personality aspects that could be considered such as *narcissistic* being one aspect that has been found as characteristic of entrepreneurs (Kets de Vries, 1996). A more recent study by Piper (2017) found that narcissism affects a companies' financial performance and that firms' future operational performance can be assessed based on the indicators of CEO narcissism. This would also apply to the case of entrepreneurs – especially form the view that confidence and leadership are misinterpreted and should in fact be seen as narcissism, which could be detrimental to the performance of the firm.

7.4. Serial Entrepreneurs vs. owner managers

Entrepreneurs may also be referred to as serial entrepreneurs, meaning that they fill a range of needs in different markets, resulting in a range of ventures being set up. The Harvard Business Review published a study of 17,000 participants of the characteristics of serial entrepreneurs and the results are as follows[4]:

[4] https://hbr.org/2013/04/the-much-needed-skills-most-en

Figure 9. The traits of a serial entrepreneur



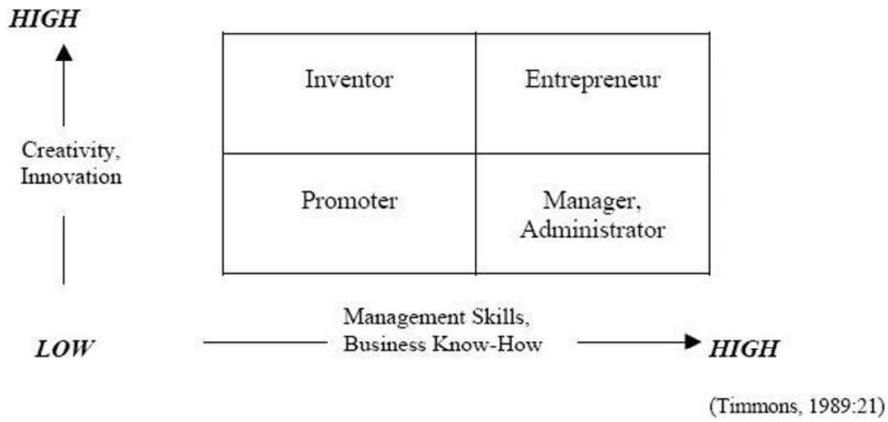
This figure also highlights the deficient aspects of serial entrepreneurs. These can be contrasted with the characteristics of owner-managers. Owner-managers have a certain short-termism that could be reflected in a lack of planning, however, problem solving or 'fire-fighting' and self-management could be considered as key requirements. Such characteristics of owner-managers that distinguish them from entrepreneurs can be seen in the following:

- Owner-managers need *multi-tasking* skills covering a wide range of areas. A one-man business, as mentioned earlier, means the owner manager has to deal with marketing, finance, logistics and all the other areas of the business. Conversely, entrepreneurs may see an opportunity and set up a business with a number of staff – depending on the amount of funds secured from investors. As the company grows these responsibilities may be split between management, but still with managers covering more than one field (see case of KWV Kabelwerke Villingen GmbH).
- *Fire-fighting* is the need to solve problems as they emerge on a daily basis and limit the damage caused by these challenges as they are overcome
- *Self-management / time management* is related to the need to multi-task. Owner managers have a lot to learn and a lot of tasks to manage. The need to prioritise and be organised are encapsulated in the need to manage oneself and one's time.

As already noted, there are some similarities and differences between entrepreneurs and owner-managers. The owner manager appears, by definition, to be closer to a manager with the necessary management skills and business know-how. Conversely, entrepreneurs have a greater leaning towards creativity and innovation. A final indication of the differences between these two groups can be seen in a study by McNeil et al. (2004)[5]:

[5] http://www.acoaapeca.gc.ca/eng/publications/ResearchStudies/Pages/EntrepreneurshipinAtlanticCanadianUniversityEnvironments1.aspx

Figure 10. The divergence and convergence of entrepreneurs and owner managers



The owner-manager is seen by Timmons (1989) as possessing the necessary management skills and know-how but somewhat weak (generally speaking) in creativity and innovation, leading owner-managers to fall into one of two categories: 'Promoter' or 'Manager / Administrator'. The entrepreneur is also possible a 'promoter' or an 'inventor'. When the entrepreneur also have sufficient management skills and know-how or the owner-manager has high creativity and innovation, then the best of both worlds are seen in the form of a true 'entrepreneur'.

7.5. Social vs Commercial entrepreneurs

In order to complete our study of the characteristics of entrepreneurs and owner-managers, one should consider the less traditional form of entrepreneurs, the social entrepreneur. Commercial (or traditional) entrepreneurs focus on the economic goals, whereas social entrepreneurs look beyond these economic goals towards social and environmental objectives (Estrin et al., 2013).

In larger organisations, this is seen in the distinction between organisations that focus on the triple bottom line (profit, people and planet). Social entrepreneurship thus has a longer-term view that that is seen as a characteristic of entrepreneurs in general as there is an orientation towards long-term value creation (Bacq and Jenssen, 2011). In spite of this apparent difference, they still have commonalities such as a need to manage resources (Zollo et al., 2016).

7.6. Case example of an owner-manager

The following case shows an example of the activities and characteristics of owner-managers.

7.6.1. Stukkateurbetrieb Hirt GmbH & Co. KG

The Stukkateurbetrieb Hirt GmbH & Co. KG is a small family-run business in the second generation which is located in the South of Germany in Villingen-Schwenningen. The plasterer company is specialized in plastering, dry construction, groundwork, and energy saving material installation, wall works for indoor and outdoor areas, ceiling, reconstruction and stucco.

20 years ago, Mr. Hirt took over the family business which his father founded in the 60's. The business currently employs approximately 40 employees. Every year, the owner manager undertakes three to four self-educated trainees. He does not work at the construction site because he does tasks like purchasing materials and observation of the construction sites. His brother is the accounting clerk responsible for the salary payment because he is the owner manager of an enterprise which is on the same company site.

7.7. Case examples of an entrepreneur

The following short examples serve to indicate that it only takes the failure of one of the chief characteristics of entrepreneurs to bring down the entire venture:

7.7.1. Theranos

A billion-dollar start-up is known as a *unicorn*. One such unicorn has been Theranos. This health-tech company was founded a Stanford drop-out, Elizabeth Holmes. She founded the company at 19 years old and still owns more than 50%, making her an owner-manager as well. The company offered a services of analysing blood samples from just a few drops of blood from a finger, rather than from the arm, with a revolutionary 'finger stick'.

All was going very well until a certain article was published in the *Wall Street Journal*. First, it seemed that only a small percentage of the health services offered by the firm actually used the new technology. They rather used standard machines, such as those offered by Siemens. The health tests offered, were found to provide less than accurate results. Then on the website, the claim of needing just a few drops of blood was dropped. Although these problems can't all be laid at the feet of the entrepreneur, what followed could be: Holmes refused interview requests for five months. For a company that has always valued transparency, it didn't seem to the case.

Question: Bearing in mind the skills and characteristics of entrepreneurs, what caused the failure in this case?

Answer: This seems to indicate a range of potential flaws: a lack of alertness to the problems unfolding, a lack of prior knowledge of issues relating to the new tech and the people skills to undertake some 'damage limitation' once the scandal emerged. This highlights two rather negative outcomes that can happen with entrepreneurial activities: overhype and underdeliver.

7.7.2. Zappos

Tony Hsieh initially founded a company called LInkExchange, which he later sold to Microsoft for $265 million. He was approached with the idea of selling shoes on-line and co-founded Zappos. As CEO, he introduced a new organisational structure called a 'holocracy', where there are no managers and no job titles (those fulfilling a manager role are referred to as 'monkeys'). It is an innovative and creative approach, bordering on the outlandish. It sounds very entrepreneurial but resulted in poor decision making (if at all) and by 2015 it seemed the new structure had been accepted by very few staff. Hsieh gave an ultimatum: get on board with the new system or leave the company. 210 employees or about 14% of the company chose to leave.

Question: How did such a talented entrepreneur get it wrong?

Entrepreneurs have great visions but sometimes may lack the ability to communicate the vision or the people skills to handle the change. In some case, the vision may simple be too big a step to expect staff to take.

End of Unit Reflective Questions

1] Reflecting on what you have read, do SMEs make their own opportunities?

2] Why should SMEs go for growth?

3] What concepts and models can help them meet the challenges and issues of growth?

SECTION III: Culture, Leadership, Attitude and Motivation

UNIT 8: Start-up motivations and entrepreneurial attitudes

8.1. Start-ups

A start-up is defined as a newly found business or in the first stage of its operations[6]. However, when *Forbes* asked business experts, entrepreneurs and owner managers how they defined start-ups, they painted a very different picture. Here is a summary of their findings[7]:

Table 4. A range of definitions of a start-up

Definition	*Person*	*Position*
Startup is a state of mind… when people join your company and are still making the explicit decision to forgo stability in exchange for the promise of tremendous growth and the excitement of making immediate impact	Adora Cheung	Cofounder and CEO of Homejoy, one of the Hottest U.S. Startups of 2013
A startup is a company designed to scale very quickly. It is this focus on growth unconstrained by geography which differentiates startups from small businesses.	Paul Graham	Y Combinator accelerator head
It stops being a startup when people don't feel as though what they are doing has impact - an atmosphere that people individually and collectively can't will the company to success.	Russell D'Souza	Co-founder of ticket search engine SeatGeek
(A start-up involves a) dynamic culture at a company. (It) gets much harder with every new employee and with every year that passes	Matt Salzberg	CEO and cofounder of dinner set delivery service Blue Apron

It seems from the table that the central theme is being dynamic and having an impact. This goes beyond our basic definition of simply being a newly found business. A restaurant or franchise may not be considered a start-up in this context, if growth,

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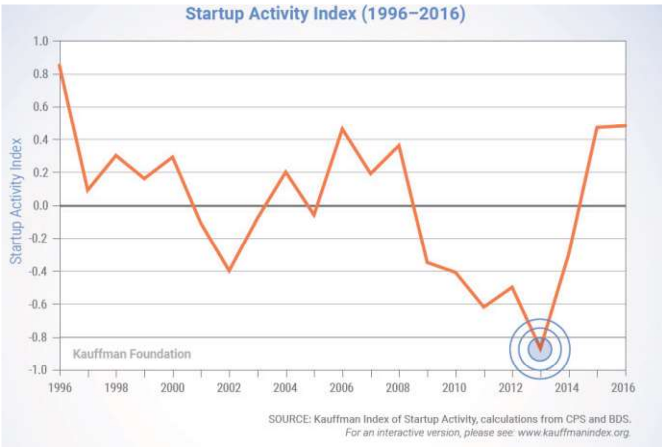
6 http://www.investopedia.com/terms/s/startup.asp

7 https://www.forbes.com/sites/natalierobehmed/2013/12/16/what-is-a-startup/#77c676c40440

dynamism and heavy impact are elements of the firm. The Kauffmann foundation has been looking at the rate of start-ups since 1996 and the rate has often seen drops relating to recessions, with the most recent being in 2013:

Figure 11. The rate of start-up activity from 1996 to 2016



Source: Kauffman (2017)

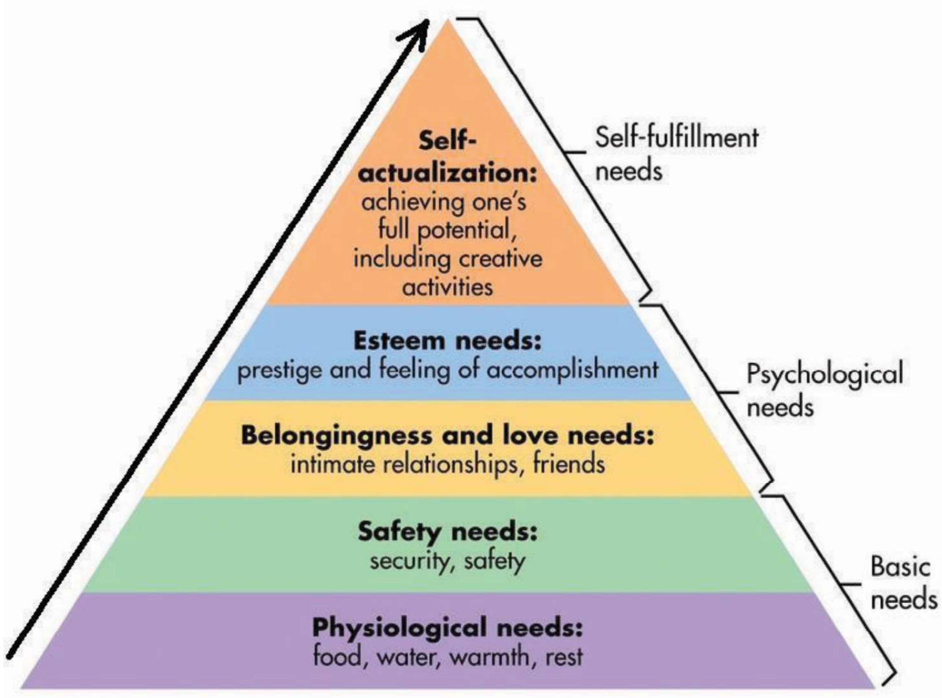
The figure shows that there has been an increase since the recessions that has brought the rate of start-ups almost to its highest levels over the past twenty years. The question is what the motivation behind these start-ups was. To consider this question, one should first consider the topic of motivation.

8.2. Motivation

Motivation allows us to achieve challenging goals. These goals could be sporting or creative or as an entrepreneur and founder of a business start-up. Overall, there are two different forms of motivation, *intrinsic* and *extrinsic* motivation. Intrinsic motivation comes from the mind, it is the impulse to do things because you really want to do them, because you have fun while doing them, or you really like the competitive aspect, such as playing football, art or music. With extrinsic motivation, you are doing things because you want to prevent negative consequences and punishments or earn a reward. It arises from 'something outside', such as to gain a reward or avoid an adverse outcome.

There are many theories of motivation. For example, according to Maslow (1943), motivation can be divided into five categories of needs. These needs form a hierarchy of needing to be satisfied, starting with basic/physiological needs to safety/security needs to belongingness/love needs to esteem needs and in the end to the self-fulfilment needs. This can be seen in the following figure:

Figure 12. Maslow's hierarchy of needs



Although there are many other theories behind motivation, Maslow's model serves as a good basic introduction and a means for better understanding the motivations for start-ups.

8.3. Motivations for start-ups

The motivation for a start-up centres upon the founder and, as such, vary greatly. For some, it is a social need, because they aspire to be part of a social group (a sense of belonging in Maslow's model). For others, it is the need of self-fulfillment (top of Maslow's hierarchy), because they want to implement their own ideas and having satisfied the lower stages of Maslow's hierarchy of needs in the years of their career, it is time to start up their own company. Thus, a person may decide to start a business, as they are looking for a challenge or some freedom to 'go it alone'.

This freedom is often referred to as *autonomy*, but not all entrepreneurs seek autonomy for the same reasons. Van Gelderen and Jansen (2006, 29–30) claim that many entrepreneurs opt for autonomy for the freedom to make their own decisions, others because they simply get tired of following others or following rules (negative freedom). A need for personal independence was also found in a study of entrepreneurs by Estay et al. (2013).

If one considers some of the most successful companies like Apple, Facebook, Microsoft, Google or Disney, they started as a project in a garage or student dormitory. The founders were just persons with a strong intrinsic motivation. As Steve Jobs once said: "*Being the richest man in the cemetery doesn't matter to me. Going to bed at night saying we've done something wonderful… that's what matters to me*".

Shane et al. (2003, 272–273) suggest entrepreneurs are motivated by the need for achievement, locus of control, desire for independence, passion and drive. They suggest that some or all of these motivations influence the entrepreneur from initial recognition of the opportunity through to its realization and the founding of a start-up. The motivation to start a company with a view to growth and impact is also affected by other areas such as knowledge (educational level), experience, skills, abilities as well as the environment of the opportunity, risk and so on (De Clercq and Arenius, 2006: 350).

In a study of entrepreneurs in the forestry industry, St-Jean and LeBel (2015) found that motivations were linked to business performance. They found a positive relationship between starting up a forest business for financial success and out of affection for that type of work and business performance. In contrast, they found a negative relationship between starting a business in response to involuntary constraints, motivation and subsequent performance.
Motivation to start up a business is often seen as relating to four categories of entrepreneurs. Firstly, *Wanna Be Entrepreneurs* have a business idea that they believe would be successful, however they fail to realize the idea due to a lack of confidence, drive, knowledge, or motivation. In other words, one of the bases for the existence of this type of entrepreneur is a lack of motivation – perhaps as they are content enough and feel safe in their current job, or are not motivated enough to take on the risk of leaving a company and going it alone.

Opportunity Entrepreneurs also have a business idea, but the difference is that they act upon it. They are a mixture of people who are self-driven or those who will learn to be. They are motivated by the freedom and fulfillment from being their own boss.

Necessity Entrepreneurs are motivated because they have feel they have no other choice than to start a business. Reasons may vary between inadequate income, job loss, or a lack of opportunities to progress in a particular industry. The last point is particularly relevant as necessity entrepreneurs have been characterized as generally starting a business in a field related to their expertise or experience. As these entrepreneurs have not chosen this path, their motivation may not be enough for the hard work and energy required to start a business and make it grow. The start-up may be seen as a 'stop-gap' until they can find a job with a decent income or opportunities.

Serial Entrepreneurs love business and get a buzz from the successes achieved. As mentioned earlier in the quote from Steve Jobs, it's this rush and sense of fulfilment by

making an impact that motivates serial entrepreneurs. So much so, that after having got one business up and running, they are searching for the next idea or opportunity to get off the ground – this explains why entrepreneurs such as Richard Branson have had a role in starting up more than 400 companies.
Within the concept of motivations for founding a business, it is also important to consider the attitudes that shape a decision to found a business and the reasoning behind that decision. Bergmann (2004, 2005) found that the decision to found a company was influenced by:

- the self-evaluation of the founder's own foundation capabilities;
- the founder's perception of opportunities for founding a business in a particular region and industry; and
- how the founder handled risk (i.e. the founder's level of risk aversion). This aspect involved other areas such as a fear of failure, self-confidence, background knowledge of the industry, previous experience in founding a business, social networks and so on.

Studies have found that foundation-related attitudes and abilities, such as those listed here, have a significant influence on business foundation activities (Arenius and Minitti, 2005). Once the business has been founded, regardless of the motivation, the business has to be run and the specific characteristics of entrepreneurs in relation to running the business are considered in the following section.

Unit 9: Entrepreneurial attitudes

9.1. Introduction

This section will consider entrepreneurial attitudes to and perceptions of the business and running the business – more specifically the characteristics that set entrepreneurs apart from others. It also looks at running the business in general and specific business areas, such as human resources.
Kets de Vries (1996) looks at the attitudes and behaviours of entrepreneurs from the perspective of psychoanalytic theory. In light of the findings of previous studies that entrepreneurial behaviors involve a need for control, a sense of distrust, a desire for applause, and resorting to primitive defensive mechanisms, and the flight into action, Kets de Vries (1996) found that the narcissistic attitudes were actually reactive in nature. Furthermore, he found that running a business was not necessarily a rational process, but that entrepreneurs tended to rationalize the decisions that they had made, retrospectively.

In start-ups, attitudes vary greatly to business activities compared to large businesses. Looking at the functions of HR in the context of start-ups, it is necessary to first consider the three main functions of human resources: compliance (compliance with employment and labour law); recruitment; and organizational training and development.
Dmitri Sarle, Entrepreneur and start-up enthusiast, indicated a reason why HR does not really fit in start-up constellations is because “there have been mountains of research that show that CV’s, unstructured interviews, common screening methods and others have very low validity values in regards to actual job performance”8. It might seem extreme but he suggests that one of the best job performance predictors is a general intelligence test. Since you do not need a specialist of human resources to conduct a general intelligence test, he advises to not have an HR manager in the early stage of 20 to 25 employees.
The attitude of entrepreneurs to the future also varies greatly and affect the way the business is managed. The essential question is whether entrepreneurs assume that the future can be controlled or not. Sarasvathy (2001) suggests that there are five principles for entrepreneurial attitudes and it is important to bear in mind the uncertainty and limited resources of founding a business:

- Bird in hand: this means the entrepreneur chooses to start with one’s means;
- Affordable loss: this attitude takes a somewhat more conservative or even negative attitude, as the entrepreneur focusses on the downside of what could be lost and which aspects of the loss are acceptable;

[8] These ideas were based upon the following article: https://techcrunch.com/2012/07/08/recruiting-rules-everything-around-you/

- Crazy-quilt: this attitude involves establishing partnerships (collaboration) and building a network of contacts as a means of overcoming apparent limitations and uncertainty;
- Leveraging contingencies: This attitude necessitates working on an ad hoc basis and making us of unplanned opportunities as the arise;
- Pilot in the plane: This attitude involves the entrepreneur focussing on controlling the environment (internal and external) rather than attempting to predict the future and adapt business operations to those predictions.

Many of these principles are reminiscent of the approaches taken on by larger companies, as specified in Mintzberg's Strategy Safari, where there are 10 schools of thought prevalent in strategy formulation and implementation. Attitudes to the environment can be seen in the 'Environmental school' along the lines of the 'pilot in the plane principle', leveraging contingencies is seen in the 'contingency school', 'crazy-quilt' is seen in the Cultural and Power schools, and so on. The leadership and strategic aspect will be considered further in the following section.

9.2. Conclusion

As a final point in this section it is necessary to consider the attitude of owner managers to staff. As already mentioned attitudes to staff were to some extent looked at in relation to social networking skills and how the informal structure and attitude of the owner-manager leads to direct information communication, whilst staff have a low division of work and a high autonomy. However, one of the biggest operation change occurs when entrepreneurs or owner-managers have to start employing non-owner managers for various departments. Watkins (1983) found that owners were often reluctant to delegate responsibilities to newcomers. This stemmed from a perceived need to remain in control and/or a fear that the newcomers would take the business knowledge and use it so set up a business in direct competition with the owner manager. Watkins (1983) also found that any attempts at changing working practices were seen as a criticism of the owner-manager.

Unit 10: Leadership style and strategy implementation

10.1 Introduction

When thinking of leadership, in contrast to management, then leadership can be defined as "an influence relationship among leaders and followers who intend real changes and outcomes that reflect their shared purposes" (Daft and Lane, 2008: 5). The leadership style is the approach taken by an owner-manager or entrepreneur in this influence relationship. Leadership style is seen as achieving sustainable competitive advantage through the balancing of four competing criteria: 1) profitability and productivity; 2) continuity and efficiency; 3) commitment and morale; and 4) adaptability and innovation. This balancing is a competence referred to as behavioural complexity and it was found by Hart and Quinn (1993) that higher levels of behavioural complexity lead to better overall form performance.

However, this does not mean that all leadership styles manage to achieve a suitable balance in their given context. The top management of organizations has the task of guiding the company in a certain direction and devising a strategy to take the company in that direction. If a strategy is not communicated or implanted correctly, then it doesn't matter how good the planned strategy is. Management style adopted by top managers will affect how the strategy is implemented. Certain styles suit specific business situations. When looking at a few examples, bear in mind that in this case, management and leadership are used interchangeably. It is also important to consider the style(s) most common in entrepreneurs and owner-managers.

10.2 Situational Leadership

A situational leader understands the current work-related issues and does what is necessary to solve the problem, such as by allocating the work to the most proficient person for the task. In other words, this kind of manager is focused solely on the situation and can select an appropriate style for that given current situation in strategy implementation.

10.3. Transformational Leadership

A strategy is often based upon the future desired direction or vision for the organization. Transformational leadership involves setting attainable goals and sharing the vision of the organization. Transformational leaders see employees as the strength of the organization and want innovative and creative thinking from them – provided it is oriented towards the vision. Employees are involved in the implementation process, and all elements of the strategy is communicated within the scope of the vision.
Transformational managers must have the ability to change their employees' perceptions and beliefs, which is no small feat if they have been held for a long time. Thus,

transforming employees requires the manager to be charismatic, enthusiastic, optimistic, passionate as well as able to create, communicate and share the vision with the rest of the organization. If the transformational manager is highly effective then these traits can also be passed onto employees. When this happens, the transformation has taken place, and the strategy can be implemented effectively with the full commitment of all employees, a shared vision, and the necessary traits to implement.
For SMEs, this type of leadership is closely linked to the entrepreneur, who is also often dominated by the vision, and displays passion, enthusiasm and creativity.

10.4. Transactional Leadership

Transactional leaders use rewards and punishments to reward good work and punish for failure to meet the leader's expectations. There is a focus on the policies and procedures and some autocracy in decision-making. For owner-managers and entrepreneurs this aspect is particularly relevant as mentioned earlier informal communication to all staff takes place in a spider's web form, but with the entrepreneur or owner manager at the centre of the web making final decisions. However, with such informal approaches, establishing policies and procedures comes later in the growth of the firm generally.

This type of leadership is most effective when deviation from the plan may have disastrous results or in times of crisis when employees are looking for 'a hero' to take control and dictate what should be done to get out of the predicament. However, for SMEs there is a caveat: this style is not effective with new or inexperienced staff, since staff are required to blindly follow policies and thus, little learning takes place.

Likewise, for entrepreneurs there is risk to their creativity and innovative thinking, since creative and innovative employees who are highly skilled and experienced may feel they have a lot of ideas to contribute to the entrepreneur's strategy formulation and implementation but will either not be consulted or not have the opportunity to contribute beyond the stipulated procedures. This will likely lead to a common problem found in SMEs of the entrepreneur or owner-manager becoming a 'micromanager' and this in turn will frustrate and demotivate the more talented and experienced employees.

10.5. Servant Leadership

The servant leader focuses on the development of staff and so should be empathetic and collaborative. Strategy is implemented in teams as the rationale is 'people first, task second'. If the SMEs has been in operation for some time then this style would work well as it is most effective when the employees are involved with routine tasks. Likewise, conflict can be managed well – this may be important for owner-managers when they reach a stage of growth where non-owner managers are needed and this may result in conflict through a difference in values and perceptions of the most suitable direction for the organisation. However, for SMEs in crisis, this might not be the most suitable style as it lacks direction, and employees tend to need direction in times of crisis, such as that offered by autocratic or transactional leadership.

