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## Article

# Strategic management and entrepreneurship: Friends or foes?

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## **Strategic management and entrepreneurship: Friends or foes?**

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### ***Abstract***

The objective of this article is to create a better understanding of the intersection of the academic fields of entrepreneurship and strategic management, based on an aggregation of the extant literature in these two fields. The article structures and synthesizes the existing scholarly works in the two fields, thereby generating new knowledge. The results can be used to further enhance fruitful integration of these two overlapping but separate academic fields. The article attempts to integrate the two fields by first identifying apparent interrelations, and then by concentrating in more detail on some important intersections, including strategic management in small and medium-sized enterprises and start-ups, acknowledging the central role of the entrepreneur. The content and process sides of strategic management are discussed as well as their important connecting link, the business plan. To conclude, implications and future research directions for the two fields are proposed.

**Keywords:** strategy, strategic management, entrepreneurship, small and medium-sized enterprises, SMEs, intersection

## 1 Introduction

In a *new competitive landscape* (1995), entrepreneurial strategies are becoming more and more important for both new as well as established enterprises. Due to e.g. increasing environmental dynamics and intensifying global competition, enterprises, regardless of their age or size, are forced to build more entrepreneurial strategies in order to compete and survive (Hitt, Ireland, & Hoskisson, 2001; Meyer, Neck, & Meeks, 2002). These entrepreneurial strategies are said to be related to better company performance. They aim to build on the identification of opportunities and develop them towards competitive advantages (Hitt, Ireland, Camp, & Sexton, 2002). This is where the fields of *entrepreneurship* and *strategic management* intersect.

Both academic fields are focused on the process of adapting to change and exploiting opportunities. Despite this shared focus, they have developed largely independently of each other (Hitt *et al.*, 2001). Recently, scholars have called for the integration of these two fields (Meyer & Heppard, 2000; McGrath & MacMillan, 2000). The need for integration emerges as strategists, on the one hand, need to use resources in order to exploit opportunities (mostly under uncertain conditions) – and entrepreneurs, on the other hand, need to include a strategic perspective in their planning and actions. In times of growing uncertainty and increasing speed of change, both new threats and new opportunities emerge (Brown & Eisenhardt, 1998; Shane & Venkataraman, 2000). The identification and exploitation of these opportunities is the essence of entrepreneurship – whereas the essence of strategic management is in how these opportunities can be transformed into sustainable competitive advantages (Zahra & Dess, 2001; Venkataraman & Sarasvathy, 2001; Kuratko, Ireland, Covin, & Hornsby, 2005). The call for the integration of these two fields is a surprisingly new phenomenon.

Both disciplines are concerned with value creation, acknowledging it as a major organizational goal. Entrepreneurial actions and strategic actions can contribute to value creation independently, but they can contribute even more when they are integrated. Indeed, entrepreneurial opportunity-seeking is at the same time also strategic behaviour with the aim of value creation (Ireland, Hitt, & Simon, 2003; Ramachandran, Mukherji, & Sud, 2006). A central interest of researchers in strategic management is to explain differences of enterprises in their value creation – an interest which is increasingly shared by researchers in the field of entrepreneurship as well (Ireland, Hitt, Camp, & Sexton, 2001).

In addition to “classical” variables that describe entrepreneurship, such as the characteristics and motivations of entrepreneurs, many authors favour a greater emphasis on organizational and strategic variables (e.g., Zahra, 1991; Entrialgo, Fernández, & Vázquez, 2000). Zahra & Dess (2001) argue that the integration of different views is a key to more fruitful research in entrepreneurship, and specifically name strategic management as a most promising area to be integrated into entrepreneurship research. The positive outcomes of such an integration can be observed in real business life, where entrepreneurial enterprises are more inclined to engage in strategic management practices than more established enterprises which are by nature more conservative (Shuman, Shaw, & Sussmann, 1985; Bracker, Keats, & Pearson, 1988; Woo, Cooper, Dunkelberg, Daellenbach, & Dennis, 1989).