10.6. Laissez-Faire Leadership

This style is often found in the literature to be a barrier to strategy implementation. The leader gives a free rein to employees to do what they want as long as the task is done well and correctly. Thus, in contrast to transactional leadership, there are no policies or procedures and this leads to plenty of scope for creativity. Companies such as ad agencies, social media companies, or those involved in research and development may have leaders with this style.

As this style requires close monitoring by the owner-manager or entrepreneur, it is not advisable for SMEs with founders struggling with a heavy workload and time commitments. It also is not suitable for very young companies as this style assumes that team members have the skills, knowledge, and motivation to achieve strategy implementation.

10.7. SMEs and Paternal leadership

When considering SMEs and specifically family businesses, then a paternal leadership style is associated often with this form of business. Therefore, a large part of this section on leadership style will focus on paternalistic leadership.

A paternalistic leadership is often falsely perceived as purely a benevolent, caring style. However, it is "a style that combines strong discipline and authority with fatherly benevolence" (Farh and Cheng, 2000: 91). Bing (2004) suggested that a leader is reminiscent of the original authority figure for most people: the parent.

Paternalistic leaders may get involved in both professional and personal lives of staff (Gelfand et. al, 2007), but this involvement is not so much an annoying interference as an individualized concern for the personal well-being of staff (Pellegrini & Scandura, 2008). Recent research also has distinguished three types of paternalistic leadership as authoritarian, benevolent and moral (Rivers, 2015), and Aycan (2006) details the characteristics of these three paternalistic leadership styles as follows:

Table 5. Characteristics of three types of paternalistic leadership

PATERNALISTIC LEADERSHIP			
	Benevolent paternalistic leadership	Authoritarian paternalistic leadership	Moral paternalistic leadership
Characteristics	The leader demonstrates an individualised, holistic concern for familial and subordinates' personal wellbeing.	The leader asserts absolute authority and control; expects subordinates to display strong performance.	Leader's behaviour does not hinder subordinates' rights and development or harm the organisation. The leader behaviour demonstrates moral values, superior personal virtues, self-discipline.

It should be noted that some scholars question the benevolent intent (Padavic and Earnest, 1994: 389). Uhl-Bien and Maslyn (2005) see this benevolence as transactional i.e. the leaders expect something in return, resulting (potentially) in indebtedness and oppression on the part of the staff. If these findings bear out, then this style seems closer to transactional leadership.

As a final note on this leadership style, the consequences of this leadership style, despite its prevalence, can be pretty dire for SMEs. Lubatkin et al. (2007) found that the founder's belief in knowing best and acting with best intentions resulting in calculative, coercive and transactional behaviour. The outcome of this behaviour would be that the future successors (children) resent being coerced and manipulated and thereby resist and rebel. However, this reaction might not change the founder's behaviour since it may be seen as the 'necessary cost of parenting'. For family firms in particular, this is bad news as "the more driven by paternalism, the more dysfunctional their firms' intergenerational relationships become" (Lim et al., 2010: 206).

10.8. Entrepreneurial Leadership

Needless, to say in the same way paternalistic leadership relates to owner-managers of family firms, entrepreneurs fit into the mould of this style. Leaders are risk takers with a penchant for finding innovative solutions to problems. They search for new ideas and make them a reality with creativity, drive, enthusiasm and a strong vision (Daft, 2012). There is also a certain degree of drive and independence i.e. not needing to belong to a large company as an employee.

10.9. Empirical evidence of management style for owner-managers

So far this section has covered general leadership style and how they relate to owners of SMEs, now it is necessary to also consider the managerial style in which owner-managers run their operations in SMEs. Here, the distinction is drawn between leadership and management (the practical aspect of running a firm, involving aspects such as planning and organising). De Oliveira et al. (2015) found four managerial styles: (1) activity structuring; (2) public relations; (3) supervision and leading; and (4) conflict solver, and these are detailed in the following table:

Table 6. The four managerial styles of SMEs

Style	*Approach*	*Function or role*	*Construct*
Activity Structuring	Process	Planning	Goal-setting
			Establishing procedures and resources
		Organization	Provision to personnel' s needs
		Leadership	Decision on execution of work
		Control	Supervision of activities
			Analysis of deviance
Public Relations	Roles	Figurehead	Participation in social events
		Spokesman	Preparation of reports
			Communication on behalf of company
			Sector representative
Supervising and Leading	Roles	Leader	Guidance on task execution
			Relationship with subordinates
			Exercise of authority
		Liaison	Dissemination of internal information
		Monitor	Information gathering
			Supervision of internal operations
			Monitoring external events
		Disseminator	Information screening
			Assurance that information is properly received
Conflict Solver	Role	Disturbance handler	Guidance on task execution
			Relationship with subordinates
			Exercise of authority

Source: De Oliveira (2015; 18)

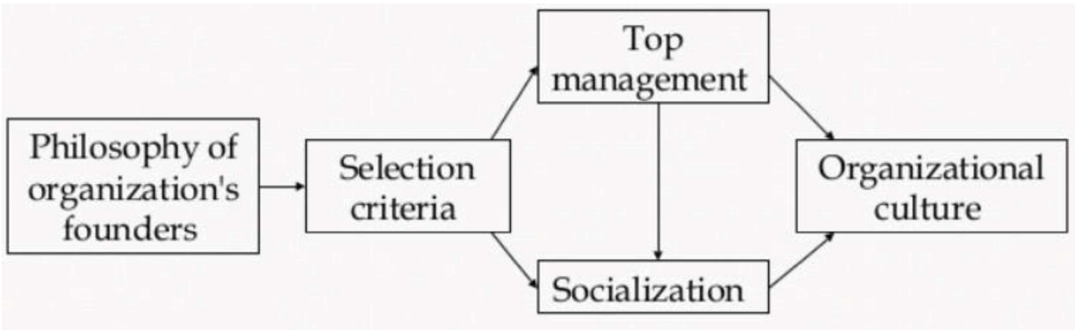
Unit 11: Culture of the small family business

11.1 Introduction

‘Culture’ is as a term is difficult to pin down and often depends on the context of study. A commonly used definition is that of Hofstede (1994) who defines culture as "the collective programming of the mind which distinguishes the members of one group or category of people from another" (Hofstede 1994, p.5). In the case of SMEs, this culture will be founded on the entrepreneur’s norms, values, personal visions, goals and how things should be done (Schein, 2004).

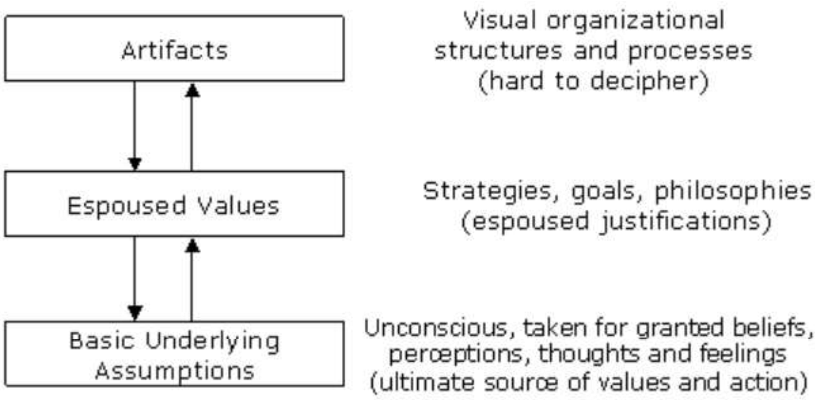
The first steps in the development of an organisational culture are taken as soon as the business has been established. Initially, it is based upon the philosophy of the founders or owner-managers. As it grows and staff are employed, they are chosen based upon certain values, beliefs and perceptions of the owner-manager as well as the knowledge, skills and abilities of the new employee. This is known as *person-organization fit*. The full course of development of organisational culture can be seen in the following figure:

Figure 13. The development of the organisational culture in a young business



When looking at the importance of culture in organisations in general, Alvesson (2002) sees it affecting all areas of the organisation: “Culture is thus highly significant for how companies and other organizations function; from strategic change, to everyday leadership and how managers and employees relate to and interact with customers as well as to how Knowledge is created, shared, maintained and utilized”. Schein (2004) used three levels to describe the culture of a company:

Figure 14. Schein's levels of culture



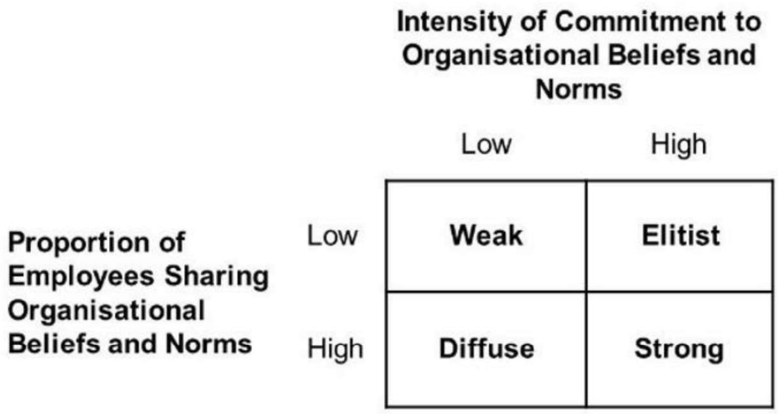
Thus, it is possible to say that organizational culture is a means by which to explain the formation and development of a value system in organizations. However, it should be noted in the previous figure that when talking about values, the focus is often on espoused values, which are those that the top management desire in the organisation, and in some organisations the staff's values may differ from those the management want them to have.

In summary, organisational culture encompasses a range of areas covered in this section, such as leadership style, attributes of managers and leaders as well as communication and relationship management. As culture has a big impact on staff's perceptions, behaviour and thinking, it can be a driver or an obstacle in the performance of an organisation.

11.2. SMEs and strong cultures

A strong culture refers to organizations that have many shared values and beliefs among their members (Brown, 1995). The strength of organisational culture is also affected by the intensity of commitment to organisational beliefs and norms, as can be seen in the following figure:

Figure 15. The two dimensions affecting the strength of organisational cultures



Deal and Kennedy (1982: 5) claim a “strong culture has almost always been the driving force behind continued success”. Denison et al. (2004) found that the shared background, history and identities strengthened core values and reinforced standards of behaviour in family businesses that lead to profit. A family business shares norms and values, often due to a long-term orientation found in family firms (Lester and Cannella, 2006) and the building of trust with customers (Carrigan and Buckley, 2008).

However, there is a downside to having a strong corporate culture. Nemeth (1997) points out that a strong corporate culture can restrict thinking out of box as well as dissent, since conformity becomes an expectation, and this type of culture exhibits an unwillingness to reflect as well as a degree of resistance to change as members prefer to focus on past experiences. This also affects decision making if the status quo is maintained and innovation and creativity are stifled. SMEs often exhibit strong cultures and this may be seen as a limiting factor for growth and progress (see later section ‘Growth’ in this module).

11.3. Familiness

According to Pearson et al. (2008) there are three dimensions to familiness: structural, which involves the construction and maintenance of networks; relational, which considers relationships in terms of trust, cultural norms, obligations and identification; and cognitive, which relates to aspects such as having a shared vision and business jargon (language).

Denison et al. (2004) assessed the culture of 20 family businesses and 389 nonfamily businesses to compare the cultural characteristics and found that corporate cultures of family enterprises were more positive than the culture of non-family firms. However, these positive outcomes are disputed by researchers as Habbershon and Williams (1999) found it can increase resources (familiness as a positive factor) or decrease resources (familiness as a negative factor), and thus familiness can be productive or counter-productive. Similarly, familiness can be distinctive (with a positive influence on the firm’s performance) or constrictive (with a negative influence on the firm’s performance) (Chrisman et al., 2003, 2005; Minichilli et al., 2010; Zahra et al., 2004).

11.4. Empirical studies of culture in SMEs

Empirical studies have been found to encompass two areas: the first is the different types of cultures in young businesses, and the second is the national culture effects on entrepreneurship and SMEs.

11.5. Types of cultures

The study of organisational culture in SMEs has developed into a field of its own, based on the concept of *foundation cultures* and *foundation climates*. Climate is often distinguished from culture as it involves the perceptions and attitudes, whereas culture covers the values, norms and beliefs. For the purposes of this section, the aim is to avoid the further complexity of distinguishing between these two and group perceptions, values, beliefs, norms and attitudes all under the same classification of 'organisational culture'.

Davidsson (1995: 53) found that "... where the structural (pull) conditions for entrepreneurship are favourable, the culture tends to favour entrepreneurship". The organisational cultures of SMEs will be founded on the entrepreneur's norms, values, personal visions, goals and how things should be (Schein, 2004).

Other empirical studies involving young businesses are focussed on family businesses and is often referred to as research into *familial business cultures*. Achouch (2017) examined two Israeli kibbutz factories in the context of their responses to privatization. This study found that the different responses led to a change in direction of cultural development as one kept many of its familial attributes, and this was seen in a generally egalitarian attitude and a friendly work environment. The other moved away from a familial business culture and this resulted in a more impersonal, and hierarchical culture that unfortunately led to many conflicts between staff and management.

11.6. National Cultural effects on SMEs

Culture can influence attitudes towards work and consumption. It can also have an impact on social networks and social groups (see Fukuyama 2001, p. 3132ff). National cultural features influence attitudes towards start-ups and then in turn start-up attitudes will impact upon organisational culture, which was considered in the previous section. National cultures will also encourage or discourage the skills and attitudes that were referred to earlier in relation to entrepreneurs and owner-managers as national culture has an impact on what a nation learns.

The Global Entrepreneurship Monitor (GEM) was set up to monitor and study the activity of entrepreneurs. They make a distinction between commercial and social entrepreneurship and this distinction has been found by (Hechavarria, 2015) to affect the ratio of social to commercial entrepreneurship as it was found to be significantly higher in countries featuring a higher well-being.

Fuentelsaz et al. (2017) found that in countries where there is a low uncertainty avoidance, higher collectivism combined with a high level of market freedom and smaller size of government, have a more positive image of entrepreneurs, and this in turn would encourage entrepreneurial activity.

National cultures have been described by a wide range of dimensions such as power distance, uncertainty avoidance and long-term orientation, but in much of the literature on family businesses highlights the differences between collectivism and individualism. This aspect of culture is the extent to which people are integrated into groups. In an individualistic culture, people have loose ties with one another beyond their immediate family. For collectivism, the connections extend beyond the immediate family to extended families and other 'in-groups'.

Pieper et al. (2008) found that a collectivist attitude had fewer formal governance structures due to having a tightly-knit family with their values and beliefs generally aligned. Lansberg and Astrachan (1994) develop this concept of family cohesion and how this is the key to whether an individualistic or collectivistic culture emerges. This two types then impact upon the behaviour of staff in family firms, such as non-reciprocal altruism, characterised by collectivism, (Lubatkin et al. 2007) and opportunistic nepotism (Morck and Yeung, 2004).

The literature indicates that types of SME leadership may be linked to national culture. The following differences can be perceived between paternalism in the West and in Central-Eastern Europe (Bakacsi and Heidrich, 2011). Firstly, before 1990 the dominant leadership style was the paternalistic (benevolent-authoritative) (Bakacsi, 1988). Furthermore, managers from the Central European region tend to make more autocratic decisions than their Western counterparts (even from a German cultural environment) (Jago et al, 1993).

Central-Eastern European cultures tend to score higher on „Hierarchy" and „Conservativism" (Smith, 1997; Smith et al., 1996). When considering Power Distance then societal practice has a significantly higher score in Central-Eastern-European cultures (House et al., 2004; Bakacsi et al., 2002) often with the tendency of leading to Self-protective leadership behavior (House et al., 2004).

When combined the two topics from this section, national culture and leadership, GLOBE research revealed low scores for participative leadership (second order GLOBE leadership variable) compared to world cultural clusters (House et al., 2004). GLOBE defines Participative (second order) leadership variable as follows: A leadership dimension that reflects the degree to which managers involve others in making and implementing decisions.

Bakacsi and Heidrich (2011) maintain that "due to the cultural heritage, the unexpected level of uncertainty on both the social and organizational level, employees are still (or again) in need of a more nurturing, thus less democratic type of leadership". If considered from an employee perspective then it can be seen that since the financial crisis of 2008 (and beyond) crisis leadership, with tight deadlines and the need for fast decision-making precipitate the need for an autocratic (dictatorial, ruler) leadership style. Needless to say, family businesses and SMEs will also be affected by these drives for a more autocratic style.

11.7. Cultural barriers in family firms

Watkins (1983) found that family firms experienced cultural barriers when it came to newcomers joining the company. Although the owner-manager may try to select new employees that have values and norms in line with their own, an exact match is a tall order. These cultural differences were found to create friction between newcomers and owner-managers as well as potentially limit the future growth of the SME.

Unit 12: Growth

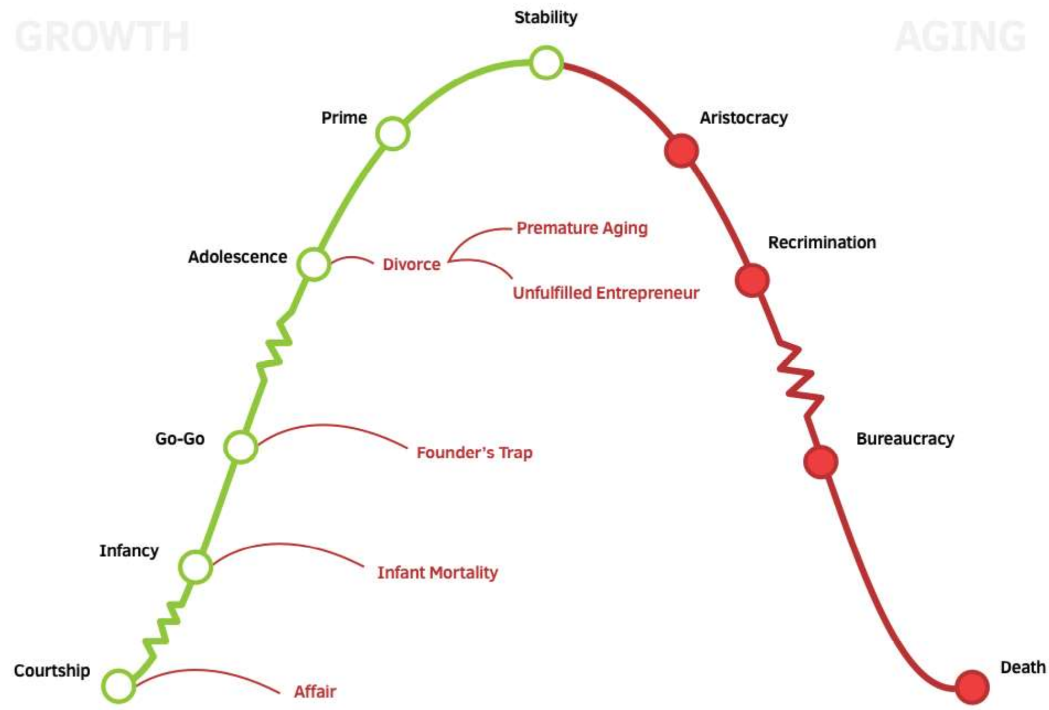
12.1. Introduction

Enterprise growth has been an area of study for many researchers. The study of literature on small and medium enterprises (SMEs) suggests that all SMEs go through *different stages of growth*, also commonly called as *life cycles*. Though the terms used by different authors may vary, the events through which each enterprise passes remain more or less the same. Most of the researchers suggest that each enterprise has to start, then grow while facing various challenges and crises, and finally mature and decline.

There are many factors which will contribute to an enterprise's success. There are many precursors also, which will allow an enterprise to move from one stage to another. History of the enterprise, entrepreneur's characteristics, different agencies (like market, government, etc.), and geography are some of the factors influencing an enterprise's growth. An entrepreneurial venture is *successful if it is growing*. The *concept of growth* is *different for different entrepreneurs*. Growth can be defined in terms of revenue generation, value addition, and expansion in terms of volume of the business. It can also be measured in the form of qualitative features like market position, quality of product, and goodwill of the customers. Growth is a function of the *decisions an entrepreneur makes*, like how to grow internally or externally and where to grow in domestic market or international market. [Gupta, Guha and Krishnaswami, 2013]

The most frequently used and easiest to understand model of enterprise growth lifecycles is that of Prof. Adizes [1979] In his model Prof. Adizes describes the development and growth stages of an enterprise like that of a human being.

Figure 16. Adizes Corporate Lifecycle [1979]



Adizes's corporate life cycle differentiates between the growing and the aging stages and sets the goal for managers to get the organization to the "Prime" stage as soon as possible and to keep it there as long as possible. If there is no management and leadership effort put into consciously keeping the enterprise in the Prime stage it will naturally start to age and eventually die.

12.2. The Infant Stage

Infancy begins the moment risk has been undertaken and the Founder quits her job, signs the loan documents, or borrows $50K from friends and family.
Instantly the priority of an Infant organization switches from ideas to action. The time for talking in Courtship is over; it is time to get to work and produce real results. By necessity Infant organizations are action-oriented and opportunity- driven. Infant organizations consume largeamounts of food (cash) with very little to show for it (sales).
Infant organizations need the unconditional love of their Founders because they are ugly. Performance in Infant organizations is inconsistent. Moving from one crisis to the next is normal behavior, as it is with any baby learning to crawl and walk. The Founder and all employees constantly test the limits of their endurance for work, stress and confusion. Founders start companies for reasons that go far beyond money. The employees of Infant organizations are attracted to this mission. Their loyalty to the team often extends beyond the struggling Infant's ability to pay them.

Infant mortality occurs if the company is *unable to continue to fund its negative cash flow, makes a mistake that results in an irreparable damage in the marketplace*, or if the Founder loses their love and commitment to their baby. A prolonged Infancy can also create mortality if the Founders decide to hang it up after years of struggle with little to show for all their hard work and suffering.
Companies in their Infancy require a strong arm to keep them on course. What is needed is a Founder that can galvanize and unite the superhuman efforts of its employees by providing clarity, certainty and security in the face of overwhelming uncertainty and murkiness. Infant organizations do not progress swiftly without *leadership that is strong, decisive and fair*.

Infant companies need more sales, more production, more improvements, more effort, and more focus. Everyone in an infant company must be action oriented and driven by an unquenchable thirst for results. The Founder must lead by example and be involved in the minute details because they often know more about their products, markets, and customers than anybody else. Infancy is not a time to work on decentralization of authority or consensus decision-making. It is crucial that the Founder makes every major decision and signs every check until the company stabilizes itself with repeat sales to key accounts, positive cash flow, and increasing demand. The Infant needs autocratic, *centralized decision-making*, however, this same leadership style will inhibit the healthy development of a Go-Go company.

12.3. The Go-Go Stage

A Go-Go organization is a company that has *a successful product or service*, rapidly *growing sales*, and strong cash flow. The company is not only surviving, it's *flourishing*. Key *customers are raving about the products or services* and ordering more. Go-Go companies are like toddlers in the "terrible twos". They can move quickly and have no fear so everything is interesting. Fueled by their success, Go- Go's feel they can succeed at anything that comes their way. Accordingly, they try to eat everything they touch.

This arrogance is a major asset of the Go-Go, but when taken to an extreme, it isalso how they get into trouble. Go-Gos are *prone to rapid diversification* and*spreading themselves too thin*. They have so many irons in the fire they cannot possible give the necessary attention to each one. They make decisions and commitments they should never have made, and they get involved in ventures that they know very little about.

Characteristics of a Go-Go company:

- Sales drives the ship
- Everything is a priority
- Crisis by management
- Management is often ineffective and frustrated
- Information and accounting systems are weak
- Infrastructure is a house of cards

- The company is organized around people and projects
- A love/hate relationship exists between the founder and the company
- Employees are frustrated
- A major crisis happens

The Founder's Trap occurs when a later stage Go-Go company is *unable to relieve itself from its dependency on the Founder*. The company is trapped by the capabilities and limitations of the bottleneck that is its Founder. This can occur because the organization is unable to develop the capabilities needed to replace the unique skills of the Founder.

Most Go-Go organizations fiercely embrace the proposition that innovation, novel strategies, speed, and flexibility are their keys to success. Everyone loves to discuss new directions the company should take. However, these same people find discussions about controls, discipline, and structure to be both threatening and alien to them. Flexibility is crucial for the success of a Go-Go, but *adding structure and control is crucial for the transition to Adolescence*. Putting structure into a Go-Go stage company begins with a conversion of the attitudes and behaviors of the Founder and key managers of the company. Usually this change in attitude only occurs after the company grows beyond its capability to effectively support that growth and there are serious problems. By trial and error, Go-Go leaders eventually learn that without proper structure, systems and discipline, products or services fail, supplies do not arrive on time, inventory gets out of control, costs cannot be easily controlled, customer support is haphazard, and profits are illusive.

12.4. The Adolescent Stage

During Adolescence the company is reborn. This second birth is an emotional time where the *company finds a life apart from that provided by its Founder*(s). This critical transition is much like the rebirth a teenager goes through to establish independence from their parents.
Adolescence is an *especially stormy time characterized by internal conflicts and turf wars*. At times it can seem like everyone is at odds with everything. Sales fall short orexceed production's estimates, quality is not up to customer expectations, and old timers plot against the new hires.and organizational morale traces a jagged line: ecstasy in one quarter, depression and dejection in another.

In moving to Adolescence, a Go-Go must *transform itself from an absolute monarchy to a constitutional monarchy*. It is rare that a king voluntarily yields his absolute powers. Such *changes are usually accompanied by revolutions*. The revolution erupts not just because the king loves power and does not want to relinquish it, but also because the he has developed behaviours that are no longer relevant and he has trouble changing his behaviour to fit the new environment.
Most Founders struggle to make this difficult leadership transition. In despair, they often *bring in professional managers from the outside to take over the responsibility for*

decentralization so they can return to work they enjoy. Bringing in a professional manager *changes the leadership of the company*.