Entrepreneurship and strategic management both have made their unique and valuable contributions to management theory. Although their foci differ, both are inevitably interrelated, and are often complementarily supportive of each other (Ireland *et al.*, 2003). Meyer & Heppard (2000) remark that the two fields are in fact even inseparable, forming two sides of the same coin, since the research results of the one cannot fully be understood without the other (Barney & Arkan, 2001).

Nevertheless, the evident intersection between these two research fields has been largely left uncovered so far. Thus, the objective of this article is to create a better understanding of this intersection, based on an aggregation of the extant literature in these two fields. The article attempts to structure and synthesize the existing scholarly works on this topic, thereby generating new knowledge. The results can be used to further enhance fruitful integration of the two academic fields.

## 2 THE FIELDS OF ENTREPRENEURSHIP AND STRATEGIC MANAGEMENT

### 2.1. Entrepreneurship

Entrepreneurship was emerging as an academic field of study when Karl Vesper founded an interest group within the Academy of Management's (AoM) *Business Policy and Strategy division* in 1974. Five years later, David Birch (1979) reported that small enterprises created about 90 percent of all new jobs, and thereby highlighted entrepreneurship as the engine of growth in the economy. In 1987, entrepreneurship finally became a separate division of the AoM (Meyer *et al.*, 2002). At present, entrepreneurship is acknowledged as one of the major driving forces of the economy of every modern society (Brock & Evans, 1989; Carree & Thurik, 2000) and is considered as *the* instrument to cope with the new competitive landscape and its enormous speed of changes (Hitt & Reed, 2000).

Entrepreneurship entails far more than starting up a new venture (Stevenson & Jarillo, 1990). It can also take place in established organizations where renewal and innovation are a major goal (Sharma & Chrisman, 1999). Entrepreneurial behaviour can accordingly be found in all kinds of enterprises, regardless of their size, age or profit-orientation (Kraus, Fink, Rößl, & Jensen, 2007). Entrepreneurship describes the process of value creation through the identification and exploitation of opportunities, e.g. through developing new products, seeking new markets, or both (Lumpkin, Shrader, & Hills, 1998; Shane & Venkataraman, 2000; McCline, Bhat, & Baj, 2000). It focuses on innovation by identifying market opportunities and by building a unique set of resources through which the opportunities can be exploited, and is usually connected with growth (Ireland *et al.*, 2001; Davidsson, Delmar, & Wiklund, 2002). Reynolds *et al.* (1999) e.g. proposed that 15 percent of the highest growth enterprises created 94 percent of all new jobs. One of the key challenges for entrepreneurs is to deal with the strategic changes required with the growth of their enterprise (Thompson, 1999). Many scholars have thus decided to separate (growth-oriented) *entrepreneurship* from *small business management* (i.e. mom and pop enterprises or lifestyle businesses), describing growth as “the essence of entrepreneurship” (Sexton & Smilor, 1997, p. 97).

Entrepreneurial enterprises identify and exploit opportunities that their competitors have not yet observed or have underexploited. An appropriate set of resources is required to exploit entrepreneurial opportunities with the greatest potential returns (Hitt *et al.*, 2002). An entrepreneurial enterprise’s resources are often intangible, such as unique knowledge or proprietary technology. According to Ireland *et al.* (2001), entrepreneurial behaviour arises through the “...concentration on innovative, proactive, and risk-taking behaviour” (p. 51). In real business life, though, there is not yet a cogent, direct treatise to formally recognize entrepreneurial behaviour as a new “dominant logic” in enterprises (Meyer & Heppard, 2000).

## 2.2. Strategic management

The “birth” of strategic management as an academic field can be traced to the 1960s (Furrer, Thomas, & Goussevskaia, 2007). Chandler’s “Strategy and Structure” (1962) and Ansoff’s “Corporate Strategy” (1965) are among the first seminal publications in this field. In its first decades of existence, strategic management almost solely investigated strategic issues in large, established enterprises (Analoui & Karami, 2003).

The basis of strategic management is the notion that strategy creates an alignment between the enterprise’s internal strengths and weaknesses on the one hand and its opportunities and threats (SWOT) in its external environment on the other (Andrews, 1987). Schendel and Hofer (1979) identified the following six “major tasks” of strategic management: 1) goal formulation, 2) environmental analysis, as well as the 3) formulation, 4) evaluation, 5) implementation and 6) control of strategies. Sandberg (1992) lists an enterprise’s resources, processes, strategy and field of industry as the primary variables of strategic management.

Strategic management deals with how enterprises develop sustainable competitive advantages resulting in the creation of value (Ramachandran *et al.*, 2006). An underlying basis of the *Austrian school* in strategic management (Schumpeter, 1993 [1934]) is the temporary nature of such competitive advantages. Accordingly, strategic management can be regarded as setting the context for entrepreneurial behaviour, i.e. the exploitation of opportunities (Ireland *et al.*, 2001).

Strategic management research is for a large part concerned with identifying differences among enterprises’ performance by examining their efforts to develop sustainable competitive advantages as determinants of their ability to create value (Ireland *et al.*, 2003). A competitive advantage results from a long-lasting value difference in the product or service compared to those of its competitors as perceived by the customers (Duncan, Ginter, & Swayne, 1998). The possession of valuable, rare, non-imitable and non-substitutable resources (Prahalad & Hamel, 1990) as well as a favourable market position (Porter, 1985) are regarded as major sources for sustainable competitive advantages. This builds the basis for the *resource-based view* (RBV) of strategic management, which regards an enterprise as a bundle of resources that needs to be deployed strategically in order to add value (Wernerfelt, 1984; Barney, 1991). Small and medium-sized enterprises (SMEs) and start-ups (which typically are *small* in the beginning, and therefore a subset of the former), have almost by definition fewer resources than larger enterprises, and the types of resources of these two groups of enterprises are different (Mosakowski, 2002). SMEs possess such capabilities as niche filling, speed and flexibility that allow them to exploit certain opportunities faster and more effectively than established enterprises (Li, 2001). Nevertheless, so far the RBV lacks the insights provided by creativity and entrepreneurial behaviour (Barney, 2001). Therefore, the role of entrepreneurial behaviour in corporate strategy is increasingly emphasized (Mosakowski, 1998; Alvarez & Barney, 2000; McCarthy, 2003).

A major differentiation in strategic management is between *content* and *process*, i.e. the strategy itself (content) and its implementation (process) (Stacey, 1993). On the content side, there are three “levels” of strategy within enterprises: 1) the *corporate strategy* which defines what businesses the enterprise is in and how all of its activities are structured and managed, 2) the *business level strategy* which is concerned with creating a competitive advantage in each of the enterprise’s product levels or strategic business units, and 3) the *functional level strategy* examples of which are marketing strategy, human resources strategy and research and development strategy (Thompson, 1995; Analoui & Karami, 2003). In SMEs, level 1 and level 2 mentioned above are usually the same.

Strategy can also be classified into different “schools”. Table 1 shows Mintzberg’s (1990a) categorization of strategies, which was done after a review of about 1,500 published articles on strategic management.