A further complication is *the need to transition to a new set of goals*. In early Adolescence, company goals as well as the management information and compensation systems all generally reinforce the Go-Go's emphasis on growth and sales. In Adolescence, the company must change from the Go-Go's "more-is-better" goal to "better-is-more". *Profitability emerges as the most important goal for the organization*. Instead of working harder, the Adolescent company must learn to work smarter. Growth and new sales are desired only to the extent that they also drive higher profitability. Adolescent companies can end up reducing revenues for a period of time as the company pulls back from low margin business.

If the *Founder regains control, they sack the professional managers*. This is called a *Divorce* and generally causes the company to *slip back into* the Go-Go stage and *Founder's Trap*. To *succeed in Adolescence*, companies must *improve their controls*. The challenge is to implement these controls in a way that does not smother the entrepreneurial spirit. This is a *delicate balancing* act because too much flexibility will also prevent the Adolescent company from reaching Prime.

12.5. Prime – The Place to Be

Prime is not at the top of the lifecycle curve. This is because the curve depicts the vitality of an organization. In Prime, the *vitality is at a maximum*. After Prime, momentum starts to diminish. The trajectory of the company is still up but the rocket is starting to fall.

Prime is the only stage of the lifecycle where a company is be *able to dominate its markets, sustain a position of leadership, and enjoy above average growth and profitability*.

A company first challenge is to get to Prime, its second challenge is to stay there.

End of Unit Reflective Questions

1] Is the concept of the entrepreneur owner-manager a contradiction in terms? Why and why not is this the case?

2] What attitudes, motivations and behaviours characterise and are common to entrepreneurs?

3] What is leadership and why is it important to the success of SMEs?

4] Reflecting on what you have read how important is culture to the success or failure of family businesses?

SECTION IV: Tools and Concepts to Deal with and Operate in a Competitive World

Unit 13: Decision making, planning and strategy

13.1. Introduction

This section looks at issues such as decision making models, the role of decision making in firms, decision making vs hierarchy vs empowerment, as well as decision making/empowerment enablers and disablers in SMEs.

Decision making is one of the main activities and attributes of managers. Even though the role of the gut feeling in decision making gains recognition in business and academic circles it is important to demonstrate that making good decisions constantly is a conscious activity. Even the gut feeling part has to be added consciously.

Peter Drucker described that effective managers know that decision making has its own systematic process and its own clearly defined elements. [Drucker, 1967] The elements do not by themselves "make" the decisions. Indeed, every decision is a *risk-taking judgment*. But unless these elements are the stepping stones of the decision process, the manager will not arrive at a right, and certainly not at an effective, decision.

1. Classifying the problem. Is it generic? Is it exceptional and unique? Or is it the first manifestation of a new genus for which a rule has yet to be developed? The effective decision maker asks: Is this a symptom of a fundamental disorder or a stray event? The generic always has to be answered through a rule, a principle. But the truly exceptional event can only be handled as such and as it comes.

2. *Defining the problem*. What are we dealing with? Once a problem has been classified as generic or unique, it is usually fairly easy to define. "What is this all about?" "What is pertinent here?" "What is the key to this situation?" Questions such as these are familiar. But only the truly effective decision makers are aware that the *danger in this step is not the wrong definition; it is the plausible but incomplete one*. There is *only one safeguard* against becoming the prisoner of an incomplete definition: *check it again and again against all the observable facts*, and throw out a definition the moment it fails to encompass any of them.

3.*Specifying the answer to the problem*. What are the "boundary conditions"? The next major element in the decision process is defining *clear specifications* as to *what the decision has to accomplish*. What are the *objectives* the decision has to reach? What are the *minimum goals it has to attain*? What are the *conditions* it has to satisfy? In science these are known as "boundary conditions." A decision, to be effective, needs to satisfy the boundary conditions.

4. *Deciding what is "right," rather than what is acceptable, in order to meet the boundary conditions.* What will fully satisfy the specifications before attention is given to the compromises, adaptations, and concessions needed to make the decision acceptable? The effective executive has to start out with what is "right" rather than what is acceptable precisely because a *compromise is always necessary in the end*. But if what will satisfy the boundary conditions is not known, the decision maker cannot distinguish between the right compromise and the wrong compromise—and may end up by making the wrong compromise.

5. *Building into the decision the action to carry it out.* What does the action commitment have to be? Who has to know about it? Converting the *decision into action* is the fifth major element in the decision process. While thinking through the boundary conditions is the most difficult step in decision making, converting the decision into effective action is usually the *most time-consuming* one. Yet a decision will not become effective unless the action commitments have been built into it from the start. In fact, no decision has been made unless carrying it out in specific steps has become someone's work assignment and responsibility. Until then, it is only a good intention.
The flaw in so many policy statements, especially those of business, is that they contain no action commitment—to carry them out is no one's specific work and responsibility. Small wonder then that the people in the organization tend to view such statements cynically, if not as declarations of what top management is really not going to do.
Converting a decision into action requires answering several distinct questions: *Who has to know of this decision? What action has to be taken? Who is to take it? What does the action have to be so that the people who have to do it can do it?*

6. *Testing the validity and effectiveness of the decision against the actual course of events.* How is the decision being carried out? Are the assumptions on which it is based appropriate or obsolete? Finally, *information monitoring and reporting have to be built into the decision to provide continuous testing, against actual events*, of the expectations that underlie the decisions. Decisions are made by people. People are fallible; at best, their works do not last long. Even the best decision has a high probability of being wrong. Even the most effective one eventually becomes obsolete.
This surely needs no documentation. And every executive always builds organized feedback - reports, figures, studies - into his or her decision to monitor and report on it. Yet far too many decisions fail to achieve their anticipated results, or indeed ever to become effective, despite all these feedback reports.

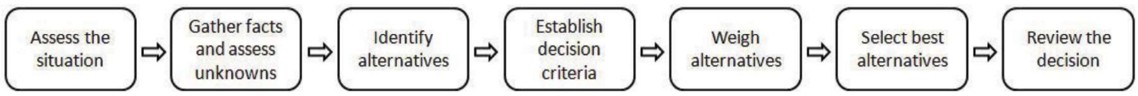
Effective decision makers know this and follow a rule which the military developed long ago. The commander who makes a decision does not depend on reports to see how it is being carried out. The commander or an aide goes and looks. The reason is not that effective decision makers (or effective commanders) distrust their subordinates. Rather, they learned the hard way to distrust abstract "communications."

To go and look is also the best, if not the only way, for an executive to test whether the assumptions on which the decision has been made are still valid or whether they are becoming obsolete and need to be thought through again. And the executive always has to expect the assumptions to become obsolete sooner or later. Reality never stands still very long.
Failure to go out and look is the typical reason for persisting in a course of action long after it has ceased to be appropriate or even rational.
Fred Nichols between the classical decision making model and an extension to it called the military model as the most fundamental and widely used decision making models and processes in business [Nichols, 2015].

13.2. The Classical Decision Making Process

The classical method is simple, easy to understand and appeals to the belief in rationality. It is also widely known and managers are comfortable with it (see below Figure 17).

Figure 17: Classical Decision Making Process

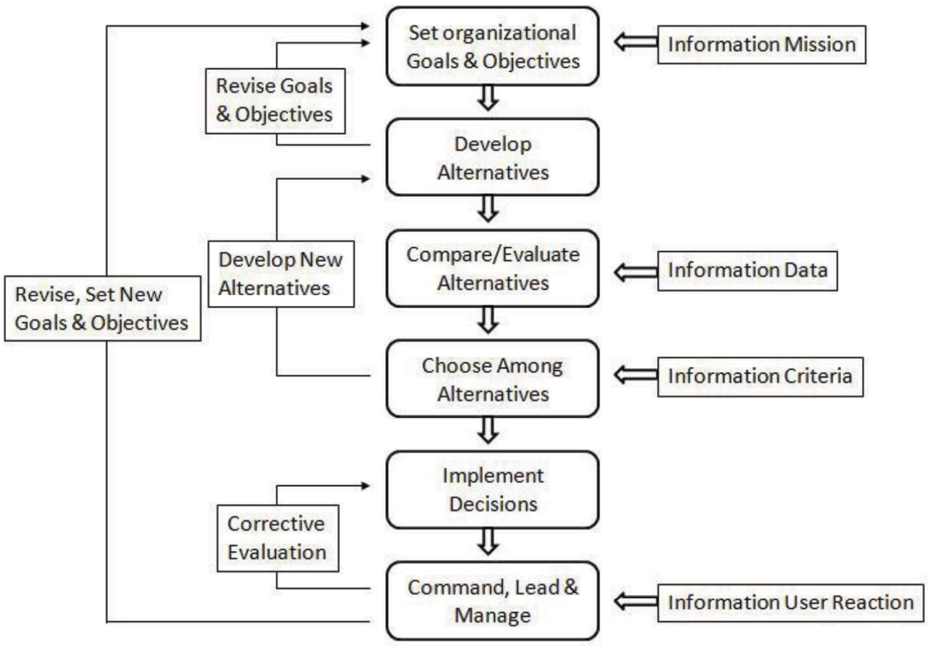


Source: Fred Nichols: Strategic decision making: Commitment to strategic action. Retrieved August 31, 2017, from http://www.nickols.us/strategic_decision_making.pdf

13.3. The Military Decision Making Model

The military model shown below belongs to the U. S. Army War College and is a variation of the classic model. The military model is sequential and starts with information mission where the organization sets the goals and objectives of the problem. The development of alternatives follows suit with evaluation made and subsequently choosing the best alternative. Eventually, the best alternative is implemented before ultimately trailing the information user reaction (i.e. command, lead and manage). The outline step depicts the iterative nature of decision-making using feedback loops mechanism and is one of the main advantages attributed to this model. Similarly, the model dictates the organizational goals and objectives as a driving force in decision-making. Finally, the model emphasizes the importance of execution or following through to make the decision happen.

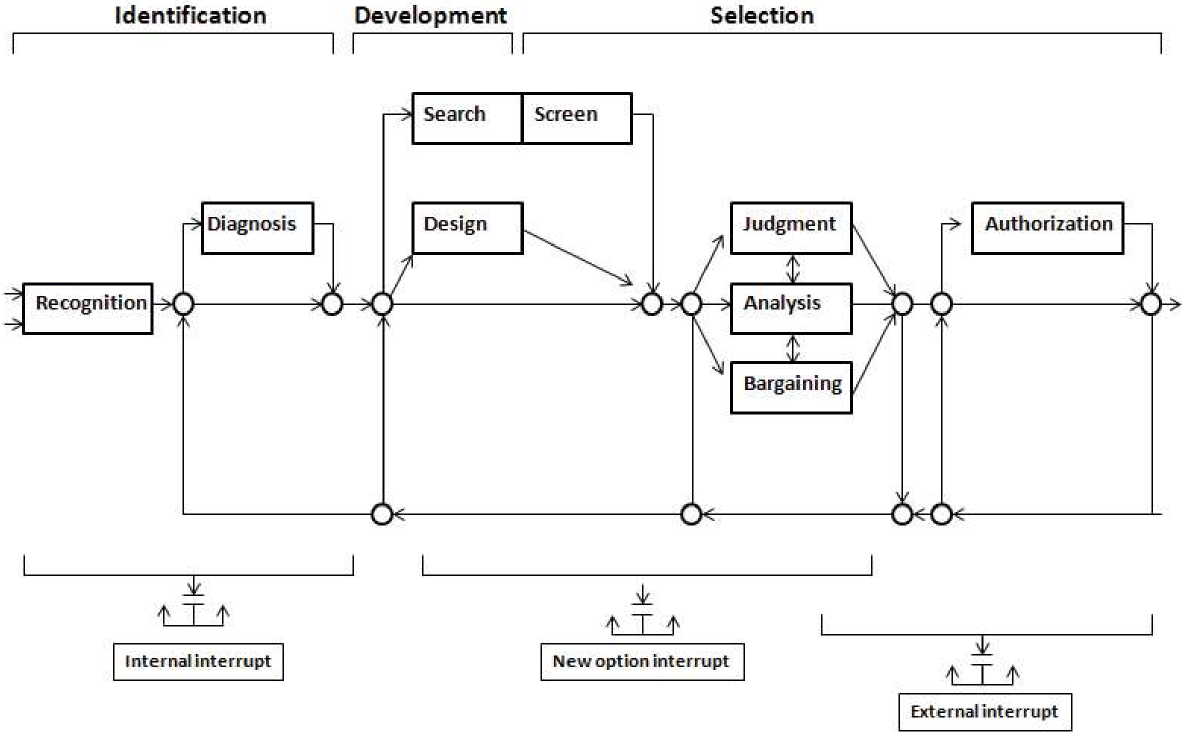
Figure 18: Mintzberg's General Model of the Strategic Decision Process



Source: Fred Nichols: Strategic decision making: Commitment to strategic action. Retrieved August 31, 2017, from http://www.nickols.us/strategic_decision_making.pdf

Mintzberg proposed a sequential three-phase model consisting of the *identification* phase, the *development* phase, and the *selection* phase [Mintzberg, Raisinghani and Théorêt, 1976]. In the identification phase, opportunities, problems and crises arising from inside and outside of the organization are recognized and identified, which invokes decisional activity. Then different types of search, modification, or design behaviours are involved in the development phase to find alternatives for the situation. The final phase of selection narrows down on *ready-made alternatives* and selects one based on the evaluations of a few feasible ones. Eventually, it ratifies the chosen *one for action*.

Figure 19: Decision Making



Source: Henry Mintzberg, Duru Raisinghani and André Théorêt: The Structure of "Unstructured" Decision Processes, Administrative Science Quarterly, Vol.21, No.2 (6/1976)

Decision making is very often put into the context of strategy, creating the higher level notion of strategic decision making. Strategic decision making may mean that decision is about strategy or the decision has a long term, strategic significance and effect.

13.4. Strategy

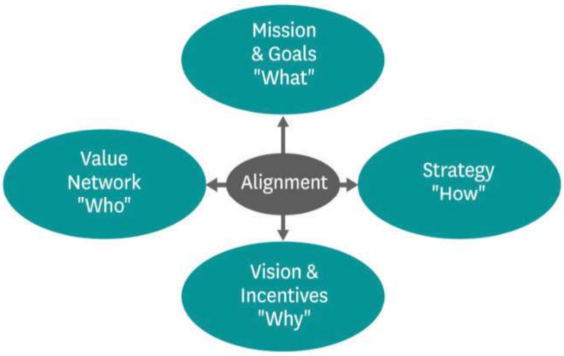
The key to successful strategy is putting strategy itself into a broader perspective and finding its right place in the complex planning activities managers have to deal with. Watkins [2007] gives a simple but usable approach to finding the right place of strategy and also giving direction how a good business strategy can be defined.

A business strategy is a set of guiding principles that, when communicated and adopted in the organization, generates a desired pattern of decision making. A strategy is therefore about how people throughout the organization should make decisions and allocate resources in order accomplish key objectives. A good strategy provides a clear roadmap, consisting of a set of guiding principles or rules that defines the actions people in the business should take (and not take) and the things they should prioritize (and not prioritize) to achieve desired goals.

As such, a strategy is just one element of the overall strategic direction that leaders must define for their organizations. A strategy is not a mission, which is what the organization's leaders want it to accomplish; missions get elaborated into specific goals and performance metrics. A strategy also is not the value network — the web of relationships with suppliers, customers, employees, and investors within which the business co-creates and captures economic value. Finally, a strategy is not a vision, which is an inspiring portrait of what it will look and feel like to pursue and achieve the organization's mission and goals. Visioning is part (along with incentives) of what leaders do to motivate people in the organization to engage in above average effort.

In a nutshell, as illustrated below, mission is about what will be achieved; the value network is about with whom value will be created and captured; strategy is about how resources should be allocated to accomplish the mission in the context of the value network; and vision and incentives is about why people in the organization should feel motivated to perform at a high level. Together, the mission, network, strategy, and vision define the strategic direction for a business. They provide the what, who, how, and why necessary to powerfully align action in complex organizations.

Figure 20: Alignment



Source: M.D. Watkins: Demystifying Strategy: The What, Who, How, and Why, Harvard Business Review, September 10, 2007

One straightforward implication is that you can't develop a strategy for your business without first thinking through mission and goals. Likewise, you can't develop a coherent strategy in isolation from decisions concerning the network of partners with whom the business will co-create and capture value.

The business strategy can be defined in either several paragraphs or be written as a set of strategic statements. It is a summary of how the company will achieve its goals, meet the expectations of its customers, and sustain a competitive advantage in the marketplace. The business strategy should answer these questions:

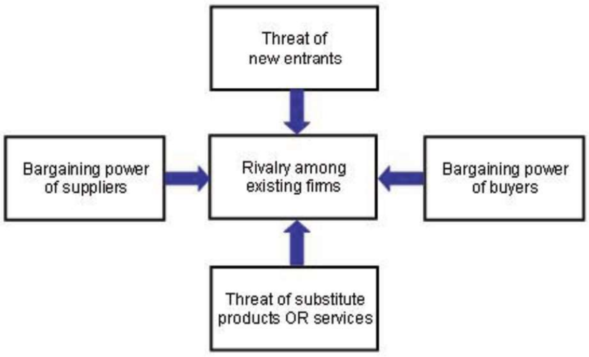
- *Why is the company in business?*
- *What are we best at doing?*
- *Which customers should we continue to serve or start serving?*
- *Which products/services should we stop offering, continue to offer, or start offering?*
- *Why have we decided on these strategic directions?*

Several models and tools help to answer these questions.

13.5. Porter's 5 forces Model

Michael Porter's 5 Forces model is a tool for analyzing competition within an industry [Porter, 1979]. It draws from industrial organization economics to derive five forces that determine the competitive intensity and, therefore, the attractiveness (or lack of it) of an industry in terms of its profitability. An "unattractive" industry is one in which the effect of these five forces reduces overall profitability. The most unattractive industry would be one approaching "pure competition," in which available profits for all firms are driven to normal profit levels.

Figure 21: Porter's Five Forces



Source: Michael E. Porter: How Competitive Forces Shape Strategy, May 1979 (Vol. 59, No. 2)

13.6. Threat of new entrants

Profitable industries that yield high returns will attract new firms. New entrants eventually will decrease profitability for other firms in the industry. Unless the entry of new firms can be made more difficult by incumbents, abnormal profitability will fall towards zero (perfect competition), which is the minimum level of profitability required to keep an industry in business.

13.6.1. Threat of substitutes

A substitute product uses a different technology to try to solve the same economic need. Examples of substitutes are meat, poultry, and fish; landlines and cellular telephones; airlines, automobiles, trains, and ships; beer and wine; and so on.

13.6.2. Bargaining power of customers

The bargaining power of customers is also described as the market of outputs: the ability of customers to put the firm under pressure, which also affects the customer's sensitivity to price changes. Firms can take measures to reduce buyer power, such as implementing a loyalty program. Buyers' power is high if buyers have many alternatives.

13.6.3. Bargaining power of suppliers

The bargaining power of suppliers is also described as the market of inputs. Suppliers of raw materials, components, labor, and services (such as expertise) to the firm can be a source of power over the firm when there are few substitutes. If you are making biscuits and there is only one person who sells flour, you have no alternative but to buy it from them. Suppliers may refuse to work with the firm or charge excessively high prices for unique resources.

13.6.4. Industry rivalry

For most industries the intensity of competitive rivalry is the major determinant of the competitiveness of the industry.

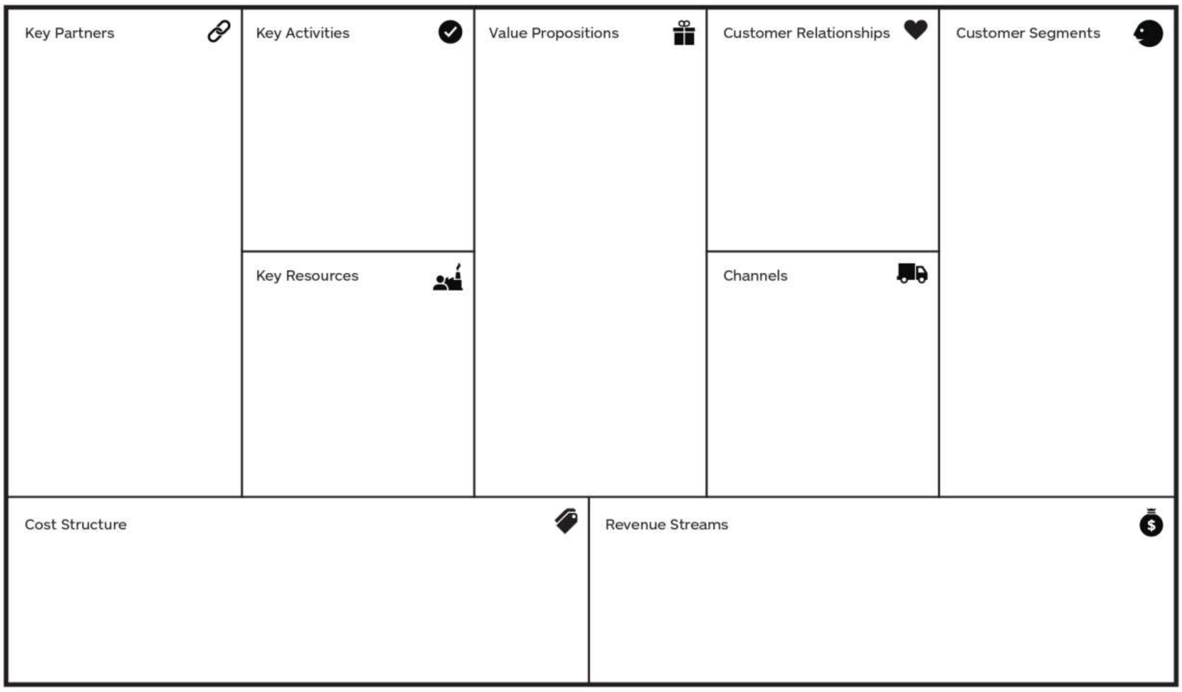
13.7. Business Model Canvas

The Business Model Canvas [Osterwalder, 2008] is a strategic management and lean start-up template for developing new or documenting existing business models. It is a visual chart with elements describing a firm's or product's value proposition, infrastructure, customers, and finances. It assists firms in aligning their activities by illustrating potential trade-offs.

A business model is nothing else than a representation of how an organization makes (or intends to make) money. Osterwalder defines a business model as consisting of 9 building blocks that constitute the business model canvas:

1. The value proposition of what is offered to the market;
2. The segment(s) of clients that are addressed by the value proposition;
3. The communication and distribution channels to reach clients and offer them the value proposition;
4. The relationships established with clients;
5. The key resources needed to make the business model possible;
6. The key activities necessary to implement the business model;
7. The key partners and their motivations to participate in the business model;
8. The revenue streams generated by the business model (constituting the revenue model);
9. The cost structure resulting from the business model.

Figure 22: Business Model Canvas



Source: Alexander Osterwalder: The Business Model Canvas, http://nonlinearthinking.typepad.com/nonlinear_thinking/2008/07/the-business-model-canvas.html, July 5, 2008, Retrieved 31.08.2017

13.8. SWOT analysis

Originated by Albert S. Humphrey in the 1960s, the tool is as useful now as it was then. What makes SWOT particularly powerful is that, with a little thought, it can help you uncover opportunities that you are well-placed to exploit. And by understanding the weaknesses of your business, you can manage and eliminate threats that would otherwise catch you unawares.

13.8.1. Strengths

What advantages does your organization have? What do you do better than anyone else?What unique or lowest-cost resources can you draw upon that others can't? What do people in your market see as your strengths? What factors mean that you "get the sale"? What is your organization's Unique Selling Proposition " (USP)?
Consider your strengths from both an internal perspective, and from the point of view of your customers and people in your market.

13.8.2. Weaknesses

What could you improve? What should you avoid?What are people in your market likely to see as weaknesses? What factors lose you sales?
Again, consider this from an internal and external perspective: Do other people seem to perceive weaknesses that you don't see? Are your competitors doing any better than you?

13.8.3. Opportunities

What good opportunities can you spot? What interesting trends are you aware of?
Useful opportunities can come from such things as:
Changes in technology and markets on both a broad and narrow scale. Changes in government policy related to your field.Changes in social patterns, population profiles, lifestyle changes, and so on. Local events.

13.8.4. Threats

What obstacles do you face? What are your competitors doing?Are quality standards or specifications for your job, products or services changing? Is changing technology threatening your position? Do you have bad debt or cash-flow problems?Could any of your weaknesses seriously threaten your business?

Changes in the business environment can create great opportunities for an organization – and cause significant threats.
For example, opportunities can come from new technologies that help the organization reach new customers and from changed government policies that open up new markets. Threats can include deregulation that exposes the company to intensified competition or unfavourable currency exchange rates that make imports more expensive.

Unit 14: Competitiveness of SMEs

Considered a feature that allows SMEs to withstand competition in a particular sector, competitiveness is a way to pressure and control over performance parameters evolution of the business. The level of competitiveness of the company is decisively influenced by two main factors of competitive environment: customers and competitors.

According to Ceptureanu [2015] there are four views on competitiveness at SMEs level:
Traditional view (cost-driven), which aims to reduce costs. The actions are focusing on the most profitable areas of activity, the transfer of production capacity to countries with cheap labour, economies of scale, etc. Not infrequently, costs are reduced to the detriment business's ability to respond to changes in the environment, so flexibility is reduced.
Classical vision (marketing-driven), which is a combination of traditional vision enhanced by marketing foresight elements. It is based on expectations on the market reaction, which increases the resilience of the business compared to its predecessor, which only consider the market response.