**Table 1: Mintzberg’s Schools of Strategy**

Prescriptive Schools	Descriptive Schools I	Descriptive Schools II
<p>Design school Conceptual strategy development through achievement of a “fit” between internal strengths and weaknesses and external opportunities and threats.</p> <p>Main instrument: SWOT analysis.</p>	<p>Entrepreneurial School Visionary strategy formation, vision and intuition of the entrepreneur instead of precise plans. Implicit perspective (vision) which is personal and unique</p> <p>Main instruments: Start-up, niche or turnaround strategies.</p>	<p>Political School Power-based strategy formation: The development of strategies within the organization is determined by politics and power, micro power.</p> <p>Main instruments: Strategy development is based on self-interest and fragmentation or tactics and positioning.</p>
<p>Planning School Strategy as a formal process with single clear steps and techniques.</p> <p>Main instruments: Scenario planning, check lists, strategic control.</p>	<p>Cognitive School Regards strategy formation as a mental process, based on individual perceptions.</p> <p>Main instruments: Deals with the origin of strategies and the mental processes of strategy development.</p>	<p>Cultural School Strategy formation is a social process which builds on culture.</p> <p>Main instruments: Strategy development is based on mutual interests and integration; strategy has a collective perspective and it is unique and mostly implicit.</p>
<p>Positioning School: Analytical strategy formation, strategy being regarded as a generic competitive position depending on the industry situation.</p> <p>Main instruments: Boston Consulting Group matrix, McKinsey matrix, PIMS study.</p>	<p>Learning School Strategy development as an emergent learning process.</p> <p>Main instruments: Strategy formulation and development mesh with each other; frequently applied in intrapreneurship.</p>	<p>Environmental School The environment is not only seen as a factor, but moreover as the central actor which determines the strategy.</p> <p>Main instruments: Examination of the environmental conditions and the specific position, termed niche in population ecology.</p>

Sources: Mintzberg (1990a); Sandberg (1992); Mintzberg & Lampel (1999).

Only the first three – the so-called “prescriptive” – schools have developed their own specific sets of strategic management instruments; the other schools are not bound to any particular instruments. The basis of all the schools is the *design school*’s SWOT analysis from the early 1960s (Mintzberg & Waters, 1985), which is also most applicable in SMEs. The *design school* sees the responsibility for strategy development as being with the top manager. In SMEs, this mostly is the entrepreneur himself. The high importance of formalization as well as the control function in strategic planning (e.g. in the business plan) can be derived from the *planning school*, which usually defines strategy as a static formal plan, where planners perform a detailed analysis of the enterprise, its product-market relationship and the environment (Chandler, 1962; Ansoff, 1965). Check lists or scenario planning are characteristic strategic management instruments of the planning school. Within the *positioning school*, Porter’s *niche strategy* seems to be particularly relevant for SMEs. Some of the most important strategic management instruments of the positioning school are portfolio analyses such as the Boston Consulting Group matrix or the McKinsey matrix. The use of these instruments in SMEs is applicable once the enterprise has grown and developed more than one single product or service.

Later, scholars began to concentrate more on the process side (Mintzberg & Waters, 1985; Pettigrew, 1992), and highlighted the emergent nature of strategic planning due to cognitive limitations,

learning, organizational politics, and cultural biases. The view emerged that strategy was not simply based on formality, but moreover also reflected experimentation, intuition and learning, and thereby reflected the increasingly dynamic changes in the outside business economy (Hamel, 1996; Hayashi, 2001; Miller & Ireland, 2005). The *entrepreneurial school* e.g. emphasizes the central role of the entrepreneur in strategic management. The vision and intuition of the entrepreneur are said to be more important than precise and formal plans. The *cognitive school* deals with the origin of strategies as well as with the mental processes of strategy development. It regards strategy formulation as a *mental* process, which is partly based on individual perceptions. In the complex reality, the “via regia” can be assumed to lie somewhere in between formal planning on the one side, and flexibility and intuition on the other. Accordingly, the *learning school* sees strategy development as a learning process. This includes the view that a formalized plan is not static, but needs to be revisited and adjusted, e.g. when environmental conditions change.

The *political school* claims that the development of strategies within the organization is determined by politics and power. This goes along with the “power promoter” of Hauschildt & Kirchmann’s (2001) *promoter model*, which states that in innovation processes, different persons with different powers are needed to overcome the barriers of unwillingness and of ignorance. The *cultural school* again considers strategy formulation as a social process which builds on culture. An “entrepreneurial culture” within an enterprise which supports learning or innovation is an example of this. The *environmental school* examines the environmental conditions of the enterprise. It attempts to discover the enterprise’s specific optimal position within this environment, e.g. a niche.

All of the nine schools presented in Table 1 are important for strategic management, and they have also shown obvious intersections with entrepreneurship. In addition to the presented schools, Mintzberg has developed a tenth school, the *configurational school*, which can be regarded as an integration of all the other nine schools. In this school, certain characteristics and behaviours of enterprises and entrepreneurs are clustered towards an optimal configuration. In this process, all of the named strategic management instruments of the other schools can be used, depending on the respective situation (Kohtamäki, Kraus, Kautonen, & Varamäki, 2008).

### 3 INTEGRATING ENTREPRENEURSHIP AND STRATEGIC MANAGEMENT

#### 3.1. Interrelated fields

Strategic management research has often given the impression that entrepreneurship can be treated as a subset of strategic management. The fact that the *Entrepreneurship Division* of the AoM was a “spin-off” of the *Business Policy and Strategy Division* contributes to this image. The more recent calls for the integration of these two fields are mainly due to the reasons that 1) researchers in both fields use *company performance* as a major dependent variable, and 2) the new competitive landscape makes entrepreneurial strategies more and more important (Meyer *et al.*, 2002).

Stevenson and Jarillo (1990) remark that there is a need to establish links between the fields of entrepreneurship and strategic management. As Dess *et al.* (1999) put it, “understanding entrepreneurial processes has been a central theme in a good deal of both the entrepreneurship and strategic management literatures” (p. 85). Schendel and Hofer (1979) had already linked both research fields in the late 1970s when defining strategic management as “a process that deals with the entrepreneurial work of the organization, with organizational renewal and growth...” (p. 11), and furthermore stating that “the entrepreneurial choice is at the heart of the concept of strategy” (p. 6).

One of the most obvious linkages between entrepreneurship and strategic management are opportunities. Opportunities are both at the very heart of entrepreneurship and part of e.g. the SWOT analysis of strategic management. Enterprises create value by identifying opportunities in their external environment and by subsequently developing competitive advantages to exploit them (Hitt *et al.*, 2001; Ireland *et al.*, 2001).

Venkataraman and Sarasvathy (2001) used a metaphor based on Shakespeare’s *Romeo and Juliet* saying that strategic management research without an entrepreneurial perspective is like the balcony without Romeo, and entrepreneurship research without a strategic perspective like Romeo without a balcony.

Six “natural” domains where the intersection between entrepreneurship and strategic management exist have been proposed: 1) innovations, 2) networks, 3) internationalization, 4) organizational learning, 5) top management teams and governance, and 6) growth (Covin & Miles, 1999; Hitt & Ireland, 2000; Ireland *et al.*, 2001).

Cooper (1979) was the first to place start-ups into the field of strategic management by investigating the relationships between the characteristics of entrepreneurs, venture strategies and

performance. He argued that strategic management researchers should study established enterprises and growth-oriented start-ups, but not “mom and pop” small businesses. This later led to the distinction between “entrepreneurs” and “small business managers” by Carland *et al.* (1984). From this point on, more and more scholars have studied the relationship between strategic management and business performance in SMEs (Schwenk & Shrader, 1993, Kraus, Harms, & Schwarz, 2006). SMEs are thought to be so unique that standard textbook approaches of strategic management, which have originally been developed for large enterprises, are not considered suitable for them. On the other hand, *corporate entrepreneurship (intrapreneurship)*, i.e. entrepreneurial behaviour within established organizations, is closer to such a “standard” strategic management (Sandberg, 1992). SMEs have always been skilful in identifying entrepreneurial opportunities, but less effective in developing and sustaining competitive advantages for exploiting them. It is mostly the other way around with established enterprises (Ireland *et al.*, 2003).

It has been found that many of the key topics in entrepreneurship research, e.g. new venture creation, innovation and opportunity-seeking do in fact apply to the strategic management paradigm as well. New venture creation e.g. is in most cases about acquisition, mobilization and deployment of resources and the integration of the resources with opportunities, and can thus be linked to Mintzberg’s *design school*, which is about matching resources with opportunities (Sandberg, 1992). Also, innovation, being understood in the Schumpeterian sense as new combinations of factors of production, builds on resources, which again build the basis of many strategic management instruments (e.g. Wernerfelt, 1984; Barney, 1991). If the creation of innovations is understood as an individual process, both the *cognitive school* and the *entrepreneurial school* of Mintzberg can be applied (e.g. in exploring how innovations appear and in explaining the strategic nature of innovations), and the *learning school*, where creation of innovations is seen as an organizational phenomenon (e.g. by the way an innovation leads its way through the organization).