Modern vision (time-driven), which assumes that market requirements will change significantly in the foreseeable future. This vision is based on minimizing the time to adjust production of goods or services to the rapidly changing market requirements. Time is seen as a concrete resource, but also as an economic indicator as important as quality indicators, production costs, etc.
Post-modern vision (Globalization-driven), which considers the substantive changes that globalization induce to economic relations on a global scale, impact not only on market mechanisms, but also on the mechanisms of production and performance.

In an OECD study (Industrial Competitiveness: Benchmarking Business Environments in the Global Economy, OECD, 1996) competitiveness refers to support skills of companies, industries, regions, nations and supranational regions to generate high levels of income and employment, while being subject to international competition. [Ceptureanu, 2015]
The ability of SMEs to create, access and commercialize new knowledge on their specific markets is fundamental to their sustained competitiveness. Some of the principle strategies SMEs have pursued on their own are:

The *innovation strategy*, in which SMEs try to appropriate returns from their knowledge base (which may or may not involve own investments in R&D).

The *information technology strategy*, which makes innovative uses of information technology in order to reduce SME costs and increase productivity.

The *niche strategy*, in which SMEs choose to become sophisticated global players in a narrow product line. The best example of this are the German Mittelstand companies.

The *network strategy*, in which SMEs work and co-operate with other firms, be they SMEs or large enterprises in order to improve their ability to access and absorb innovations.

The *cluster strategy*, in which SMEs locate in close proximity with competitors in order to take advantage of knowledge spill-overs, especially in the early stages of the industrial lifecycle.

Competitiveness of SMEs is particularly important because their general shortage of resources. Management's prime task is to secure and allocate the necessary resources when and where they are most needed. This also shows that the competitiveness of SMEs (like that of any type of corporation) is closely bound with the quality of the decision making of their management and the clarity of their strategic goals and values. Clear strategic goals and values show the direction for the company, good decision make it possible to have sufficient resources when they are needed.

Unit 15: Corporate Social Responsibility of SMEs

15.1. Introduction

Corporate Social Responsibility (CSR) is a much discussed topic (Okoye, 2009). In broad terms it is about the nature of the relationship between business and society (Blowfield and Murray, 2014). CSR has currency and resonance with SMEs and family businesses as Fassin, Van Rossem and Buelens, (2011, p. 425) observe, *"Small-business owner–managers, pragmatically and rather clearly, differentiate among the various concepts related to corporate responsibility and business ethics but, at the same time, they recognise the interrelationships and interdependencies of these concepts. These findings contribute to a better understanding of how small-business owners think and integrate corporate responsibility and ethical issues into their decision-making."*

Whilst it has the word "corporate" in its name the ideas that inform and underpin CSR, are nevertheless relevant to SMEs, as well as small family businesses. Leading management academics including Drucker (1994) and Mintzberg (1983) have written about and contributed to the debate on the responsibility of business and have suggested that practices need to improve to do good and grow profit. For McWilliams and Siegel (2010, p. 1481) a strategic approach to CSR includes "*any 'responsible' activity that allows a firm to achieve SCA (sustainable competitive advantage), regardless of motive*." Businesses whether small, medium or large increasingly have to engage with the CSR agenda and are expected to be and to be seen to be acting and behaving responsibly, however that term might be interpreted. Institutional frameworks within and between countries give shape and form to the practices of CSR. CSR can be perceived as a movement that seeks to address issues such as environmental degradation, societal/community market failure, poor governance of companies and among other things, equality and workplace employment practices. There are a number of definitions of CSR and at the outset it is worthwhile to explore some of them.

15.2. Some Definitions of CSR

CSR has been defined by Maon, Lindgreen and Swaen (2009, p. 72) as *"a stakeholder-oriented concept that extends beyond the organization's boundaries and is driven by an ethical understanding or the organization's responsibility for the impact of its business activities, thus seeking in return society's acceptance of the legitimacy of the organization."*

Glavas and Kelley (2014, p. 171) define CSR as *"caring for the well-being of others and the environment with the purpose of also creating value for the business."*

Wood (1991, p. 693) defined the key aspects of CSR as, "*a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's social*

relationships." Some of the aspects identified by Wood as key to CSR will be in part determined by the law whilst others will be voluntary acts.
Torugsa, O'Donohue and Hecker (2012, p. 484) argue that CSR is *"a pattern of responsible business practices that support the economic, social and environmental principles of sustainable development at a level over and above that required to comply with government regulations."*
McWilliams and Siegel (2010, p. 1481) defined CSR as "*the private provision of public goods*." McWilliams and Siegel's (2010) definition draws on the resource-based theory of value and apply this to new understandings of CSR.

What can be gleaned from the above definitions is that CSR is in broad terms about what Elkington (1997) refers to as the Triple Bottom Line.

15.2.1. Triple Bottom Line

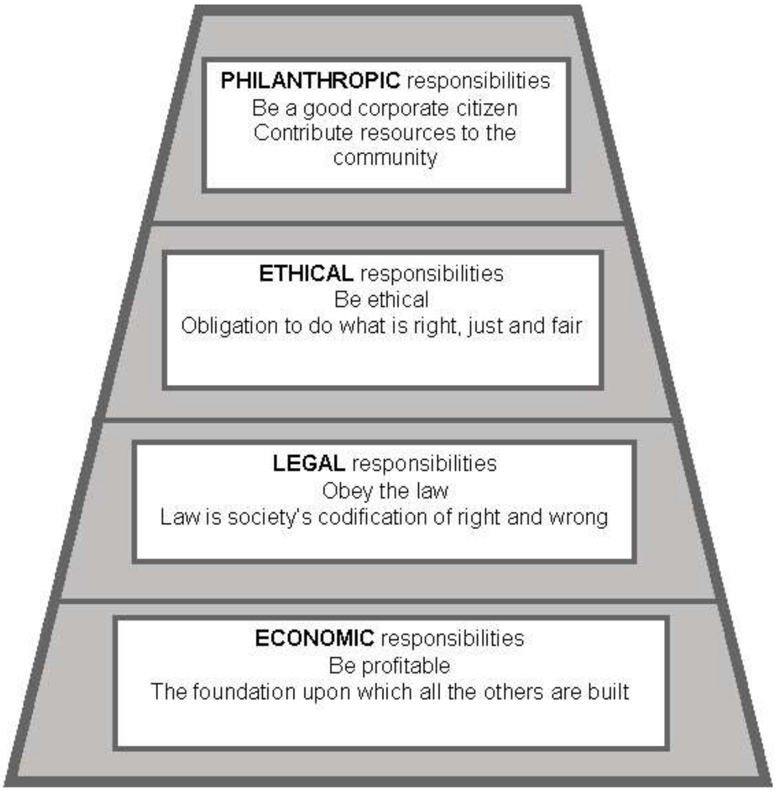
Businesses of all types and sizes are today expected to take account of the triple bottom line of people, planet and profit (Elkington, 1997). SMEs (small family businesses) are expected to "do good" not just in terms of delivering profit for their owners but need to consider environmental concerns (the planet aspect of Elkington's [1997] triple bottom line) as well their stakeholders (the people aspect). Finance, environmental issues and societal matters are integral to the triple bottom line. It recognises that SMEs have responsibilities other than merely delivering on finance and financial aspects of business. Having noted this it is also necessary to give the discussion of CSR some historical context and some of the most important and revered contributors to the debate include Harold Bowen, Milton Friedman and Archie Carroll. The contributions of Bowen, Friedman and Carroll are briefly discussed and more detail can be found in most mainstream CSR textbooks (e.g. Blowfield and Murray, 2014).

15.2.2. Bowen and Friedman

The present discussion of CSR builds on the pioneering work undertaken by Harold Bowen in the 1950s (Carroll, 1999). The idea that businesses and business owners should take care of their employees beyond that of the immediate wage-labour exchange and that there should be some requirement to do so and to address wider social issues, as advocated by Bowen, was subsequently critiqued by Friedman (1970). Friedman (1970, p. 177) recognised that philanthropy and community engagement had a role to play and saw this as "*one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified on its own self-interest."* Nevertheless Friedman's (1962) key point of argument remains and that is the purpose of business is to make profit and reward shareholders for the risks associated with investing.

15.2.3. Carroll's Pyramid of Social Responsibility

Figure 23: Pyramid of Social Responsibility



Carroll's (1979; 1991; 1999) construct of the Pyramid of Social Responsibility comprising as it does of an economic, legal, ethical and discretionary level can be considered in relation as well as applied to SMEs. SMEs have a duty of care to ensure they address the different components of Carroll's definitional construct. Carroll's (1979) pyramid model has been much discussed and widely adopted (Podnar and Golob, 2007). Carroll's (1979; 1991; 1999) work remains seminal in its field and continues to inform contemporary CSR debates. One key point from Carroll's work is the principle of "do no harm" and it is against this ideal that much business activity is, rightly or wrongly, judged.

15.2.4. Why engage with CSR?

It is not clear how CSR affects businesses financial performance as determining start and end points, as well what and how to measure inevitably gives different results and as such there is much debate in this area (Orlitzky et al., 2003; Peloza, 2009; Wang et al., 2016). Nevertheless, businesses, including SMEs, engage with CSR on the premise of its perceived benefits - e.g. the potential for strategic and competitive advantage derived in part as a result of better product positioning and targeting of market segments.

15.3. CSR and Small Businesses

One question to be addressed is whether SMEs, including small family businesses, are in some ways more or less responsible than larger businesses in their dealings with issues that fall under the remit of CSR. Issues considered pertinent to CSR include environmental matters, community engagement, philanthropy, and ethics. There is ongoing academic debate around SMEs and CSR characterised by among others the work of Jenkins (2004; 2006); Lepoutre and Heene, (2006); Fassin, Van Rossem and Buelens (2011); and Morsing and Perrini, (2009). Morsing and Perrini (2009, p. 1) suggests that different questions should be asked and write:

"We emphasize the importance of understanding the contexts and the ways in which small- and medium-sized companies engage in CSR and how they differ from multinational companies. We suggest that it might be that researchers and practitioners are asking the wrong questions in their ambitions to prove 'the business case for CSR'. Perhaps we should rather focus on the 'how' and the 'with what impact' questions to understand better the SME engagement in CSR."

Lepoutre and Heene (2006, p. 257) make the point that, "*The impact of smaller firm size on corporate social responsibility (CSR) is ambiguous. Some contend that small businesses are socially responsible by nature, while others argue that a smaller firm size imposes barriers on small firms that constrain their ability to take responsible action."* They (2006, p. 257) make these observations by reviewing "*the impact of firm size on four antecedents of business behaviour: issue characteristics, personal characteristics, organizational characteristics and context characteristics."* Their (2006, p. 257) main conclusion is that "*the small business context does impose barriers on social responsibility taking, but that the impact of the smaller firm size on social responsibility should be nuanced depending on a number of conditions."* Lepourte and Heene's (2006) work helps draw attention to the importance of context, circumstances and variables that shape the uptake of CSR by SMEs.

Le Breton-Miller and Miller (2006, p. 731) write about the distinctiveness of family businesses and how this connects with issues of governance; *"Conditions such as concentrated ownership, lengthy tenures, and profound business expertise give some family-controlled business (FCB) owners the discretion, incentive, knowledge, and ultimately, the resources to invest deeply in the future of the firm. These long-term investments accrue from particular governance conditions and engender competitive asymmetries—organizational qualities that are hard for other firms to copy, and thus, if tied to the value chain, create capabilities that are sustainable. Investments in staff and training, e.g., create tacit knowledge and preserve it within the firm. Investments in enduring relationships with partners enhance access to resources and free firms to focus on core competencies. And devotion to a compelling mission dedicates most of these investments to a core competency. When such investments are farsighted, orchestrated, and ongoing, capabilities will tend to evolve in a cumulative trajectory, making them doubly hard to imitate and thereby extending competitive advantage."*

15.4. Summary Remarks

There is no one right way for a SME to do CSR and what works for one business may not necessarily work for another. Some businesses might focus their CSR efforts on community engagement whilst others focus their efforts on the environment, or what Elkington (1997) refers to as the planet aspect. Nevertheless it is incumbent on all businesses to engage in some way with CSR. Approaches to CSR can vary but commitment to the overall concept is not in doubt. CSR is a complex construct and the different dimensions of the concept allow SMEs to select those aspects that best suit their own preferences and business agendas. CSR remains under-researched and under-reported in SMEs. Jenkins, (2006, p. 241) writes, *"While Corporate Social Responsibility (CSR) has traditionally been the domain of the corporate sector, recognition of the growing significance of the Small and Medium Sized Enterprise (SME) sector has led to an emphasis on their social and environmental impact, illustrated by an increasing number of initiatives aimed at engaging SMEs in the CSR agenda. CSR has been well researched in large companies, but SMEs have received less attention in this area."* Jenkins comments made in 2006 remain pertinent and relevant today, and more remains to be done. This point can also be made for family businesses. Carney (2005, p. 249) argues "*that family-controlled firms' competitive advantage arises from their system of corporate governance. Systems of corporate governance embody incentives, authority patterns, and norms of legitimation that generate particular organizational propensities to create competitive advantages and disadvantages."* Carney (2005, p. 249) then goes on to make the point that "*The impact of a family's control rights over a firm's assets generates three dominant propensities (parsimony, personalism, and particularism). These propensities give advantages in scarce environments, facilitate the creation and utilization of social capital, and engender opportunistic investment processes*." The distinctive "corporate governance" nature of family businesses can serve to deliver a degree of competitive advantage. Undoubtedly there is something distinctive about family businesses and their approaches to CSR and this, as already mentioned, remains an under-researched area.

Emphasising different aspect of CSR results in different definitional constructs of the term and this means that comparing one with another is not always easy. Nevertheless it is integral to the rich and varied debate about the nature, construct, workings and practices of CSR. Stakeholders including shareholders help give life and meaning to CSR and help influence and shape how it is defined and works in practice. Businesses are not only corporately socially responsible but also irresponsible and the debate around corporate social irresponsibility has gained traction in recent years (Jones, Bowd and Tench, 2009; Lange and Washburn, 2012; Murphy and Schlegelmilch, 2013). Future research into SMEs and CSR could look at their irresponsible practices and behaviours as a means to benchmark areas for improvement. On balance and in general SMEs want to do well for the communities they serve and work with them. It is in their interests to co-create value based on environmentally sustainable and ethically sound practices. SMEs want to "do good" by innovating, creating new products and services, and by better meeting the needs of their customers. They want to "do well" and to survive, prosper and possibly grow their business. They want their business to “do well” and to “do good” but there is danger in trying to “do it all”. SMEs need to be able to manage their responsibilities to suit their needs whilst doing what they can to meet the needs of others. In trying to address CSR is it the case that SMEs are being asked to do one thing too many? Focusing on what they do best in terms of delivering quality products and services that generate profit, create wealth and sustain employment and livelihoods is a core ethical responsibility for businesses of all types and sizes. As Basu and Palazzo (2008, p. 130) point out there is a need to address "*how best to adopt strategies and processes that support CSR decisions within organizations*" and that includes SMEs and small family businesses.

Unit 16: Entrepreneurial Marketing

16.1. Does marketing and entrepreneurship equal entrepreneurial marketing?

Two distinct business-management subject areas – marketing and entrepreneurship - are brought together under the heading of entrepreneurial marketing. This recognises that the two subject areas have much to offer the other and that by bringing aspects of these disciplines together more value, fresh insights and innovations can be created. Much of what passes for marketing can be equated with big business and too often the voice of SMEs is not heard. Entrepreneurial Marketing seeks to address this gap and does so in a way that seeks to identify ways in which small and big business marketing differ. Re-imagining and de-constructing marketing so that it more clearly and accurately represents the lived world experiences of SMEs and not just large corporate businesses is one driver of entrepreneurial marketing. Marketing as it is expressed in many standard textbooks does not accurately capture the reality of SMEs activities in this area. Entrepreneurial marketing aims to put the marketing into entrepreneurship and put entrepreneurship into marketing with the purpose of adding real and meaningful value to both concepts through the realisation of new constructs and through better deployment of existing ones.

Classic models associated with marketing such as the marketing mix (4Ps, 7Ps), and segmentation, targeting and positioning (STP) and the values of marketing such as putting the customer at the heart of the business are key to the success of entrepreneurship and small businesses. The benefits of bringing together marketing orientation with entrepreneurship were advocated by, among others, Morris and Paul (1987). There has been much academic debate around the Entrepreneurial Marketing or Marketing Entrepreneurship interface (Hansen and Eggers, 2010; Morrish, 2011; Stokes, 2000; Sethna, Jones and Harrigan, 2013). It is recognised within this debate that the marketing needs and the way in which marketing is done by SMEs is different to that of larger businesses. Entrepreneurial Marketing has been defined by Morris, Schindehutte and Laforge (2002) (cited in Sethna, Jones and Harrigan, 2013, p. xxi) as "*an integrative construct for conceptualising marketing in an era of change, complexity, chaos, contradiction, and diminishing resources, and one that will manifest itself differently as companies age and grow. It fuses key aspects of recent developments in marketing thought and practice with those in the entrepreneurship area into one comprehensive construct*." Continuing this theme Hills (in the Foreword to Sethna, Jones and Harrigan, 2013, p. xix) writes, "*EM is a spirit, an orientation as well as a process of passionately pursuing opportunities and launching and growing ventures that create perceived customer value through relationships by employing innovateness, creativity, selling, market immersion, networking and flexibility*." Whilst Sethna, Jones and Harrigan (2013, p. xxi) write, "*entrepreneurial marketing can be described as an umbrella strategy which acknowledges three broad areas of research: marketing that takes place in new ventures or SMEs; entrepreneurship activities within larger organizations; and innovative and cost-effective*

marketing strategies that provoke market change." It is evident that there is considerable and growing debate around the purpose, nature, meaning, rationale for, underpinning philosophy and practices that constitute the concept of entrepreneurial marketing. Debate on this theme is focused and largely takes place through The Journal of Research in Marketng and Entrepreneurship which is an Emerald publication. Contributors to this debate are from across the world.
The position of a SME within the firm life cycle will shape, inform and influence the kind of marketing that is undertaken (Carson et al., 1995). Position within the firm life cycle will also have a bearing on the resources that SMEs have at their disposal. The type of marketing undertaken at the start-up of a business will differ to that of a growing and maturing business as different resources will be available, communication and target markets will vary and these as well as other factors need to be taken into account. Irrespective of the firm life cycle phase it is the case that networking is central to the way in which small businesses market themselves and their offer. Franco, Santos, Ramalho and Nunes (2014, p. 265) write, "*Marketing has been seen as one of the greatest problems faced by small- and medium-sized enterprises (SMEs), but simultaneously one of the most important activities for their growth and survival. - - - - - - - - the study has found that entrepreneurial marketing is based on networking to build and support marketing activity and it is associated with the use and development of the marketing management competencies of their entrepreneurs.*"

16.2. Marketing in an SME context

Knowledge of marketing is being re-thought to take account of the number of SMEs and their importance to business life, the economy and the wider society. The ways in which SMEs practice marketing and adopt segmentation, targeting and positioning to win and grow market share serve to confirm as well as call into question existing models, theories and concepts. Marketing is done differently in SMEs and gaining insight to this is the stuff of entrepreneurial marketing.

Due to the scale of the business, the size of the market, and resources available to them, marketing in a large business is done differently to that in SMEs. SMEs have fewer resources but this does not necessarily translate into less effective marketing. Nevertheless, it is important to acknowledge and recognise the differences between traditional big business marketing and that done by SMEs. Entrepreneurial marketing is used by SMEs to counter and challenge the big business marketing messages. The creative space and freedom to adapt core and peripheral marketing messages in innovative ways serves to differentiate, hone and deliver successful communication. SMEs may not be able to compete with larger firms in terms of marketing budget or advertising spend. However, what they do through creativity, adaptation and innovation allows them to compete in different ways.

Day (2000, p. 1033) writes, "- - - *we need to be able to develop entrepreneurship within the context of marketing, and marketing within the context of entrepreneurship in order* *that we are able to understand fully that most common of business forms – the small firm. This implies that we should consider how much of our existing marketing knowledge is appropriate to the SME and how much needs to be rethought and adapted. The body of work by colleagues in what could be described as the "marketing entrepreneurship interface" demonstrates both appropriate concerns and potential solutions*."

Entrepreneurial marketing is a growth research area and holds promise for revealing new practices and for concept and theory development. One particular area for further research is around the entrepreneurial marketing of small family businesses.

16.3. Digital marketing and SMEs

The internet and the growth of social media have transformed the ways in which businesses of all types and sizes "do" marketing. Much discussion takes place in theory, policy and practice of co-creation and ways that customers help co-create brand image, reputation, message and among other things, value. This co-creation process has been aided by the growth of digital social media and SMEs have had to learn to adapt to the new online world. They have done so with gusto and many SMEs have made use of social networking sites such as Facebook to engage with customers. Digital social media are proving a good way to gather market intelligence which is used to inform business decisions to help deliver a superior customer experience. Customers can and do of course use social media to convey their own views and opinions and the messages communicated are not always positive.

Value, brand image and reputation can just as easily be co-destroyed as can be co-created in this online world. SMEs need to remain vigilant to the dangers of negative communication propagated by dissatisfied customers or others with grudges to bear. Taiminen and Karjaluoto (2015, p. 633) report that, "*SMEs seem not to be keeping pace with digital developments, mostly due to the lack of knowledge of digital marketing. Most of the studied SMEs do not apply the full potential of the new digital tools and hence are not benefitting fully from them.*" SMEs should engage with digital tools and social media as this helps build presence and online brand communities can act as advocates for the business and brand. Undoubtedly there are inevitable challenges in dealing with digital media and keeping pace with fast moving developments is one example. SMEs can find that a number of benefits can be derived from working with, using and deploying social media. Benefits can include: 1] reaching out to new market segments; 2] being able to rebut spurious and false allegations; 3] brand building and better reputation management; 4] better customer relationship management; and among others 5] potential for increased sales and growth in market share. Digital media can help deliver innovative marketing which, as O'Dwyer, Gilmore and Carson (2009, p. 46) write, "- - - *does not just relate to products, new product development, and technological development but is also evident in other aspects of marketing related activities and decisions and is very specific to the context and needs of the SME.*"

Hamill and Gregory (1997) report on "*results of a large-scale survey which examined Internet marketing applications in the inter-nationalisation of UK SMEs. Although there are some examples of innovative practice, few UK SMEs are utilising the full potential of the World Wide Web (WWW) in international marketing. In this respect, practice in the UK lags several years behind that in the US. Given that the Internet will have a revolutionary impact on the conduct of international trade, a major education and training initiative is required to improve knowledge and understanding in this area and to encourage more effective use of the Internet to support SME internationalisation. In the absence of such an initiative, a further decline in the UK's international competitive position can be expected as other nations embrace the global marketing opportunities made possible by the Web*." Clearly since Hamill and Gregory reported on these findings in 1997 the internet and the growth of social media has transformed the internationalisation strategies and marketing activities of SMEs. They have proven to be tools of empowerment in that they have helped level up the playing field on which SMEs compete with larger businesses. Facebook is a prime example of the disruptive technological change and transformations that have occurred through use of social media. Many SMEs use Facebook and Ainin, Parveen, Moghavvemi, Jaafar and Shuib (2015, p. 570) report that their "- - - *study revealed that Facebook usage has a strong positive impact on financial performance of SMEs; similarly it was also found that Facebook usage positively impacts the non-financial performance of SMEs in terms of cost reduction on marketing and customer service, improved customer relations and improved information accessibility. Additionally, factors such as compatibility, cost effectiveness and interactivity was identified as factors that influence Facebook usage among SMEs.*"

Marketing is done differently by SMEs when compared with the ways in which marketing is done by larger businesses. It is more intuitive, informal, less structured and in some ways more chaotic. Standard marketing models do not always easily translate into an entrepreneurial SME environment. Stokes (2000, p. 1) writes, "*Entrepreneurs tend to be "innovation-oriented", driven by new ideas and intuitive market feel, rather than customer oriented, or driven by rigorous assessment of market needs. They target markets through "bottom-up" self-selection and recommendations of customers and other influence groups, rather than relying on "top-down" segmentation, targeting and positioning processes. They prefer interactive marketing methods to the traditional mix of the four or seven "P's". They gather information through informal networking rather than formalised intelligence systems. These processes play to entrepreneurial strengths and represent marketing that is more appropriate in entrepreneurial contexts, rather than marketing which is second best due to resource limitations.*" Entrepreneurial marketing helps deliver SME success and is an integral aspect of the start-up and growth process.

Unit 17: SMEs and Internationalisation

17.1. Introduction

Internationalisation of SMEs has become a prominent research area of many scholars of entrepreneurship and family firms. There are many reasons to study SMEs in the context of internationalisation, and specifically smaller family businesses. It is worth to notice that together with the internationalisation of markets around the world and the development of the trade environment, SMEs have been challenged with greater than before rivalry, but also faced with increased opportunities (Olejnik 2014). This transformed reality has opened up a lot of attractive research fields exploring international SMEs.

While investigating international SMEs it is important to note that SMEs cannot be compared to large multinational enterprises (MNEs) due to the fact that company size has numerous organizational and managerial effects visible in firms' performance (Lu and Beamish 2001). Keeping in mind that SMEs are not smaller versions of large firms, SMEs cope with various challenges arising from internationalisation, and they utilize different processes, have different ownership and management structure as well as culture and employ diverse decision-making structures (Coviello and McAuley 1999).

There are many reasons to predominantly concentrate on SMEs, among others such as: impact of globalisation and its implications for SMEs, characteristics and specifics of SMEs internationalisation, research and trends in advancing SME internationalisation, barriers to SMEs internationalisation, model of SME internationalisation, export strategies as well as issues related to policy and support of SME internationalisation. Below, based on the extant literature review, the focus is on the mentioned issues of SMEs internationalisation.

17.2. SMEs in a globalised world – globalisation, its meaning and implications

For quite long time, terms "globalization" and "new technologies" have become frequent in daily and organizational language. These two phenomena that started in the late 20th century, have developed the market in many business sectors, and have consequently raised the number of potential customers, competitors and suppliers. Briefly speaking, they have enlarged all agents that impact the development of business activity (Marín-Anglada *et al*. 2014).

According to Encyclopaedia of Management (2006, p. 325) globalization refers to the "process of integration across societies and economies. The phenomenon encompasses the flow of products, services, labor, finance, information, and ideas moving across national borders. The frequency and intensity of the flows relate to the upward or downward direction of globalization as a trend".
It is noticeable, that the globalisation processes and the growing role of global players resulted in the reorientation from the business internationalisation processes (Johanson

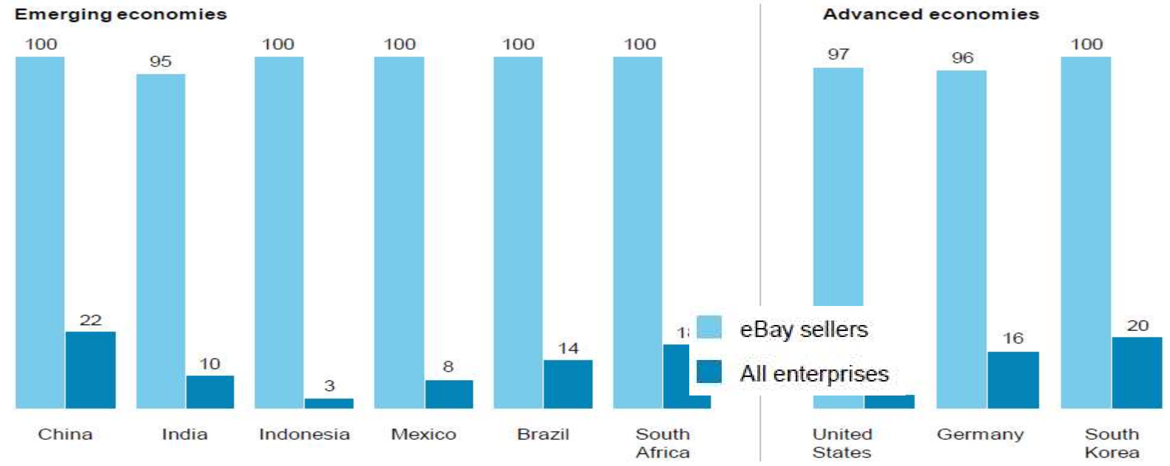
& Vahlne, 1977) to business globalisation process (Vahlne & Ivarsson, 2014). Therefore international entrepreneurship concept is currently present even in the conventional Uppsala model (Schweizer et al., 2010). This is evidently depicted by Hurmerinta-Peltomäki (2004, p. 72), in the form of main international entrepreneurship concepts on the internationalisation - globalisation scale beginning with a direct exporter or an international new venture, and finished in globalized business activities (born globals).
It is important to stress that globalization is no longer just the horizon of the world's largest multinational corporations. Nowadays digitization has removed many of the barriers that once prevented SMEs, entrepreneurs, and regular citizens from making crossborder links.
Companies formerly had to grow to considerable size prior to they could have the funds needed to export, but digitization has radically cut the minimum scale necessary to do business across borders. Small firms are joining the major e-commerce marketplaces to link with customers and suppliers anywhere in the world. Capital is accessible for microenterprises on platforms such as Kickstarter, where close to 3.3 million individuals representing almost all countries made pledges in 2014 (McKinsey Global Institute 2016, p. 43). More than nine million freelancers from 180 countries have linked with clients on Upwork for assignments such as web development, graphic design, and marketing.

The more wide-ranging nature of digital globalization has considerable implications for businesses and economies, mainly in developing countries. In these nations, firms and individuals can use digital platforms as a way to overcome barriers in their local markets and tap into global customers, suppliers, financing, and talent. Instead of waiting for the benefits of globalization arriving from large corporations, SMEs can turn into micromultinationals in their own right, and startups can be "born global." Individuals can detect opportunities, information, and ideas from anywhere in the world (McKinsey Global Institute 2016, p. 43).
The capability of SMEs to reach global audiences supports economic development. Digitization has provided an opportunity for many to transform themselves into "micro-multinationals". Digital platforms offer small firms with "plug-and-play" infrastructure and the chance to put themselves in front of a massive built-in global customer base.

> Think about all of the tools and platforms that a small Chinese producer has at its disposal when it becomes a Taobao merchant. The company can open and customize a Taobao "storefront" for free using a mobile app and upload its merchandise for sale. It can communicate with customers using an instant messaging service, handle payments through Alipay, choose an Alibaba-affiliated logistics company for shipping, place targeted digital ad buys through Alimama, and get a small loan instantly from an Alibaba microfinance subsidiary that can evaluate the merchant's credit based on data about its business performance on the platform. Finally, the company can use Alibaba itself to buy supplies and professional services.
>
> (McKinsey Global Institute, March 2013)

Similarly as above, eBay has been supporting merchants sell internationally by offering features such as the ability to be featured on eBay sites in other countries, a global shipping program, and the option to clear transactions with PayPal. One report investigated that more than 35 percent of the top 1,000 eBay sellers have considerable cross-border trade, with premium or featured eBay stores in other countries. The company's own study across select emerging and advanced economies shows that the share of SMEs that export is sharply higher on eBay's platform than among offline businesses of comparable size (Figure 1). Small firms can use platforms to reach a greater number of markets: in China, South Korea, Indonesia, Thailand, and South Africa, 90 percent or more of eBay sellers export to more than ten international markets (eBay 2016).

Figure 24. Share of eBay commercial sellers* and offline enterprises that export, 2014, %



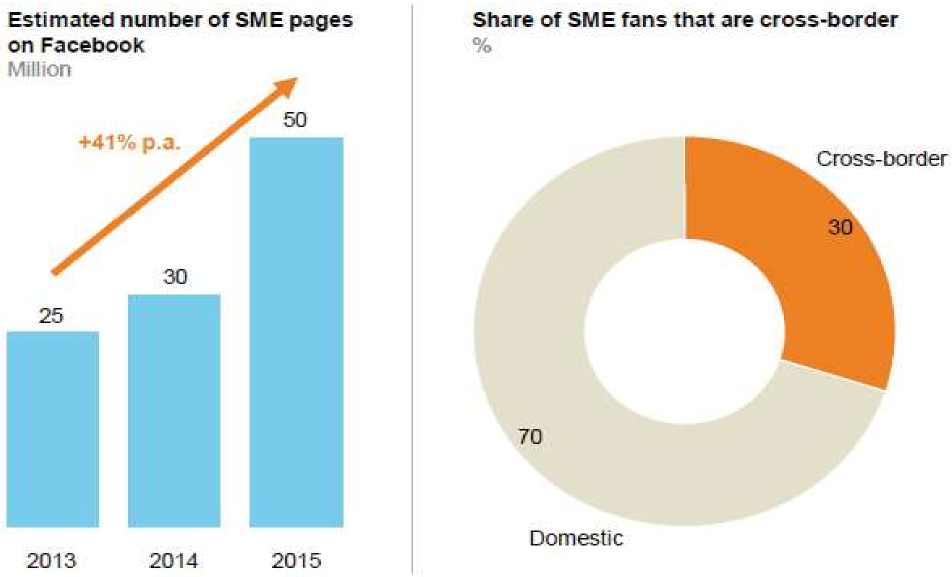
** eBay commercial sellers are defined as sellers with sales of over $10,000 and at least 10 transactions in previous year.*

Source: (McKinsey Global Institute 2016, p.44)

PayPal makes possible cross-border transactions by acting as an intermediary for SMEs and their customers.

> Participants from emerging economies are senders or receivers in 68 percent of cross-border PayPal transactions. PayPal also helps facilitate small transactions: the average point-of-sale transaction using a foreign credit card was $169 across four emerging economies in 2013, while a sample of PayPal data from the same year suggests an average transaction sent to emerging economies of just $38. Alipay performs a similar function for Taobao merchants, providing a critical element of trust needed to facilitate transactions. SMEs worldwide are joining e-commerce marketplaces to access business resources and reach new markets. Amazon now hosts two million third-party sellers, while some ten million small businesses have become merchants on Alibaba platforms. Artisans and customers from around the world find each other on Etsy, a marketplace for handcrafted and vintage goods; nearly 30 percent of its gross merchandise sales are international. More than 20,000 independent designers and artists showcase their work on Pinkoi, a Taiwan-based online marketplace. The company has connected with customers in more than 47 countries, using Facebook to expand its reach throughout the Asia-Pacific region
>
> McKinsey Global Institute (2016, p.44).

Figure 25. 50 million SMEs use Facebook to find customers, and 30 percent of their fans are from other countries



Source: (McKinsey Global Institute 2016, p.45)

According to McKinsey Global Institute (2016, p.45) cross-border B2B e-commerce sales were approximately a $1.8 trillion to $2 trillion market in 2014. By 2020, cross-border e-commerce sales to consumers are projected to hit $1 trillion, accounting for almost 30 percent of total B2C sales.
For companies, the biggest social media platforms represent a gigantic base of potential customers with built-in ways to reach them effectively and directly. Facebook estimates that more than 50 million SMEs are on its platform, up from 25 million in 2013, and some 30 percent of their fans are cross-border (Figure 2). To put this number in perspective, consider that the World Bank estimated there were 125 million micro, small, and mediumsized enterprises in the 132 countries in its database in 2010 (Kushnir et al. 2010). This points to the importance of social media exposure as a crucial marketing tool, particularly for companies that hope to raise their global profile (McKinsey Global Institute 2016, p.45).

In the face of the aforementioned facts and rapidly growing changes in business environment and the easier access to foreign markets, as well as easier access to the information needed to design a good strategy, many companies have seen an opportunity to expand their horizons, diversify their business and grow at an international level, i.e. internationalise (Marín-Anglada *et al*. 2014).

17.3. SMEs and internationalisation

The processes of globalization of the business environment and the need to compete simultaneously in multiple markets has driven SMEs to follow in the footsteps of their larger, multi-national counterparts and even enter culturally and socioeconomically distant foreign markets (Marín-Anglada *et al*. 2014).According to Lu and Beamish (2001) SMEs have been long regarded as being resource constrained, little experienced, domestically focussed with a limited geographic scope. But Calof (1993) pointed out that size does not automatically mean to be a barrier. Internationalisation can unlock opportunities and offer benefits to small businesses. SMEs can make bigger their market for selling their products, enlarge their customer base, move competitive dynamics and achieve an internationally distinguished position.
As it was mentioned earlier today, international expansion can no longer be deemed the limited domain of the established multinational corporations (Zahra 2005). Despite a general preoccupation with large multinational enterprises, recent years have seen a rush in the study of internationalisation of the smaller firm, especially in knowledge-intensive industries (Etemad and Wright 2003).

According to Fernández and Nieto (2005), international expansion is initially based on exploiting the competitive advantages of SMEs in the domestic market comparing to other countries where similar opportunities exist. Similarly, many of the companies that failed to recognize the opportunity to internationalise, have been forced to do so to stop the competition gaining competitive advantages taking control of the market. Therefore there exist the same phenomenon or process, caused by two different circumstances: an opportunity vs. necessity (Marín-Anglada *et al*. 2014).

Within this process of internationalisation of companies, family firms play an important role, in particular due to their input to global output. Therefore, according to the Instituto de Empresa Familiar (Marín-Anglada *et al*. 2014), about 60-85% of the companies in the world are family businesses (80% in USA, 60% EU) and therefore represent a very high percentage of the world's wealth (50% in USA and 65% EU). In Spain, the data exceeds the world average, representing 85% of all enterprises, 70% of GDP, and 13.9 million jobs. Moreover, at the level of international trade, family firms account for almost 60% of Spanish exports (see Table 1).

Table 7. Weight of the family business in the global economy.

	Weight in GDP	Number of firms
United States	50%	80%
European Union	65%	60%
Spain	70%	85%

Source: (Marín-Anglada *et al*. 2014).

It is worth mentioning that additionally to the particular significance of internationalisation in the world economy, the internationalisation of family firms differs from other companies with diverse ownership structures (Graves & Thomas, 2008). Therefore it is possible to investigate the family businesses as different entities in order to comprehend their behaviour related to the process of internationalisation. Such investigation may lead to identification of distinctive features influencing family business internationalisation process (Marín-Anglada *et al*. 2014).

There different approaches to investigate the process of internationalisation of SMEs. Researchers whose pioneering efforts look for fostering a research agenda at the strategy and entrepreneurship interface advise that the internationalisation of small firms is a topic that can be successfully explored from a strategic entrepreneurship view. For example, Hitt et al. (2001) categorize internationalisation, together with external networks, organizational learning, resources, and innovation, as a logically occurring area in strategic entrepreneurship. Usually small businesses lack the resources of their large counterparts. Nevertheless many are able to successfully leverage limited resources in an enterprising but reasonable manner. It is therefore appropriate that research on the internationalisation of small and new firms be approached from both strategic and entrepreneurial perspectives (Prashantham 2008). A strategic entrepreneurship perspective is consistent with internationalising small firms' need to 'punch above their weight', as it were, and efficiently utilise their limited resources to internationalise (Zahra 2005).

Moreover, the study on the internationalisation of family business is becoming more and more vital since these firms have realized that they can become more competitive by expanding their activities overseas (Kontinen and Ojala 2010). While internationalisation is often perceived to be a growth strategy, family businesses tend to internationalise slowly and cautiously (Claver, Rienda and Quer 2009). The involvement of family members has a positive influence on international sales but a negative impact on the number of market entries (Olejnik 2014, p.77).

Despite the fact, that internationalisation provides benefits to family businesses, the danger of losing family capital or losing control over the business can make family firms averse to internationalise (Claver, Rienda and Quer 2009). In the same way, Kontinen and Ojala (2010) suggested that the internationalisation of family businesses is primarily influenced by "long-term plans, the possibility to take quick decisions, and the fear of losing control". Claver et al. (2009) mentioned the "long-term vision" (p. 127) as unique characteristics of family firms (for the conditions under which family firms are more long-term oriented than other businesses). Generally, family members of different generations stay true to this obligation to continuing the tradition and ensuring the continued existence of the firm. Tradition is perceived as a specific and exceptional quality of family firms that plays a vital role in the culture of these firms. Consequently, factors such as continuance and consistence as well as control over the firm and defence of family assets are significant traits of the family firm culture (Claver, Rienda and Quer 2007). Continuance, consistency and control are characteristics that are related to the firm's risk orientation, which is an important aspect of entrepreneurial orientation (Naldi et al. 2007). Usually, it is supposed that family firms avoid risks but their international expansion encourages entrepreneurship since international activities are fundamentally fixed on discovering and following new opportunities in novel markets (Naldi et al. 2007).

Sometimes family issues are perceived as barriers towards firm internationalisation. For example, family participation in management has been seen as issue tending toward concern in the internationalisation processes of family business (Kontinen and Ojala, 2010). Based on the research of George et al. (2005), internal owners usually come out to be risk averse, with a consequent decrease in the scale and scope of internationalisation. On the other hand, the entry on the scene of outside owners, for example institutional owners or venture capitalists, considerably raises the scale and scope of internationalisation. Despite the internationalisation of family firms is commonly characterized as slow and avoiding risk, these firms may sometimes internationalise quickly, for instance, in the context of a generational change (Graves and Thomas, 2008). The causes for the slow speed may be, for example, their limited growth objectives and restricted financial capital. Moreover, there could be a relationship with limited managerial capabilities (Graves and Thomas, 2006), an unwillingness to accept external expertise, and a lack of bridging network ties.

The factors increasing the internationalisation of family firms cover a general long-term orientation, and speed in decision making. Additionally, it has been found that the family businesses that are likely to be more flourishing in international expansion are those with a readiness to use information technology, a capability for innovation, and a commitment to internationalisation, as well as the ability to allocate power and utilise the available resources (Kontinen and Ojala, 2010). Generalising, the entry on the scene of new generations has been seen as having a positive impact on internationalisation, though generational change has occasionally had no influence, or even a negative pressure on internationalisation (Kontinen, Ojala, 2012).

Another important area of research is to learn about possible determinants and motivations leading SMEs to develop their business activity in a home country as well as abroad. There is still not much knowledge about small business motivations to set up modes of activity related to upstream value chain activities, and what motivators lead to the establishment of formal modes in relations and networks. Cooperation modes are of importance in the context of international business activity of SMEs, which are perceived as all formal arrangements that lie between market-based transactions and foreign direct investment (e.g. greenfield or merger, joint venture or wholly owned subsidiary), as listed below (Inkpen 2001, p. 404):

- Industry consortium,
- Technical training,
- Supplier/buyback arrangement,
- Production/assembly arrangement,
- Patent licensing,
- Know-how licensing,
- Franchising,
- Management/marketing/service agreement,
- Non-equity cooperative arrangements (in exploration, research partnership, development or co-production).

Various options and interrelationships among the mentioned above collaborative modes do exist, which depend upon the particular objectives of the international partnership. According to Jones and Young (2009, p. 16) there is a gap in the research concentrating on understanding the importance of those modes of cooperation in SME growth. Moreover the selection process may have significant implications for the success of firm strategy internationally.
Due to the fact that family businesses search for continuity and stability, usually they avoid aggressive internationalisation and concentrate on a small number of foreign markets to make revenues (Zahra 2003). While it has been argued that family firms utilise selective and riskavoiding strategies (Kontinen and Ojala 2010), it is not much known which generic strategies or marketing strategies family businesses adopt to penetrate foreign markets. According to Ibrahim, Angelidis and Parsa (2008) family firms possess a competitive advantage since they are"nimbler, more customer-oriented and quality focused" (p. 95). Emphasising on tradition and family values, family firms seem to be more likely to concentrate on quality, service and a positive image when competing internationally (Olejnik 2014).

Furthermore, based on Kontinen and Ojala (2010) research family firms are often perceived to be owner-centred and unstructured in their internationalisation approach. For example, the decision-making structure of internationalising family firms in China seems to be centralized and informal (Tsang 2001). Nevertheless, it has also been presented that a direction towards decentralized decision-making is positively linked to entrepreneurship in family firms (Zahra, Hayton and Salvato 2004). It is possible to assume that family businesses with a risk-averse orientation will prefer centralization, while it could be argued that internationally oriented entrepreneurial family firms will select decentralisation of their decision-making and implementing pure organizational routines (Olejnik 2014, p. 78).

Organisational culture plays a vital role in the process of SMEs and especially family firms internationalisation. In general, it seems that the organizational culture is unique in family businesses in that sense that it influences not only the internationalisation process as such but as well the strategies and structures of the firm. Due to the differences of family businesses in their culture, the level of risk aversion and attitude towards foreign markets determine their differences in response to and performance in the international context (Olejnik 2014, p. 78).
Usually families keep control of firms both through ownership and by appointing executives on the basis of family relations (Enriques and Volpin, 2007). Nevertheless, if managers are mostly appointed on the basis of such relationships instead of their confirmed experience and knowledge, exporting performance may be worse. This selection bias is likely to limit the access of these firms to the particular resources and capabilities of professional managers and that are expected to be for the internationalisation process. Some international research proves this fact. For example, Fernandez and Nieto (2006), explored a negative relationship between family ownership and export intensity among Spanish SMEs. Similarly, George et al. (2005) discovered in Sweden that internally appointed CEOs and senior executives tend to be more risk-averse than their external counterparts, and hence be likely to reduce the scale and scope of SME internationalisation.

It is also important to stress some results, proving that the involvement of non-family managers may have a positive influence on performance (Kor and Sundaramurthy, 2009) in that such involvement may provide the firm with vital managerial competencies. These competencies can be perceived as knowledge about foreign markets, international legitimacy and reputation, and of a global network of external ties that promote internationalisation. For example, Gomez-Mejia et al. (2010), claim that family firms tending to diversify internationally are pushed to employ non-family professionals that have particular knowledge of international markets. The research conducted by Reuber and Fischer (1997) present that experienced Top Management Teams stand for a resource that has a main part in the degree of internationalisation of SMEs. Moreover, exporting needs the development of external and international contacts, and sometimes family ties hinder a firm’s ability to develop other cross-border contacts. The case of Italian SMEs proves that, besides the employment of non-family executives in Top Management Teams, firms may also have access to exporting knowledge from their contacts within their industrial agglomerations. Definitely, non-family managers and location in industrial districts may be alternative (i.e. substitute) sources of various types exporting knowledge, e.g. concerning regional or global export markets D'Angelo, Majocchi, Zucchella, Buck, 2013.

17.4. Advancing SME internationalisation

There is a need for advancing SME internationalisation in different aspects: theoretical, methodological or practical. Internationalisation of SMEs is frequently seen to be stimulated by the development of communication and transportation channels, homogenization of markets and growing international and cultural awareness (Oviatt and McDougall, 2005). For these grounds, many researchers have come to the conclusion that the internationalisation process of SMEs follows different than the traditional internationalisation theories, such as the Uppsala model (Johanson and Vahlne, 1977; Kontinen, Ojala 2010).

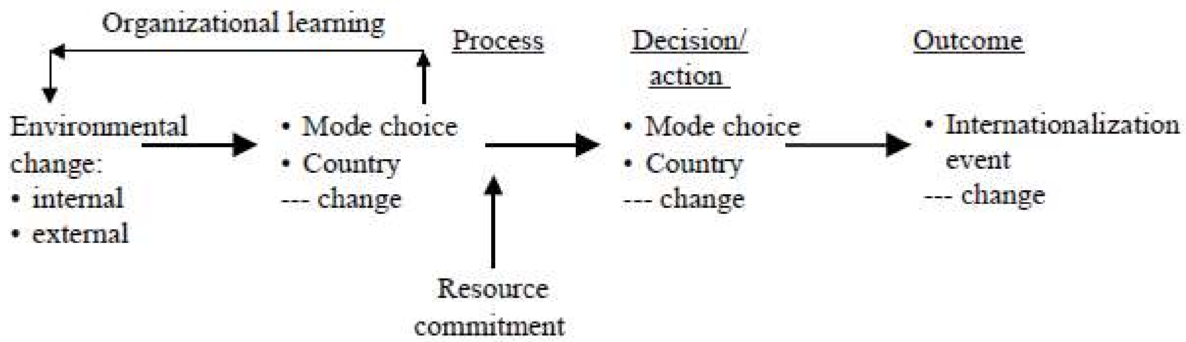
Important issue for research in SMEs internationalisation is company performance after internationalisation. The number of firms expanding into global markets is growing, therefore the influence of internationalisation on performance has generated quite an interest among scientists (Kirca et al., 2012). In this meaning, internationalisation is a strategy through which a firm develops its activities across national borders, providing firms a number of rewards such as economies of scale and scope, market power effects or risk reduction and learning effects (Lu and Beamish, 2004).

It is worth mentioning, that internationalisation does not always raise performance due to firms' probable lack of resources, such as financial constraints, lack of global name and small innovation capacity (Crick and Spence, 2005). Moreover, internationalisation involves costs coming up from the unfamiliarity with the local environment, from both cultural, political and economic dissimilarities and the need for management across geographic distance (Zahra, 2005). Outcomes of empirical study in this field prove this point, as they are decidedly mixed. A number of studies have found a linear and positive relationship between internationalisation and performance (Daniels and Bracker, 1989). On the other hand, the studies of others indicated no relationship (Morck and Yeung, 1991) or even a negative one. Also, some research put forward that the influence of internationalisation on performance is tied to costs and profits that differ depending on the degree of a firm's internationalisation (Olmos, Isabel Díez-Vial, 2015).

Most of the research identified in the literature on the internationalisation of SMEs (Wheeler et al., 2008; D'Angelo et al., 2013) founds exporting as a prevailing entry mode into international markets. SMEs have a tendency to move into overseas markets mostly as exporters since exporting is the cheapest, simplest and quickest method to complete internationalisation (Leonidou et al., 2010). Consequently, export performance, along with its major determinants, is one of the most intensively researched topics in international marketing (Morgan et al., 2004; D'Angelo et al., 2013). Nevertheless, the issue of the determinants of export performance stays one of the least understood in the literature (Leonidou et al., 2010). One of the major reasons is that, over the last five decades of research into SME export activities, partial attention has been dedicated to differentiate the regional and global scope of internationalisation (Pangarkar, 2008; D'Angelo, et al., 2013).

There are different modes and models of SMEs internationalisation. Based on Brazeal and Herbert's (1999) model of the entrepreneurial process, Jones and Coviello (2005) recommended a simple, descriptive model of internationalisation as process-linked events containing organizational learning, leading to mode and country choice in a dynamic process of resource commitment and change (Figure 3). The mode is located as a formal event linking post and antecedent processes.

Figure 26. How entry modes relate to the internationalisation process of SMEs



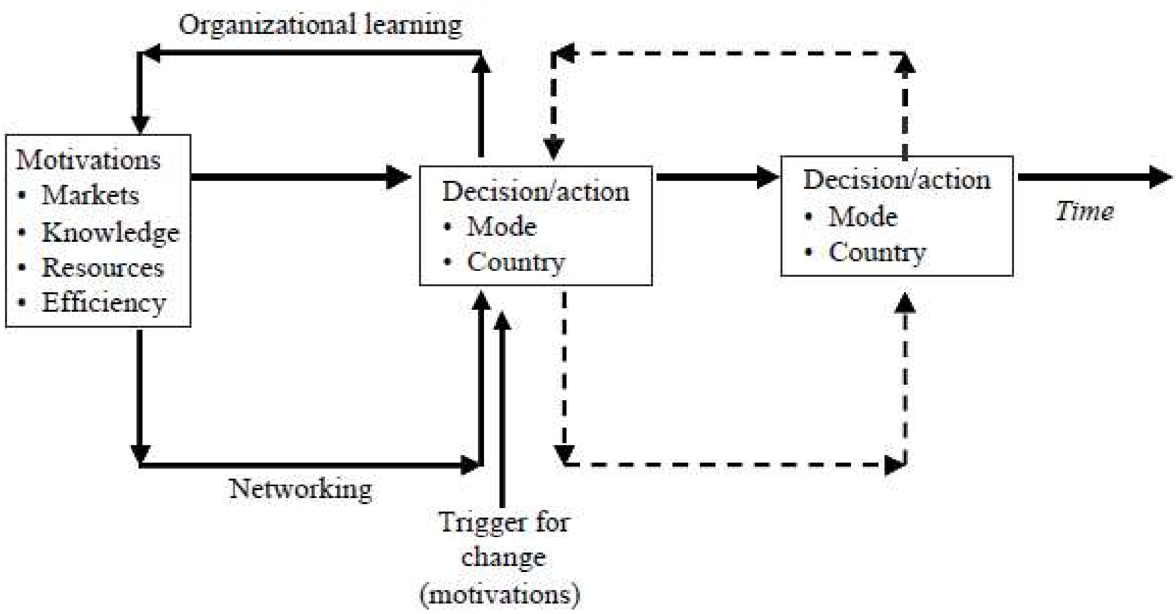
Source: (Jones and Coviello, 2009).

Figure 26 illustrates internationalisation as a dynamic process activated by internal and external change leading to the establishment of an entry mode (innovation) in a particular country. This in turn initiates a process of activity through which the original 'internationalisation state' of the firm is changed, leading to more or less, resource commitment. Additional change may activate the organization of a new (or the same) mode in a new (or the same) country. Consequently internationalisation is presented as a dynamic and entrepreneurial process of behaviour in which every entry mode established in each country represents a radical or incremental (path-dependent) innovation (Jones and Coviello, 2009).

The value of the presented model is that in a non-prescriptive way it characterises internationalisation as a 'temporal process' where the formal establishment of an entry mode is a result occurring at a specific point in time since certain 'processes' have led to and enabled its formation. In the same way, the development of an entry mode in a country activates new processes that in turn may lead to a future event or decision. Seeing internationalisation in such way enables to consider both perspectives: event (entry modes and market entries) and temporal process (internationalisation) (Van de Ven and Engleman, 2004). It furthermore illustrates the significance and interdependence of variance research designs (typical in entry mode research) with event and process designs (typical in international entrepreneurship research) in understanding the connections between entry mode decisions and outcomes, and processes such as networking, knowledge development and the establishment of organizational routines (Jones and Coviello, 2009).

Until now, it was explained that the entry mode is essential in internationalisation but is treated differently in the entry mode and international entrepreneurship research, and presented how the entry mode is situated within a temporal process of internationalisation. If entry mode decisions are growing from or trigger processes of activity or behaviour, the motivations for their formation may differ from those typically associated with market entry decisions. Therefore, Figure 4 seeks to expand the earlier model a little further.

Figure 27. Informal internationalisation behaviours relating to entry modes over time



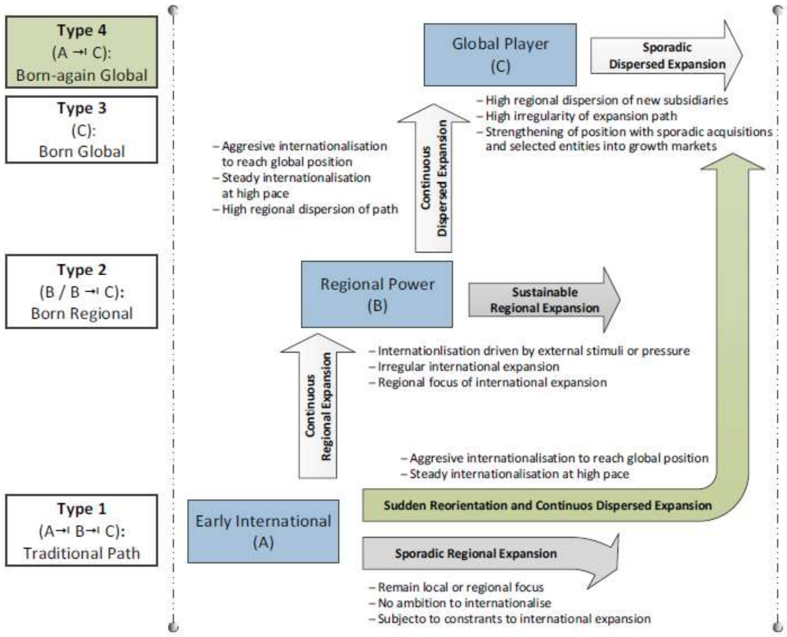
Source: (Jones and Young 2009, p. 15).

In this case internationalisation is once more depicted as a process, happening over time, as a series of loops where motivations activate processes such as networking and learning, interspersed with entry activities or decisions that trigger new processes of learning and networking, continuing on into the future (dotted lines). The model illustrates an establishment chain approach but differs in that it is not prescriptive of the order in which events and processes take place, nor in the types of event or process or their length. The figure does exemplify that initial motivations may change in time, and may be determined by the processes and relations created by the firm, and by internal or external triggers, along with or in place of the factors perceived as influencing selection of mode in rigorously rational approaches such as transaction cost analysis type theorizing (Jones and Young 2009, p. 16).

An interesting approach to business interantionalisation is presented by Hutschenreuter, D'Aveni and Voll (2009). They have identified three fundamental types (A, B, C) of internationalised firms the original model (Figure 5), nevertheless it could be extended to four types (1, 2, 3, 4) of internationalisation paths (Wach 2015). Companies that internationalise in a traditional path via stages according to U-model assumptions belong to Type 1. On the opposite side to this concept there are born globals (Type 3), which are businesses that internationalise early and quickly. Usually they consider the global market as their target business arena from their beginning.

Moreover, Hutschenreuter et al. (2009) discovered two other types, which are also analysed in the modern literature. Within international entrepreneurship at least several other groups of concepts are being developed which are worth mentioning. Accelerated internationalisation or rapid internationalisation models are related to the traditional SMEs that are not paying attention at functioning on the global market from the very beginning. Nevertheless, the speed of their internationalisation is high (Kalinic & Forza, 2012). Another one is the concept of born regionals (Type 2) that are internationalised from the inception, however their scope covers mostly the markets of bordering countries, and usually after some time some of them establish their international activities (Hashai & Almor, 2004; Wach 2015).

Figure 28. Four basic paths of internationalisation of the firm



Source: (Wach 2015, p.40).

The last one concept of born-again globals (Type 4) described by Bell, McNaugton, Young and Crick (2003) is as well attractive and fashionable in the literature and can be perceived as an accompanying fourth path. It describes firms initially functioning on the domestic markets, though, after noticing opportunities on foreign markets their rapid internationalisation takes place, running from the moment of their transformation in a similar way as among born globals. Usually, these are often firms that arrive from traditional industries (Wach 2015, p.41).

In order to widen our understanding of the determinants of family firm internationalisation, it is worth to look at Wasowska (2017) study, where the roles of ownership (i.e. the concentration of ownership, foreign ownership) and management (i.e. the involvement of nonfamily managers, owner – CEO) were examined. The universal conclusion which can be drawn from the study is that external influences within both ownership and management improve firm's internationalisation efforts.There is support for the idea that the inclusion of outsiders (both in terms of ownership and management) improves the process internationalisation, with particular effects of this mechanism on different dimensions of internationalisation. First, she found that the concentration of ownership within the family hinders the propensity to export, but it has no effect on export intensity and export scope. As a result, it may be concluded that concentrated ownership makes at first an important barrier to internationalisation, hindering family firms to enter overseas markets. Nevertheless, concentrated ownership does not influence export performance of family firms which are already operating abroad.

Second, there is support for the belief that foreign ownership contributes to firm internationalisation. Interestingly, the influence of minority foreign ownership is more prominent than the controlling foreign ownership. As the former influences all the dimensions of internationalisation, the latter has no effect on export scope and global export propensity. It could be explained with the subsidiary mandate framework, offered in international business literature (e.g. Birkinshaw, 1996). This framework proposes that the nature of subsidiary responsibilities depends on the MNC general strategy, and more particularly, its expectations as to the role of this subsidiary in the MNC value chain (Young & Tavares, 2004). Therefore, subsidiaries of MNCs have diverse strategic mandates, which often comprise an export mandate (Filatotchev, Stephan, & Jindra, 2008). It is argued that the ability of home managers to carry out export is dependent upon the foreign investors' ownership and control over decisions made by the subsidiary. In a study of foreign invested firms in the Central and Eastern Europe, they found that export intensity of local firms is determined by foreign investors' ownership and strategic control and that these two attributes harmonize each other in terms of their influence on export behaviours (Filatotchev et al. 2008). In relation to the findings of Wąsowska (2017) it may be concluded that as local subsidiaries of MNC vigorously engage in export they do not expand to remote locations, as it would probably not be coherent with the MNC overall strategy.

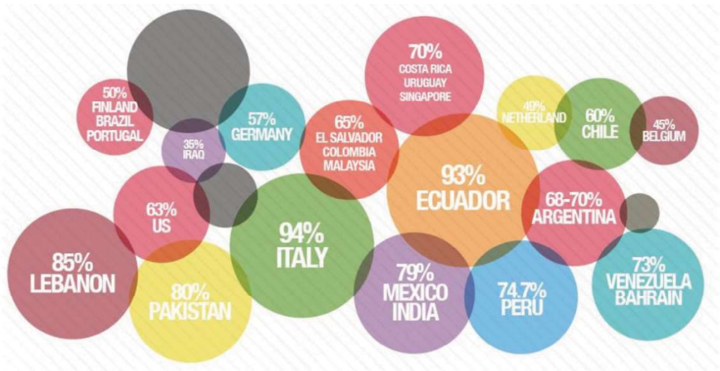
Third, in line with the results of previous studies (e.g. Naldi & Nordqvist, 2008), Wasowska (2017) found support for the idea that the involvement of nonfamily managers enhances internationalisation. Fourth, according to findings owner-CEO does not necessarily hinder the internationalisation efforts, as the importance of this variable is observed only in relation to global exporting. It may be explained by the unwillingness of owner-CEO to go into geographically remote markets. According to Miller, Le Breton-Miller and Scholnick (2008) family firms differ from non-family businesses in terms of the type of connections they developed with both employees and customers. In family businesses these relations are very tight, what may be principally demanding in an international context, particularly geographically distant markets (Kontinen & Ojala, 2010).

Based on her findings, Wasowska (2017) has formulated some recommendations to family business managers. First, in order to expand internationally, family firms should think about including outsiders (i.e. nonfamily investors and nonfamily managers) in their ownership structure and top management team external influences. Despite the fact that nonfamily ownership is principally relevant in the primary phase of internationalisation, influencing export propensity; nonfamily managers enhance all dimensions of internationalisation (i.e. export propensity, scope and intensity, as well as exporting to distant markets). Thus, a practical implication of the study is that in order to speed up the internationalisation of their businesses, "family firm owners should not only seek for external (i.e. nonfamily) capital, but also be open to nonfamily influence in the management team" (Wąsowska 2017, p. 181).

17.5. Holding back from and barriers to SME internationalisation

Family businesses (FB) have the majority of businesses in most countries (Donckels, Fröhlich 1991; Gallo 2004) and are considered as a unique and different from "regular" business because of the mutual impact of the family and the firm (Zahra and Sharma, 2004). Family-owned firms have also unique capabilities, which engender trust, inspiration, motivation, and commitment among the workforce. Moreover, there is a strong desire to develop customer relationships and the demonstration of flexibility in decision-making (Tokarczyk et al., 2007). The better family's reputation the more trustworthy company itself is seen. It also allows building social relationships and connections, and experiencing a lower overall transactions cost. Family businesses are also widely seen as the backbone of the economy – they create wealth, they provide jobs, they are locally rooted and connected to their communities and they seem to be around for long periods of time.

Figure 29. Percentage of Family Business Contribution to National GDP



Source: Family Firm Institute, Inc. [on-line sources].

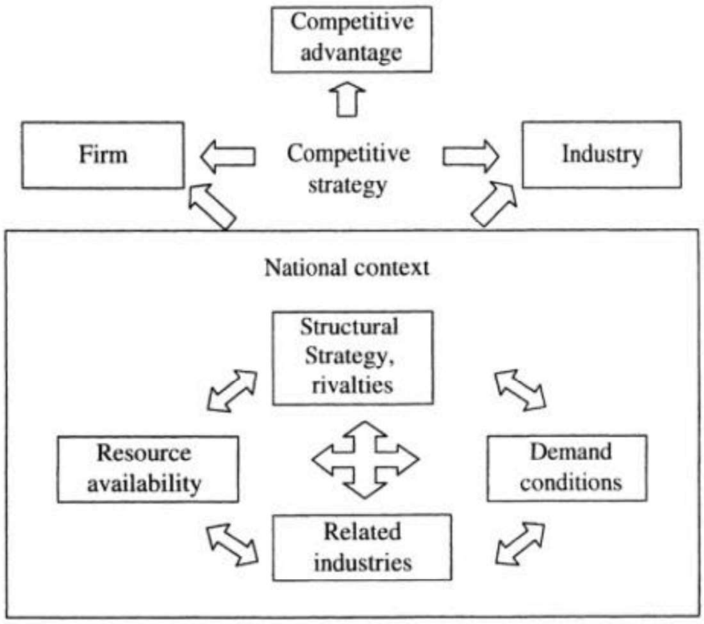
Finally, families may control their businesses by giving priority to family members in top management and other sensitive positions, and are also selective in their recruitment procedures (Bertrand and Schoar, 2006). They tend to use a more centralized structure to implement strategy that allows family businesses to have lower recruitment and human resource costs, and thus makes them more efficient than other labour-intensive businesses (Levring and Moskowitz, 1993).
In view of the dynamics of the new millennium's global landscape, internationalisation might be considered as the right step for family firms in order to preserve or expand their wealth. However, internationalising their business could cause such firms to lose their direct control (Casillas, Moreno & Acedo, 2010) and making them less inclined to expand.

Figure 30. Main drivers for success in a FB

Source: 4th European Family Business Barometer, EFB-KPMG, 2015.

Due to globalization and the worldwide diminution of formal trade barriers on industrial goods, global exchange in goods, services, labour, and capital has been facilitated. Nevertheless, firms also face increased global competition and to remain competitive, companies – including SMEs and family firms – have to actively approach international markets. Within the traditional analysis of the environment, variables such as governance policies, macroeconomic factors, cultural factors and industry factors are considered. The starting point for obtaining competitive advantage is found in the national situation, followed by the industry and the company itself (Casillas et al, 2007, p. 99).

Figure 31. Formulation of a competitive strategy in an international context



Source: Grant, 199 cited by: Casillas et al, 2007, p. 99

A firm implementing a differentiation strategy is able to achieve a competitive advantage over its rivals because of its ability to create entry barriers to potential entrants by building customer and brand loyalty through quality offerings, advertising and marketing techniques. Those characteristics may contribute to family business activities aimed at international expansion in positive or negative way.

Case study: Everything has started with the bin. Vipp, Homeware manufacturer (Denmark)

Holger Nielsen was a metal worker by trade, and produced a special pedal bin for his wife Marie's hair salon, as a side-line to his main business processing steel. When Holger died, his daughter Jette Egelund took over the company, specifically to explore the commercial potential of the bin design. Jette started working in the factory, learning the art of metal pressing: "I needed that knowledge to develop the product, and to identify the best manufacturing partner for us." And about that time Jette's children, son Kasper and daughter Sophie, joined her in the firm, bringing with them expertise in marketing and graphic design: "Suddenly there were a lot of skills which complemented the business."

From then, the Vipp range went from strength to strength, adding a toilet brush and laundry bin to the original pedal bin. Throughout, innovation, new product development, and clean Danish design are key to Vipp's success. This was recognised in 2009, when the pedal bin was included in the architecture and design permanent collection of the Museum of Modern Art in New York.

These days, 70% of Vipp's turnover is outside Denmark and its products are being sold in South Africa, Israel, Germany, Switzerland and the US. The company is developing also Asian and Australian markets. And all that just with 40 people, including engineers, product development experts, marketing, PR and design specialists.

Based on PwC case studies – Family Firm Business Service 2016
[http://www.pwc.com/gx/en/services/family-business.html]

Family firms are commonly described as having a lower tendency to internationalise due to some of its features as: family members' reluctance to accept external knowledge (i), difficulties in hiring new managers with international responsibility (ii), fear against losing control (iii) and the existence of control systems underdeveloped (iv). What's more - the existence of a product geared solely to the domestic market, lack of financial resources and family members promptness and willing to take internationalisation, low willingness to form strategic alliances as well as internal power struggles, largely determine the internationalisation of family businesses as well… There is just a tip of the iceberg.

Table 8. Barriers to Internationalisation of Family Business

Main Barriers	Source
- Reluctance of family members to accept external knowledge - Difficulties in hiring new managers with international responsibility - Fear to loss control - Existence of control systems underdeveloped	1991 Gallo and Sveen
- Existence of a product geared solely to the domestic market - Lack of financial resources and family members ready and willing to take the internationalisation - Low willingness to form strategic alliances - Internal struggles for power	1996 Gallo and Pont
- Irregular monitoring of the international environment - No integration of global developments in their household decisions - If the company does not internationalise the 2nd generation then becomes less likely that will make the 3rd generation	1999 Okoroafo
- Concentration of decision-making power in the hands of a single shareholder or small group - Delays in the succession process - Self aversion to internationalisation	2004 Gallo et al.
- Less willingness to step up presence in networks - Connection to other areas of activity	2004 Graves and Thomas
- Lack of resources relevant to family businesses that join the socio-psychological problems, cultural and political	2005 Fernández and Nieto
- As we grow internationally, the management capabilities of family businesses are less than the existing companies in the unfamiliar, being more relevant when the levels of internationalisation are high	2006 Graves and Thomas
- The higher the perception of risk the lower the degree of internationalisation - Size and age positively influence the degree of internationalisation	2005 Casillas and Acedo
- Strong domestic social capital hinders internationalisation	2011 Kontinen and Ojala

Source: Coutinho, Moutinh, 2012, p. 5

Successful policies to increase the number of internationalised SMEs must start by understanding which are the main problems faced by SMEs when considering the possibility to start operating with a foreign partner. According to the OECD "Removing barriers to SME access to international markets" OECD-APEC Global Conference, 6-8 November 2006, Athens, Greece) the main barriers to greater internationalisation as reported from SMEs are:

1. Shortage of working capital to finance exports;
2. Identifying foreign business opportunities;
3. Limited information to locate/analyse markets;
4. Inability to contact potential overseas customers;
5. Obtaining reliable foreign representation;
6. Lack of managerial time to deal with internationalisation;
7. Inadequate quantity of and/or untrained personnel for internationalisation.

These problems could be grouped in the three SME's main areas of concern:

1. Insufficient managerial time and/or skills required for internationalisation
2. Lack of financial resources
3. Lack of knowledge of foreign markets, mostly consequence of the previous two

To sum-up, costs and barriers which might influence family firms' internationalisation includes both – personal and personnel costs, but also gaining the information necessary to enter the export market is one of the biggest problems faced by would-be exporters. Knowledge and skills about export procedures, documentation, and government regulations are the other critical requirements for successful foreign market entry by family firms. In addition, different product standards and procedures in other nations may convince many smaller companies that they lack a competitive edge in dealing with foreign clients. What more - cultural and language barriers are obstacles to exporting because of failure in understanding and adapting to foreign cultural and business patterns and practices. Problems caused by financial barriers are also major obstacles to internationalisation.

Nevertheless, there is a huge need for an increase in firms' commitments to internationalisation activities. It is crucial especially in the first few years when they begin to knowing and entering foreign markets.

17.6. Goals, motives and levels of internationalisation

Researchers and business analysts have been looking since ages to find motives that push company internationalised. It's worth ask also another question - what are the reasons for expanding activities to foreign markets or opening a new subsidiary in other region by family-owned companies?

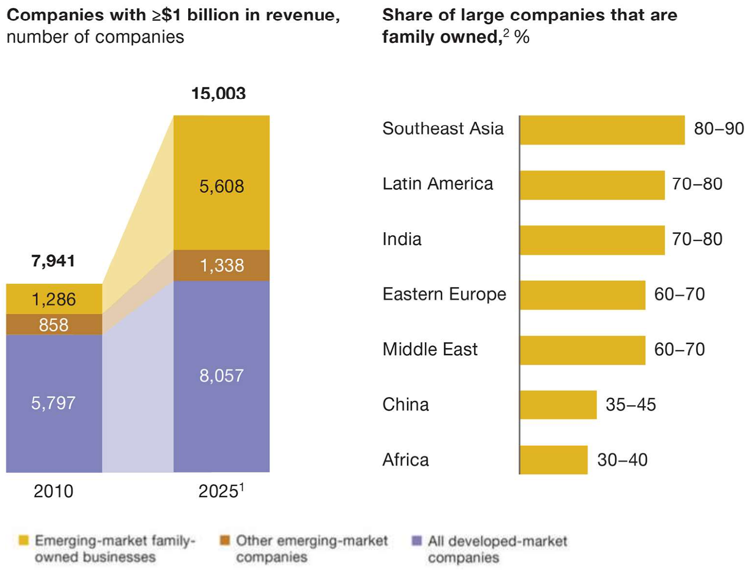
Growing in international markets has become a "must do" strategic option which firms of different types, different industries, and from different countries "have to" pursue (https://www.wifu.de/en/research/topics/family-firms-international-behaviors/). Broadly speaking, the feature that makes a family business different from a non-family business is the involvement of the family in the ownership and management of the firm: a family business is a combination of the mutual economic and non-economic values created through a combination of the family and the business systems in place (Habbershon and Williams, 1999).

For Fernandez and Nieto (2006, p.16);"The initial assumption, in accordance with the resource-based view, is the idea that competitive advantages at both the national and international level depend on the firm's portfolio of strategic capabilities and resources. Family firms seem to be at a disadvantage when they come to internationalization, as it is difficult for them to access the resources required for this." It is clear that this is something for family businesses to be aware of when formulating their strategies for internationalisation.

Family firms internationalise their businesses in many different ways to increase they business success. Internationalisation theories that can be found in the literature address the entry mode choices. One can find various theoretical frameworks including transaction cost theory, stage model theory, network theory, eclectic paradigm, and resource-based view (Alkaabi, Dixon, 2014, pp.56-57). These theories offer theoretical interpretations of the process of business internationalisation. Three dominant approaches has been identified:

1. the stage approach (the Uppsala model, I-Model)
2. the network approach
3. the international entrepreneurship approach.

Figure 32. Number of family-owned businesses in emerging markets

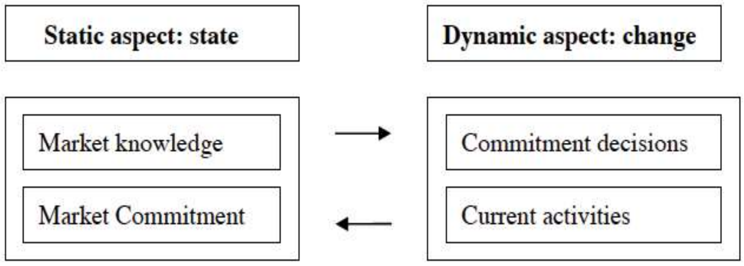


Source: Bloomberg; *EXAME* magazine's 2013 Melhores & Maiores list; *Jeune Afrique* magazine's Top 500 African companies; Kisvalue; Mexico's Secretariat of Finance and Public Credit; PRIME news agency's rating of Russian family-owned businesses; Prowess; Zawya; company websites; McKinsey Global Institute analysis

The traditional approach to internationalisation has been described as a stage model, in which a company first grows solidly in its home market, and then starts exploring opportunities for expansion into neighbouring countries in the region. As the company's experience and familiarity with foreign markets grows, it extinguishes its operations from nearby countries to more distant countries. So it results in a gradual and sequential export development by stages, based on a series of incremental commitment decisions depending on perceptions, expectations, experiences, managerial competencies, etc.

The widest known model, representing the stage approach, is the Uppsala model (U-Model) by Johanson, Wiedersheim-Paul, Vahlne (1975, 1977). It describes internationalisation as a process of gradual learning through experiences gained from foreign markets. Family-owned companies start their internationalisation with exporting activities into countries with low psychological and geographical distance, and then gradually, as knowledge and resources accumulate, expand into more remote markets (Claver et al., 2007; Kontinen & Ojala, 2010b; Olivares- Mesa & Cabrera-Suárez, 2006). In market selection, firms are expected to enter first into nearby markets, where there is a similar language, culture, political system, level of education, level of industrial development, etc. Thereafter, when a firm's knowledge of international operations increases, it gradually starts to develop activities in countries that are more distant.

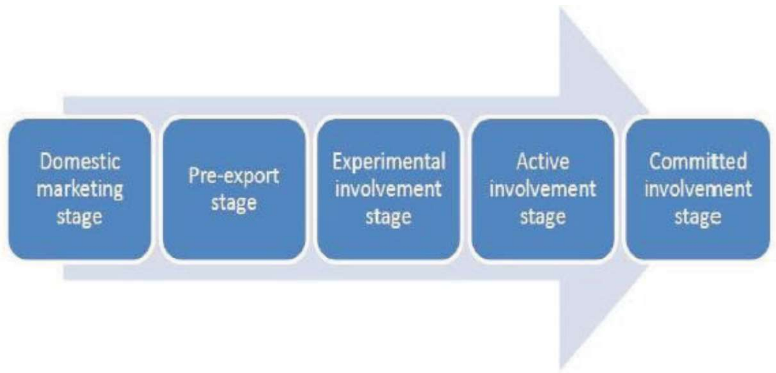
Figure 33. The internationalisation process of the enterprise



Source: Simin Lin. Internationalisation of the SME: Towards an integrative approach of resources and competences. 1er Colloque Franco-Tchèque: "Trends in International Business", 2010, France, pp.117-135, 2010.

Transaction cost and industrial economics approaches of internationalisation (Dunning, 1988) assume that foreign market entry decisions are rational and occur at specific points in time. According to the Uppsala Model firms do not possess any international market knowledge before their initial internationalisation. To minimize risk and uncertainty initial market entry occurs in country markets, which evoke feelings of proximity. The innovation-related model (I-Model) views internationalisation as a process in which the steps are analogous to that of a new product adoption and the decision of internationalisation is affected either by “push” or by “pull” force. The mechanism of “push” is an external change, which initiates the export decision, and the mechanism of “pull” is an internal change that explains the shift from one step to another. These stages are determined on export/total sales ratios (Lin 2012, p. 5-6).

Figure 34. Stages of I-Model



Source: Andersen 1992, p. 213.

Leonidou and Katsikeas (1996) consider that the different processes in I-Models can be essentially generalized into three main stages:

1. Pre-export stage: The enterprise interests only in domestic market; the enterprise searches for information and evaluates the feasibility of export activities; the enterprise has already exported on limit basis but exports no more
2. Export trail stage: The enterprise starts to export irregularly when it has the potential to extend its activities in foreign markets
3. Advanced export stage: The enterprise exports regularly with extended experiences to foreign markets and conceives other forms of commitments to international markets (Lin 2010, s. 127-128)

This model might consider also the learning process of the firms and the managers by international knowledge gathering and putting importance on entrepreneurial orientation as a vital factor in the success of internationalisation of the firms.

To overcome the initial lack of knowledge and psychic distance, companies might create networks. It is said that every market is a network of relationships where firms are connected to each other and that through these connections firms can obtain new knowledge, build trust and increase their commitment, which are the key determinants put forward for a successful internationalisation (Johanson and Vahlne 2009). The network approach is a revised version of Uppsala model (2009) emphasizing the importance of putting the enterprise in its network.

Figure 35. The Network approach of internationalisation

Degree of internationalization of the enterprise		Degree of internationalization of the market: Low	High
	Low	The early starter	The late starter
	High	The lonely international	The international among others

Source: Source: Simin Lin. Internationalisation of the SME: Towards an integrative approach of resources and competences. 1er Colloque Franco-Tchèque: "Trends in International Business", 2010, France, pp.126, 2010.

The early starter has limited relations with other foreign enterprises and thus has limited has limited knowledge about international markets. Generally, they appeal to more experienced local agents and distributors in order to enter new foreign markets. The late starter has an internal network that will generate the pull force for its international development resulting in being attracted to internationalisation by other members of the international network (customers, suppliers, etc.). For the international among the others, it belongs to a developed and competitive network in which the members operate mostly on international markets. The enterprise and its network are highly international (Lin 2012, p. 9).

The concept of international entrepreneurship *(born global)* is contradictory to the stage approach of internationalisation as it is defined as the development of new international activities by new enterprises (Oviatt and McDougall, 1994; McDougall and Oviatt, 2000). In this respect, internationalisation became a presupposition or an entrepreneurial decision led by an entrepreneur or a management team possessing a strong capability to learn new concepts and ideas, a high level competence to manage complicated networks and an aptitude to adapt with different cultural contexts. These firms internationalise to several foreign markets simultaneously and quickly, and are less influenced by cognitive distance. Thus, they commonly internationalise to the markets where their products sell particularly well. Their internationalisation is reactive, and based on striving for first-mover advantage within niche markets (Bell et al., 2003). The products of born-globals are developed for the international market rather than purely for domestic customers.

> Family businesses are developing and growing. In pursuit of success, companies have responded differently to the financial crisis of 2008. The three major trends characterizing family businesses nowadays are: rapid internationalization, increased hiring, and considerable investments in digital projects.
>
> **JESÚS CASADO NAVARRO-RUBIO**
> SECRETARY GENERAL
> EUROPEAN FAMILY BUSINESSES

Recently the new concept of family firms' internationalisation (born-again global) was implemented. According to Bell (2001), this is a phenomenon associated with companies that, after having a stable position in the domestic market without any intent to internationalise, eventually engage in quick processes of internationalisation. These conceptions – in contrast to the born global theory, may also apply to mature businesses, such as long-standing family-owned companies.

This decision of going global again results from the sudden occurrence of a particular critical incident. Also the speed of the internationalisation process is affected by numerous factors that cannot be influenced or predicted by the organization, for instance, new technologies, governmental changes etc. Moreover, going global again is expected to be a radical shift in strategy enabled by a "critical incident" or a "trigger" for internationalisation. Among the list of incidents that are reported in the literature, three groups of factors are identified, i.e. change of ownership (i), acquisition (ii) and client followership (iii).
Hosseini and Dadfar (2012) presented the following table to summarize some of the internationalisation theories that are mainly linked to networking and their empirical research applications (Alkaabi, Dixon, 2014, p. 58).

Figure 36. The theory and its application

Theory	Application
Relationship approach	Selecting international partner, foreign market and entry mode
Social Network Analysis	Recognition of international opportunity, selecting new market, international performance, and internationalization speed.
Network Mapping Technique	Justification of internationalization life cycle
IMP Interaction Approach	Countertrade internationalization
ARA-Model	Countertrade internationalization
Network Embeddedness Approach	Life cycle internationalization
Network-based Approach	Internationalization process
Revised Uppsala Model	Internationalization process

Source: Alkaabi, Dixon, 2014, p. 58

Sometimes a family firm follows the network model when entering a new market as family firms' dealings are based largely on trust. Contralily, some other follows the Uppsala model to keep a stepwise process beginning with choosing nearby countries. In addition, some firms, such as fashion brands, follow the "born global" model in which they internationalise rapidly or suddenly (Segaro, 2012; Zaniewska, 2012). It's storngly adviced to apply more than one theory while going global and use a a combination of the above strategies (Alkaabi, Dixon, 2014, p. 58-59).

The Power of Family in Emerging Markets

Family-owned businesses can only operate in countries where the FB model is permitted. For example – China is typically associated with state-owned businesses. But in India family firms play an enormously important role in the development of the economy and the prosperity and the wealth that can be created by them. And – according to Raffi Amit, Wharton professor of management, "not just for the family, but for the country and the thousands of employees who work there." Turkey, Indonesia and the Philippines are another family-business-friendly countries. In some developing countries, family businesses not only help build the economy but engage in philanthropic efforts.

The resilience of family-owned businesses in emerging markets contains a paradox for global companies operating there. Many companies approach these markets in search of rapid growth, yet the family-owned businesses they're considering partnering with are balancing the importance of liquidity against an extremely long view. For them - short term is 5 years; medium term is 20 years—that is, one generation. What's more - founders and families hold their shares for decades, even centuries. "Business managers" usually are given 3-5 years to make progress and bring company's money. For FB – the most important is family and long-term existence. They have time for business…

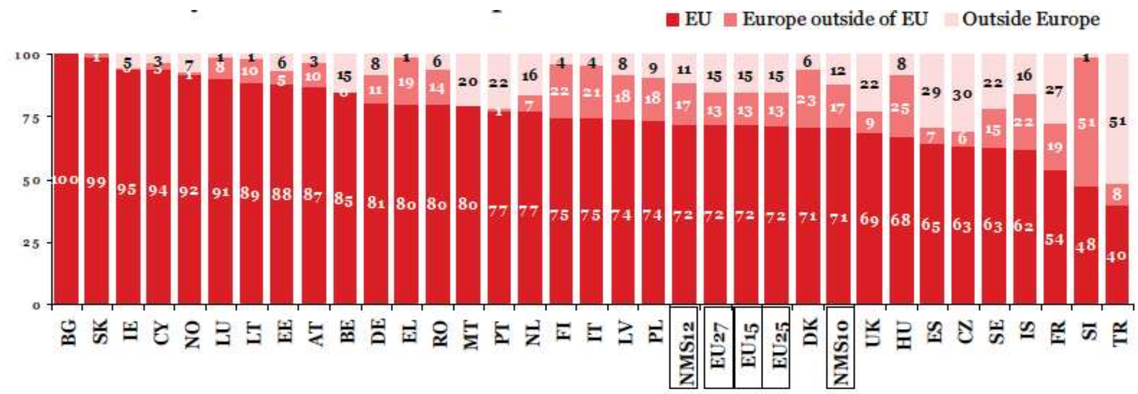
"Are Family Businesses the Best Model for Emerging Markets?." Knowledge@Wharton. The Wharton School, University of Pennsylvania, 31 May, 2016. Web. 19 May, 2017 <http://knowledge.wharton.upenn.edu/article/family-business-model-works-better-markets-others/>

McKinsey Quarterly December 2014 http://www.mckinsey.com/global-themes/winning-in-emerging-markets/the-family-business-factor-in-emerging-markets

17.7. Export Strategies

In a global economy, export markets are an important venue for companies to grow. For any European country the internal market remains the key partner any internationalisation activity. Due to the European Commission (2006) SMEs tend to interact more with countries across the border rather than distant ones.

Figure 37. Main country of destination of export



Source: Final Report of the Expert Group on Supporting the internationalisation of SMEs; European Commission, December 2007.

According to The Economist, a key benefit of family owners is their long-termism, that is, their ability to internalize the long run benefits of expanding abroad. On the other hand, family firms are often reluctant to abandon their initial geographical niche and that this could imply lower tendency for international expansion (Casson 2000; Onida 2004). Although expanding into global markets offers many essential benefits, it brings also some risks. Family own firms executives must than make sure that their decisions are rational and well analysed.

Figure 38. Factors Affecting the Decision to Go Global

Source: Kurtz, 2011, p. 121

Being local can be an advantage and disadvantage at the same time (Bird and Wennberg 2014). The special issue seeks to contribute to a better understanding of how the local roots of family firms influence strategy at both the company and the family level, and how family firms can turn their local roots and regional embeddedness into a competitive advantage resulting in superior performance. Such location-based characteristics can be important enablers (and inhibitors) of family firm's strategic development. It's important for the family firm owners to answer some questions (Baù et al 2017, pp.5-6)

- How do local roots and embeddedness of family firms influence firm strategy and firm performance?
- How do local roots shape family strategies? And how do families leverage regional cultures, networks and embeddedness in their strategies?
- How do customers, suppliers and other (external) stakeholders value the local roots of family firms?
- How do local roots and traditions shape the international identity of family firms?
- How do location-based characteristics, e.g. industrial clustering, technological specialization, urbanization, influence the strategic development of family firm?

After answering those questions, there are several key decisions that will need to be made (Kurtz, 2011, p121):

- Determine which foreign market(s) to enter
- Analyse the expenditures required to enter a new market and determine the source(s) of financing
- Determine the best way to organize the overseas operation
- Determine the extent to which, if any, the marketing mix will need to be adapted to the needs of the foreign market(s)
- Figure out the best way for the business to get paid.

These decisions, and others, will be based on an assessment of the ways to export, an analysis of the industry and the business, marketing and cultural factors, legal and political conditions, currency exchange issues, and sources of financing (Kurtz, 2011, p121).
SME family firms can choose from 2 basic ways to export: *directly or indirectly*. As usual, there are advantages and disadvantages of each that should be understood before making a choice. In *direct exporting*, a SME exports directly to a customer who is interested in buying a particular product. This approach gives the owner greater control over the entire transaction and entitles him or her to higher profits. It also requires a significantly changed internal organizational structure, which entails more risk.

Table 9. Advantages and disadvantages of direct exporting

Advantages	Disadvantages
Potential profits are greater because intermediaries are eliminated.	It takes more time, energy, and money than an owner may be able to afford.
The owner has a greater degree of control over all aspects of the transaction.	It requires more "people power" to cultivate a customer base.
The owner knows customers, and the customers know the owner. Customers feel more secure in doing business directly with the owner.	Servicing the business will demand more responsibility from every level in the organization. The owner is held accountable for whatever happens. There is no buffer zone.
Business trips are much more efficient and effective because an owner can meet directly with the customer responsible for selling the product.	The owner may not be able to respond to customer communications as quickly as a local agent can.
The owner knows whom to contact if something is not working. The owner gets slightly better protection for trademarks, patents, and copyrights.	The owner must handle all the logistics of the transaction. If it is a technological product, the owner must be prepared to respond to technical questions and provide on-site start-up training and on-going support services.
The owner is presented as fully committed and engaged in the export process and develops a better understanding of the marketplace. As a business develops in the foreign market, the owner has greater flexibility to improve or redirect marketing efforts.	

Source: Delaney 2012

On the other hand, *indirect exporting* involves entering into an agreement with an agent, distributor, or a traditional exporting house for the purpose of selling the products in the target market. It is the simplest approach, particularly when a business does not have the necessary human and financial resources to promote products in foreign markets.

Table 10. Advantages and disadvantages of indirect exporting

Advantages	Disadvantages
Does not require a lot of organizational effort or staff workers.	Not all types of goods lend themselves to indirect exporting (e.g., technically complex goods and services).
The producer of the goods is subject to only small dangers and risk (e.g., a short-term drop in the exchange rate).	The profits of a business will be lower, and control over foreign sales is lost.
It is an almost risk-free way to begin. It demands minimal involvement in the export process. It allows the owner to continue to concentrate on its domestic business.	A business very rarely knows who its customers are, thus losing the opportunity to tailor its offerings to their evolving needs.
The business has limited liability for product marketing problems. There is always someone else at which to point the finger.	When an owner visits, he or she is a step removed from the actual transaction and feels out of the loop.
The owner learns on the fly about international marketing. Depending on the type of intermediary with which the owner is dealing, the owner does not have to be concerned with shipment and other logistics.	The intermediary might be offering products similar to a particular business's products, including directly competitive products, to the same customers instead of providing exclusive representation.
A business can field-test its products for export potential. In some instances, the local agent can field technical questions and provide necessary product support.	The long-term outlook and goals for an export program can change rapidly, and if a business has put its product in someone else's hands, it is hard to redirect efforts accordingly.

Source: Delaney 1998, chapter 8.

Key facts on the internationalisation of European SMEs

The level of internationalisation of European SMEs is low.
Level of internationalisation is closely related to company size. There seems to be plenty of scope for growth in the number of internationalised SMEs, particularly the smallest (micro and small) companies.
Even though trade beyond EU has gained weight in the last 10 years as a percentage of both imports and exports, **for the average European SMEs Europe remains the main and key trade partner**[32] across all sectors and company sizes and even more so in the case of services.
SMEs themselves are showing that **internationalisation is growing well beyond just exports** and moving into more developed levels of co-operation.

17.8. SME internationalisation - policy and support

Nature of today's economic, social and political environment has become regularly globally oriented. Nowadays almost no company can escape the further internationalisation process and every organisation will need to cope with internationalisation sooner or later. Internationalisation is the most complex strategy that any company can undertake. Although the global economy provides opportunities for growth, it also means increased competitive challenges and requirement for individual set of capabilities for companies to successfully internationalise. Among family businesses, the most frequent form of organization in the world, internationalisation has also become a growth strategy. Sirmon and Hitt (2003) distinguished 5 unique characteristics that differentiate family firms from non-family firms, *i.e. human capital, social capital, survivability capital, patient capital and characteristic governance structures.* Those 5 unique resources may contribute to family business activities aimed at international expansion in positive or negative way (Zaniewska 2012, pp. 52-60).

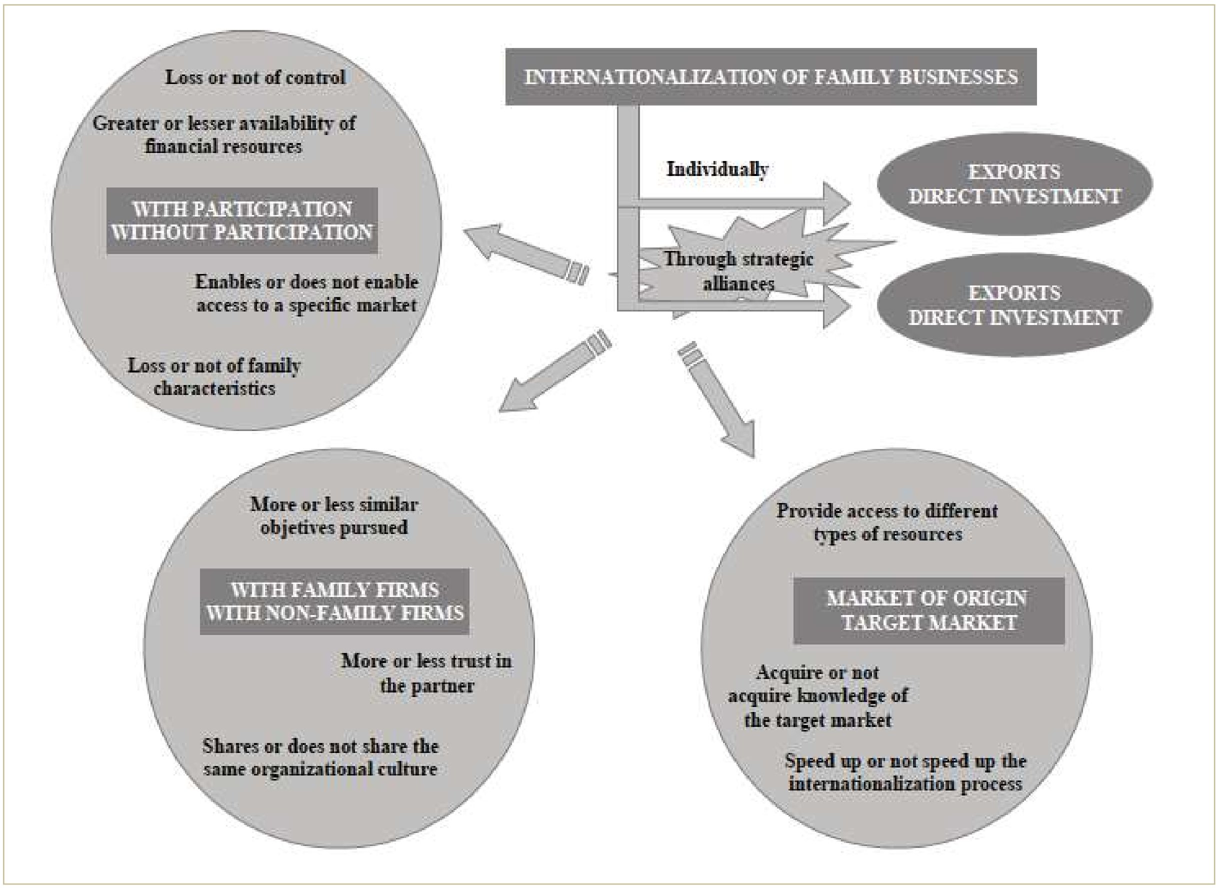
Table 11. Five unique resources influencing family firms internationalisation

Factor	Characteristic
Human Capital	knowledge, skills and capabilities include high commitment of family members
Social capital	the form of networking and other external relationships that complement the insiders' skill sets including shared language, norms and a high level of trust which enables building effective relationships
Survivability capital	personal resources of the family members that they are eager to share for the benefit of the company; causing willingness to provide free labour or emergency loans so the venture doesn't fail
Patient financial capital	capital in the form of both equity and debt financing from family members; managers reduces the threat of liquidation stemming from their long-term orientation when making decisions regarding any capital intensive investments; family firms with patient capital were found to be more likely to successfully internationalise in the long term even though they indicated poor short term results from their international activities
Governance structures	ability to hold down the costs of governance (in nonfamily firms, these include costs for things such as special accounting systems, security systems, policy manuals, legal documents and other mechanisms to reduce theft and monitor employees' work habits)

Source: Zaniewska 2012, pp. 53-54; https://www.entrepreneur.com/encyclopedia/family-businesses

Family businesses are known for stable exchange of knowledge and experiences among family members, due to the family involvement in the business. This everlasting exchange of information among family members could be viewed as a feature improving chances of internationalisation (Zaniewska 2012, p.54). It is important that family owned companies possess the required managerial capabilities to manage international growth. There are some methods to minimize the strain placed on both the family and domestic operations, namely appointing additional managers, appropriate management education, adopting modern management practices or releasing family members to represent the firm overseas at trade fairs (Graves, Thomas 2008, pp.151-167). Among family businesses internationalisation has become a strategy for growth, and sometimes even for survival.

Figure 39. Key Factors of strategic alliances in the internationalisation of family businesses



Source: Fuentes, Ortiz 2010, p. 27.

It is said that family-owned companies are less likely to internationalise than non- family firms because of their limited growth objective, avoidance of risk and restricted financial capital. Undertaking internationalisation strategy requires in most of the cases hiring experienced managers from outside the family. If family firm is unwilling to hire external managers and keeps the decision-making control within the family, company will experience lack of competent, open-minded and experienced managers, what can be a strong limitation for internationalisation. It's because of the fear of non-family members changing the organizational culture. It's worth to stress -the culture of family businesses is very much in by the family and family firms and the desire to maintain this cultural identity over time (Zaniewska 2012,pp.54-56).

Strategy processes are crucial in the development and survival of every family firm (Hall et al., 2006). A strategy is the basis upon which a company chooses to distinguish itself or its offerings to gain advantage in the market and the set of distinctive competences that enable it to do so (Porter, 1996). The basic strategic management process for both family and non-family firms is similar in the way that a strategy must be formulated, implemented and controlled in the context of a set of goals (Sharma, Chrisman & Chua, 1997). When thinking about family-owned firms strategy is good to remember that:

- it's deeply influenced by the *family values* such as the focus on and responsibility for the local market or community, customer needs in local markets, contemplating national expansion in the same business or in a closely related business, relying on competitive advantages bound to the owner family's skills, culture and relations with customers and being people intensive rather than capital intensive
- *resources* will seldom be allocated to areas other than closely related to the present local business, i.e. the values of family-owned companies, which are the basis of the strategy in family businesses, may not support internationalisation of those businesses
- is mainly determined by the culture of the firm. Therefore, the family will be most likely feel a strong commitment towards a chosen strategy, through which the strategy becomes a source of rigidity. What's more, family firm leaders are often sceptical concerning sharing information with people from outside the family, especially when it comes to strategies – another reason why they avoid giving managerial positions to people outside the family. In the consequence - this might be negatively related to the creativity, innovation and pro-activeness within a family business
- the owner family tends to centralize decision-making and strategizing, whereas a more decentralized structure would have encouraged middle managers and other employees to participate in the strategizing process (Zahra et al., 2004).
- strategizing process within family firms is not featured by many rules, procedures and bureaucracy, which can be positive for innovation within the company
- the family stays with the business in both good and bad times and tends to plan for long-term profitability.

The importance of objective and subjective characteristics of owners' management style is vital for not only the initial decision to expand and the support of overseas operations, but also the subsequent path and pace of international development.

Case study: The family firm's great strengths are its rootedness in its community. A case of The Bosveld Group (South Africa)

The company was founded in the 1960s, and is now South Africa's largest private citrus fruit producer, exporting 5.5 million boxes of fruit to 50 countries across the world. Milaan Thalwitzer, is the current non-executive chairman, and three of his sons-in-law hold management roles, with one as CEO. Milaan was named National Farmer of the year in 2014, in recognition of the company's commitment to land reform, and making the black empowerment agenda a reality. Bosveld committed to Broad-Based Black Economic Empowerment (or BBBEE) thirteen years ago, and is now involved in a number of pilot projects in which the company leases land from black communities on long-term contracts, and then pays rent from the proceeds of the fruit growing business. Training for local people is built into the scheme, so that the owners of the land get a chance to work on it too. "If we can get this right, it should be a win-win for everyone. Land reform is a complex and sometimes divisive issue here, but we can find a way forward if the farmers themselves play an active part in finding the answers."

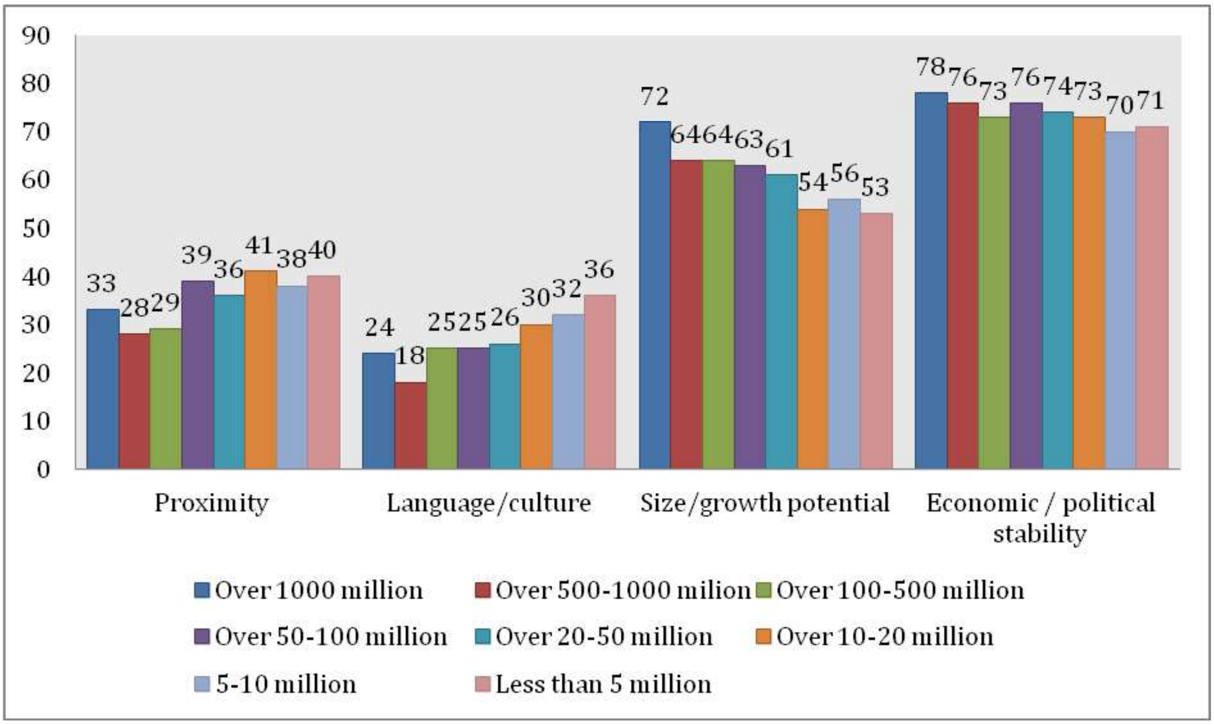
And how does Milaan want to be remembered? "As someone who was lucky enough to combine his greatest passions: my love for my family, country and community, and my love for farming."

http://www.pwc.com/gx/en/services/family-business/family-business-survey-2016/giving-something-back-in-south-africa.html

When it comes to the growth and export performance, SMEs company, especially of developing countries' need to be bolstered by their respective governments to create an environment that will stimulate small firms' competitiveness. Which in turn highlights the importance of policy prescriptions and executions based on standardization and customization, export development processes, rapid technological, institutional, legislative, economic and attitudinal changes for the internationalisation of all kinds of firms. Strategic orientations are related to a firm's international performance. This relationship is moderated by its international growth strategy where both - internal and external factors play crucial role as drivers of firm internationalisation.

A successful and sustainable internationalisation will require then an *internationalisation strategy* and the acquisition of a series of capacities, abilities and resources prior or at the first steps of internationalisation. Due to PwC Family Business Survey (2016) company's turnover determines decisions on export strategy and direction.

Figure 40. Important factors then deciding on export markets



Source: Based on PwC Family Business Survey 2016 [http://www.pwc.com/gx/en/services/family-business/family-business-survey-2016/explore-the-data.html#/Q/1/stackednegativecolumns?cut=Territory]

The richest the company, the biggest risk and range are as well as expected size of the growth potential. Companies making less that 20 million are more preservative due to economic or political instability, chosen closer markets and don't expect extremely high overseas growth potential. Apart of themselves, SMEs family-owned companies can count on institutional support of their export policy. Internationalisation of SMEs in the form of export promotion has been a prominent element in European Government policies for a long time. Programmes to support SME internationalisation has traditionally been focused on promoting greater exports and usually developed independently from other policies. In as much as all support programs are valid, particular family firm can benefit from one of the following support programmes or solutions (Final Report of the Expert Group on Supporting the internationalisation of SMEs; European Commission, December 2007, pp.22-26):

1. Individualised support - based on the analysis of the individual SME, the identification of the areas where support is needed and the provision of it based on the specific resources and capabilities of each individual firm. These programmes usually start by screening the “internationalisation readiness” and are usually followed by long term consultancy support to help companies build the management capabilities required for internationalisation. Offered support includes: information and sometimes support on finances for internationalisation, access to information, networks, etc.

2. Financial support - access to sufficient and affordable finance is a fundamental pre-requisite for internationalisation; support base on the provision of expertise (usually associated with individualised programmes) on the available financial support mechanisms (trade credit insurance, guarantees, factoring, etc.)

3. Networks - expand the capacity of the individual SME to internationalise and remain one of the vital components of support to go global. Networks can be of two different types: support networks (tend to be managed by the government) and co-operation networks (big business associations) which both play a key role as a support measure for any type of internationalisation as they provide access to information that is directly usable by the SME.

4. Sectoral programmes - play an important part in “exposure” to foreign markets as not all industries are equally affected by globalisation. High and medium-high technology industries are on average generally more global than less technology-intensive industries. Due to European Commission in this respect no fundamental difference exists between product sectors and service sectors.

Ten steps to effective strategic planning
by Paul Hennessy, the Family Business Leader for PwC Ireland

1. It's about the '*what*' not the '*how*'

A strategic plan is about setting your business goals over the medium term, and deciding the direction of the firm. Having a good business plan is crucial, but it's only half the answer.

2. Stand in the future and look back

Where do you want to be in 3 years? In 5? Be absolutely clear about what the future looks like, and then work out what you need to do to get there!

3. Stand in the present and look around

Take a long hard look at the business as it is right now. Do you have a genuine competitive advantage? Are your ambitions realistic? What needs to change? Techniques like SWOT analysis can help you get an objective view of where you are internally. You can also use PESTLE to analyse the external factors at play in your market. Porter's Five Forces analysis is another useful tool.

4. Invite input

The CEO needs to drive the strategic plan, but the more people who contribute; the more likely it is to be robust. People are also more committed to something they've helped to create. So involve skilled people from across the organisation (and trusted advisers outside), including those with a good grasp of how the market is changing.

5. Be prepared for change

A rigorous strategic planning process should challenge the way you're operating today, and test its fitness for the next phase. If it doesn't do that, it's not doing its job. So be open to different alternatives, and new approaches, and accept that you may need to adapt your own personal role, as well as the way the business operates.

6. Set a timescale

A strategic plan is like an itinerary – it's about when you plan to reach the milestones along the way, as well as the final destination.

7. Assign responsibilities

The CEO and board must take ultimate ownership of the plan, but specific elements need to be owned and driven by appropriate managers, supported by the budget and resources they need to succeed.

8. Translate the strategic plan into a business plan

Move from the strategic to the tactical by turning the first phase of the plan into a programme of action and implementation over the next twelve months.

9. Measure, monitor and adapt

As you implement the plan, assess how well it's working, and whether it needs to be fine-tuned. Use objective KPIs to evaluate progress.

10. Communicate, communicate, and communicate.

Don't just share the strategic plan, but the progress you're making against it. This builds a shared sense of commitment, energy, and sense of direction.

Source: https://www.pwc.com/gx/en/services/family-business/family-business-survey-2016/strategic-planning.html

17.9. Summary Remarks and Questions

As it was mentioned before, internationalisation of SMEs has become an important research field of many academics of entrepreneurship and family firms. There are various reasons to explore SMEs, their role and business activity both domestically and internationally. Of special importance in the context of internationalisation, are smaller family businesses. The problem of threats and benefits, as well as challenges and opportunities for the SME sector in the era of intensified globalization processes in the contemporary world is a vital issue and an area for scientific research.

While investigating international SMEs it is important to notice that SMEs cannot be compared to large multinational enterprises (MNEs) due to the fact that company size has numerous organizational and managerial effects visible in firms' performance. Keeping in mind that SMEs are not smaller versions of large firms, SMEs cope with various challenges arising from internationalisation, they utilize different processes, have different ownership and management structure as well as culture and employ diverse decision-making structures.

There are many reasons to predominantly concentrate on SMEs, among others such as: impact of globalisation and its implications for SMEs, characteristics and specifics of SMEs internationalisation, research and trends in advancing SME internationalisation, barriers to SMEs internationalisation, model of SME internationalisation, export strategies as well as issues related to policy and support of SME internationalisation. Above, based on the extant literature review, the mentioned issues of SMEs internationalisation were described.

End of Unit Reflective Questions

1] What decision making models best explain decision making within SMEs and within small family businesses?

2] How can SMEs best meet their corporate social responsibilities?

3] What are the motivations for SME international market entry, and to what extent, if at all, do resource-related motivations predominate?

4] What are the implications for public policy in constructing the local resource base?

5] At what points in the internationalisation process are entry modes formalized, and why?

6] What is the impact of globalisation and its implications for SMEs?

7] What are the characteristics and specifics of SMEs internationalisation?

8] What are research and trends in advancing SME internationalisation?

9] What are the main barriers to SMEs internationalisation?

10] What are approaches and models of SME internationalisation?

11] Advantages and disadvantages of SME export strategies?

12] What are the types of support for SME internationalisation?

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ANNEX 1
National specifications

I. United Kingdom
(Brian Jones)

1. Introduction

In the UK family business SMEs make important and valuable contributions to the communities they serve, the businesses with whom they "do business" and the wider economy. Family businesses operate in a diverse range of sectors and industries. The products and services they provide, the jobs they create, and the innovations they deliver demonstrates their importance to both the economy and society. The aforementioned observations are true of Britain but are also relevant on a global basis and in support of this Price Waterhouse Coopers (PWC, 2016, a) write: "Family firms remain a vital part of economies across the world contributing the bulk of GDP in many territories." Family business SMEs contribute to the economic and societal good and it is therefore important to have some understanding of the context in which they operate and of aspects of management that feed into business success.

The context in which family business SMEs operate is subject to continual change and these businesses adapt to new circumstances and demonstrate survivability and longevity. The unique characteristics and culture of family business SMEs help them to cope with challenges, innovate and to take a long term view. The Institute for Family Business (IFB, 2018) set the context well when they report that family businesses are vital to the UK's economic success and that they are embedded in the communities they serve:

"The UK's family businesses come in all sizes, sectors, and from all regions. Many of these businesses have been operating for hundreds of years, and their longevity and enduring success are testament to their innovative and long term outlook.
Two thirds of UK businesses are family owned - 4.8 million in total, of which over 16,000 are medium and large businesses. They generate over a quarter of UK GDP. In 2016, the family business sector paid £149 billion in tax, 21% of UK government revenues. Family firms employ 12.2 million people in the UK – 47% of private sector employment."

Family business SMEs are clearly important to economic health, societal wellbeing and individual prosperity of UK citizens and of UK plc. To better understand some of the SME management issues due consideration is now given to the macro and micro environment, and then to corporate social responsibility (CSR) as well as marketing.

2. Fundamentals of SME Management (The Bigger Picture; Making Things Happen)

The macro environment in which family business SMEs operate in the UK is complex, dynamic, and fast changing. The variable nature of the macro environment inevitably opens up a number of challenges and opportunities that SMEs, to varying degrees of success, address and work with. The UK macro environment in which SMEs operate is presently shaped by the after effects of the 2008 financial crisis and the so-called great recession. The economic after-shock of falling real wages has contributed to stagnant living standards and reluctant consumers. The rise of populism was demonstrated in the UK vote for Brexit. The (PWC 2016, b) report on family businesses stated:

"This year's results tell us that despite tough economic conditions and the accelerating pace of change, the family business sector continues to be vibrant, successful and ambitious. They tell us family firms are vital to all economies, offering stability, a commitment for the long term, and responsibility to their communities and employees. They also tell us that family businesses can be an engine for change and innovation."

Westhead (1997) observed how little research of an empirical nature had been done on the relationship between the external environment and family business SMEs. Since making that observation evidence has emerged and shed light on this research gap. By way of example, Craig and Moores (2006) have drawn attention to the relationship between the technological aspect of the external (Political, Economic, Social and Technological, Legal, Environmental - PESTLE) environment and innovation of and by family businesses. Although Westhead (1997) identified the aforementioned gap in the literature it is the case that as far back as 1991 Storey commented on the economic aspect of the macro environment via an exploration of the relationship of unemployment and small business start-ups. The amount the UK Government spend with SMEs is reported on by the National Audit Office (NAO - https://www.nao.org.uk/wp-content/uploads/2016/03/Governments-spending-with-small-and-medium-sizes-enterprises.pdf) and serves to demonstrate their commitment to benchmark, monitor and improve on their work in this area. Creating a conducive business environment for UK SMEs is something to which the government is committed. For UK SMEs vigilance and scanning of all aspects of the external environment is a pre-requisite for survival and for growth. Macro-environmental factors shape and have a bearing on the micro-environment of UK SMEs. The micro (stakeholder) environment in the UK presents opportunities for networking and for shaping, making and taking opportunities. Family businesses in the UK have business and family stakeholders and the two are at times separate and on occasion they overlap. Stakeholders include employees, family members, suppliers and among others, customers. To ensure future business success particular care needs to be taken to manage stakeholder expectations and to smooth the path to a constructive and mutually beneficial professional working relationship.

3. Fundamentals of SME Management (Culture, Leadership, Attitude and Motivation; Tools and Concepts to Deal With and Operate in a Competitive World)

The need for good and effective management of family businesses has been recognised by PWC (2016, a) who report:

"Family firms are ambitious: they want to grow and ensure the long-term success of their business, but it is clear that many of the issues they face derive from a lack of strategic planning. Some are doing this, and doing it well, but in our experience, a much higher proportion are so absorbed in the everyday that longer-term planning is neglected. Family firms may lack the skills to develop such a plan and some may assume that 'thinking in generations' means that the medium term will somehow look after itself."

In the UK family business SMEs adopt in different ways and to varying degrees a corporately socialy-ly responsible (CSR) approach to what they do. The Institute for Family Business (ifb, 2018) write:

"Family businesses embody and embrace responsible capitalism. They avoid excessive debt, have lower staff turnover and take a long-term and sustainable approach to investment. When tough times arrive, family firms are less likely to go under and are better placed to lead the recovery. Families in business have an opportunity to create a lasting legacy that brings with it a sense of accomplishment, allowing subsequent generations to become stewards of the family business and carry it to new heights in the name of the family. As part of this legacy, they are committed to training the workforce of the future. Family firms are committed to the local communities in which they operate, and take an active role in local projects. Many family business people also undertake significant philanthropic activities."

Spence (2002) made some notable observations on small business ethics by exploring issues through the lens of a micro, meso and macro analysis. Hillary (2004) has contributed to the debate on CSR and SMEs by addressing their use of environmental management systems and ISO 14001. Lepoutre and Heene (2006) conclude that "the small business context does impose barriers on social responsibility taking, but that the impact of the smaller firm size on social responsibility should be nuanced depending on a number of conditions." Prior to reaching these conclusions Lepoutre and Heene (2006) point to the competing claims made on the relationship between the size of a business and CSR. These varying claims continue today and do so in part due to different ways and points of measurement, competing definitions and analysis of businesses and their commitments to varying features and aspects of CSR. In the UK the work of Business In The Community (BITC - https://www.bitc.org.uk/about-us) is seen as a driver for change in attitudes, approaches to and practices of business responsibility.

In an increasingly competitive business environment showing commitment to issues that demonstrate business and societal responsibility is one way of ensuring success. Although it has the word corporate in its name CSR has an important role to play in family business SMEs in the UK and further afield.

Leadership is integral to the successful SME management and its importance is recognised in the UK, in part through the work done by the Institute of Leadership and Management (ILM - https://www.i-l-m.com/). The ILM offer training courses, accreditation, resources, as well as opportunities for professional and personal development. The ILM is one body helping to drive up the standard of leadership and management of SMEs in the UK.

Marketing is important to the management of SMEs and in this regard the Chartered Institute of Marketing (CIM - https://www.cim.co.uk/) plays an important part in raising professional standards of practice in the UK. The CIM offer a range of products and service among which is one module titled "Creating Entrepreneurial Change" which is specifically aimed at helping and targeting SMEs. In the UK SME marketers are expected to abide by the CIM code of professional conduct (https://www.cim.co.uk/media/1542/code-of-professional-conduct.pdf). The academic debate on entrepreneurial marketing continues to flourish and to shape and interact with real-world marketing practices of SMEs.

4. Summary Remarks

Issues in the management of family business SMEs in the UK are subject to complex challenges and change due to the market dynamic, the competitive environment and societal and political expectations. The need for good and effective management of SMEs is therefore an imperative and the literature has shown the importance of continual scanning of the external environment, close monitoring of the internal environment and awareness as well as acumen in matters related to business and social responsibility.

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II. Poland
(Marek Szarucki)

1. Introduction

Poland is a country with a free market economy that is an outcome of the changes of the 1990s transforming the previous centrally planned economy (Lewandowska et al. 2016). Market transformations went together with fast development of small family businesses that during the last 27 years have grown into a principal category of enterprises in Poland. Traditionally for Poles, a family constitutes a great value itself. Family firms' power was verified over time: they have been operating regardless of wars, partitions, communist regime and current demanding rules of the free market (Nikodemska-Wolowik 2006).

In Poland, similarly to other countries there are some difficulties related to understanding the essence of family business. There is relatively little representative research studying the share of family firms, peculiarities and their contribution to the Polish economy. Family business is perceived as one that devotes a lot of efforts to satisfy its customers' expectations, takes care of its employees, and by comparison with non-family businesses avoids risky market operations. At the same time this type of business is perceived as being less well managed than non-family firms.

2. Fundamentals of SME Management (The Bigger Picture; Making Things Happen)

It is worth mentioning that in Poland, family businesses is not separated as a distinctive legal category, and this causes some difficulties with their identification and recognising their features. The most dominant sectors among the Polish family businesses are wholesale and retail trade (32.2%), industrial manufacturing (16.3%), construction (11.9%) and professional services (10.6%). Sułkowski, Woźniak & Sułkowska (2017) show that family firms dominate in the following sectors of the economy: hotels and restaurants, processing industry, transport and warehouse management and wholesale and retail trade.
The size structure of family businesses mirrors the structure of the SME sector, with a dominant number of micro firms (90%). Almost 9% of family firms are units employing between 10 and 49 workers, and only 1% are medium-sized firms (Sułkowski, Woźniak & Sułkowska, 2017). The average number of employees in family enterprises is 5.8, where 2.4 are family members. According to the recent analysis (PWC 2016) Polish family businesses have exposed better business activity results compared to the global average.

85% of participants have declared that their companies recorded sales increase, compared to the global average of 64% (PWC 2016).

Family businesses operating in Poland are optimistic about the future. Taking into account a five year perspective 29% are convinced that their companies will be quickly and aggressively developing. This is better than the global average where similar opinion is presented by only 15% of respondents.

Polish family companies are very enthusiastic while evaluating their current situation and future plans. It is also worth remembering that these types of companies were much better off than other companies during the financial crisis of the years 2008-2009. One of the advantages of Polish family firms is that they express a high level of flexibility and the ability to adapt to the changing environment. It is worth emphasizing that Polish family firms continue with international expansion to overseas markets. According to Ewelina Grzelak from PwC: "It is worth noting that Polish companies are much less likely to compete at the moment on price. It was a principal strategy in the beginning of expansion into foreign markets – thanks to the price advantage the companies have gained customers, they have grown considerably and after reaching the appropriate scale, they started investing in innovative solutions. Polish family businesses bravely conquer the world, they are already present not only in Europe, but on all continents". In spite of that, a different study shows that, "only one of four studied firms declares having the planned international strategy" (Wach & Wojciechowski, 2014, p. 153).

Due to the changing environment Polish family companies are facing various challenges. Ambitious development goals and expansion to foreign markets have caused the growth of the organisational structures leading to increase in challenges for family businesses. According to the research performed by PwC (2016) the biggest challenges for Polish family businesses for the following years are: attracting talented workforce and keeping key employees, instability on the foreign markets where companies operate and cost reduction. Moreover, challenge of succession is also important for Polish family companies. The development of family business in Poland started almost three decades ago, and time for passing on the management function is approaching quickly. According to Piotr Woźniakiewicz from PwC: "Unfortunately, many Polish entrepreneurs still have not developed succession plans understood as a gradual transfer of power to the young generation and involving it into company structures. There is also lack of appropriate mechanisms securing the company against sudden random events. Although the awareness of this topic is growing, experience shows that that only a small percentage of companies possesses legally effective regulations counteracting the decision paralysis in the company in the event of the owner's death or minimizing the risk of its division between potential heirs".
According to KPMG report (KPMG 2017) there are also some other challenges for Polish family firms worth mentioning: increasing labour costs, political uncertainty, as well as growing competition on the market. Entrepreneurs are faced with difficult choices and the need to look for new ways of business development in the conditions of growing competition and a demanding political situation.

3. Fundamentals of SME Management (Culture, Leadership, Attitude and Motivation; Tools and Concepts to Deal With and Operate in a Competitive World)

According to the research Polish family business representatives perceive a company's success differently, and see it as being something more than profit and firm's growth. Important elements are strong values, awareness of the impact of company condition on the relationships within the family and its financial situation. Of fundamental importance is firm's longevity ability to function for many years instead of its risky development. Thus, there is growing importance of developing family order mechanisms supporting harmonious functioning of companies and enabling management of family-business relationships. It is especially important in case of misunderstandings or when decision-making is accompanied by emotions (PWC 2016).

Ownership and management in Polish family firms is concentrated in the hands of the founder (or the founder's family). It seems that financial and employment policies in family firms are more stable than in non-family firms. What is of concern is the management methods utilised in family companies, as there is no universal recipe for the success of the family business, since there is no one ideal management model that would suit all companies. Every company has its own unique needs, and therefore develops its own unique management structure. What is important is that these structures can evolve over time and mature (KPMG 2017).

According to KPMG (2017) report Polish family businesses tend to more and more often formalize their management methods, introducing, for example, the official board of directors (present in 51% of respondents in Poland). Another very important element present in family businesses is a family council (present in nearly 30% of surveyed enterprises), its main role is problem-solving between company and family. This organizational body links together family business structures on the top level. Polish family businesses appreciate also the formalized rules of selection, rewarding and promoting both non-family management staff (36% of respondents), as well as family employees (30 %).

Owners of family businesses in Poland expect public institutions to support the development of their enterprises. When asked about the most important changes that would facilitate their growth, they point to tax issues and non-wage labour costs. Simplification of tax regulations in Poland was mentioned by 36% of respondents, and 33% emphasized the need to reduce taxes. Half of family businesses in Poland have supported the strengthening of integration in Europe, while every third respondent would like to maintain the current unchanged situation (KPMG 2017).

Research on factors contributing to the development of Polish family firms (Nikodemska-Wolowik, 2006) shows that family companies, mainly those with a lengthy history, provide strong foundations for developing solid and explicit identity related to reputation and perceived image.

4. Summary Remarks

The research on family business in Poland is still scarce and needs more thorough scientifically grounded research. Summing up, there are some specific attributes of family business in Poland. Mostly they are rooted in the historical and socio-economic and political development of Poland. Polish family firms have both advantages and disadvantages (Szarucki & Brzozowski 2010) as their counterparts in other countries. The influence of the family on business activity is substantial, particularly during the recession or worsening conditions of the external environment. Similarly to other countries Polish family businesses experience some challenges rooted in the external and internal environment.

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III. Hungary
(Nicholas Chandler)

1. Introduction

In Hungary, family businesses also make a significant contribution to communities, other businesses and the economy, in general. However, family business SMEs in Hungary are facing a number of issues that primarily fit the Hungarian context. First of all, many businesses were started in Hungary during the change of regime in the late 1980s and early 1990s, as the Act I. of 1988 allowed the foundation of free enterprises again in Hungary.

As these family business SMEs reach the end of their third decade of operation, many founders are nearing retirement age and thus, the majority of family business SMEs are faced with the issue of succession and the consequent generation shift.

A recent survey of 200 family business SMEs by the consultancy firm BDO Hungary and Opten found that 18% of Hungarian founders would consider selling their company. 47% would pass operations to their family members and, conversely, 17% would look internally for in-house leaders. A further 10% would hire outside experts for operative tasks only. One surprise outcome of this survey is that only a third would prefer the new executive to have experience at a multinational company.

A PWC survey of this new generation found that more than three quarters of Hungarian entrepreneurs aim for the strategies of their family business SMEs to fit the digital age, as well as place high value on innovation.

The government has indicated that it would intends to follow the German model, where German family business SMEs provide jobs for 68% of the population and account for 50% of Germany's total economic output. In contrast to this, Hungarian family business SMEs are facing a shortage of labour, but it is believed that the sense of stability offered by these companies and commitment of the owners will give them the advantage in attracting a suitable workforce, according to the Family Business Network Hungary (FBN-H).

The Hungarian context of family business SMEs is also characterised by these companies being durable and 'shock-proof', when it comes to downturns in the economy. With a further advantage being that those companies with strong family ties as well as owners with a thirst for knowledge will be able to attract capital relatively easily.

2. Fundamentals of SME Management (The Bigger Picture; Making Things Happen)

The macro environment of Hungary has a number of country-specific issues that bear consideration for family business SMEs. One of the main hurdles for these companies is uncertainty in the political environment, as well as a certain degree of uncertainty in the domestic markets and in the case of social change. On the positive side, foreign markets, technological development and foreign suppliers are seen as more stable environmental aspects in the Hungarian context.

In considering the competitive environment, taxes and rates such as the social security contribution, corporate business tax and personal income tax are seen as obstacles to the competitiveness of family business SMEs in Hungary. The new system of simplified taxation for individuals and businesses is not seen as having a significant effect on competitiveness, as is the case with customs duty.

Kadocsa and Francsovic (2011) found that factors favouring family business SMEs in Hungary were a reliable monetary policy, accession to the EU and an upward shift in the Hungarian Forint (HUF) exchange rate band. Three unfavourable factors were identified as inflation, VAT and a general government deficit. The repeated postponement of adoption of the EURO in Hungary and statutory minimum wage were found to be neutral factors.

As a final note for this section, family business SMEs are often considered as adaptable when compared to larger monolithic entities. However, only 43.5 % of business owners in Hungary believe they react to macroeconomic changes well, and 12.5% accepted that they recognised these changes too late (Kadocsa and Francsovic, 2011; 33).

3. Fundamentals of SME Management (Culture, Leadership, Attitude and Motivation; Tools and Concepts to Deal With and Operate in a Competitive World)

Before the change of regime referred to in the introduction to this section, the dominant leadership style was the paternalistic (benevolent-authoritative) (Bakacsi, 1988). In comparison with the UK, Central European managers tend to make more autocratic decisions than their Western counterparts (Jago et al, 1993).

Central-Eastern European cultures in general tend to score higher on “Hierarchy” and “Conservativism” (Smith, 1997). Hungary in particular has a high uncertainty avoidance, as well as high scores for masculinity and individualism.

GLOBE research revealed low scores for participative leadership in Hungary (House et al., 2004), which refers to the degree to which managers involve others in making and implementing decisions.

The uncertainty we discussed in the relation to the macro environment in Hungary in this section is also found on a social and organisational level, which leads employees to a preference for a leadership style that is more nurturing and less democratic (Bakacsi and Heidrich, 2011). Thus, family business SMEs are also affected by these drives for a more autocratic style.

4. Summary Remarks

The Hungarian context for family business SMEs is characterised by a number of key areas. The regime change led to the sudden creation of these companies (and others) in the early 1990s and this in turn now leads to succession-related issues. The macro environment for family business SMEs has a number of favourable conditions, whilst also struggling with financial aspects and uncertainty on both the local and European stage. This aspect of uncertainty also has an impact upon the adopted (and preferred) leadership style in Hungary, combined with national cultural characteristics which indicate a predilection for an autocratic leadership style.

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