### 3.2. Strategic management in SMEs and young SMEs

The application of strategy in SMEs is a main part of the intersection between entrepreneurship and strategic management (e.g. Chan & Foster, 2001). Next to the *content* and *process* side (which are always interrelated, e.g. in the form of a business plan) of strategy within SMEs, the role of the entrepreneur is particularly important. The following table as well as the following sub-chapters exemplarily show four major constitutive elements of SME strategy and their characteristics.

**Table 2: Constitutive Elements of SME Strategy**

	<b>Entrepreneur</b>	<b>Strategy Content</b>	<b>Strategy Process</b>	<b>Business Plan</b>
<b>Characteristics</b>	The Entrepreneur or the SME manager is the main strategist and decision maker develops the vision, mission and strategies for the enterprise implements the vision, mission and strategies	Most promising market entry strategies for SMEs niche strategy: allows targeting of customer needs by focusing the limited resources on a narrow market segment differentiation strategy: offers the customer a special advantage along a valued dimension (e.g. quality or price leadership)	Strategic instruments which are suitable for SMEs SWOT analysis PEST analysis industry analysis product life-cycle analysis Business portfolio matrixes	Written or formal documentation of the SME’s strategy and strategic planning means of communication with external stakeholders internal control mechanism leads to actual company founding, ongoing strategic planning and employment growth
<b>Other Issues and Challenges</b>	Personal goals, traits and strategic orientation having a significant impact on the SME’s strategy. Daily business is customarily regarded as more important than long-term strategies.	Other dimension of assessing an enterprise’s market entry: product/market strategy (four-field matrix with different combinations for implementing existing or new products in present or new markets).	Other strategic instruments (e.g. benchmarking, GAP analysis, BSC), which could also be used in SMEs, are often unknown in SMEs.	Business plans are rarely existent in young SMEs. The question of whether to write a business plan is the entrepreneur’s decision, reflecting his thoughts and ideas.
<b>(Main) Sources</b>	McKenna (1996); Berry (1998);	Vesper (1980); Ibrahim (1993); Lee et al.	Andrews (1987); Zahra & Dess,	Kraus & Schwarz (2007); Liao &

	McCarthy (2003); Analoui & Karami (2003)	(2001); Gruber (2004)	(2001); Analoui & Karami (2003); Kraus (2007)	Gartner (2008); Schulte (2008)
<b>Research Gaps and Areas for Future Work</b>	Changes in strategy when the SME grows and the entrepreneur is no longer the only decision maker (e.g. entrepreneurial teams)	Possible correlations between the applied strategy and corporate success; industry- specific surveys	Possible correlations between the instruments and corporate success	Quality, quantity and content of the business plan and their possible correlations with corporate success

### 3.2.1. The entrepreneur's role in SME strategy

Empirical evidence suggests that entrepreneurs in SMEs plan in a way that is quite different from the standard textbook approaches (McCarthy, 2003). In the multitude of SMEs, not top management teams, but the entrepreneur himself is the enterprise's main strategist and decision maker, developing the vision, mission and strategies, and also implementing them (Analoui & Karami, 2003). Strategic decisions reflect the subjective orientations and attitudes of the entrepreneur. The role of the entrepreneur and his attitude towards strategic issues are therefore often critical for the implementation of strategy (Kraus, 2007).

Likewise, the entrepreneur's personal goals, traits and strategic orientation will have a significant impact on the enterprise's strategy (McKenna, 1996). Many entrepreneurs routinely operate their daily business, but do not believe that strategic management applies to them. However, it has been argued that no business is too small to have a solid strategy (Sandberg, Robinson, & Pearce, 2001). The question of whether or not to use sophisticated strategic management instruments again depends on the entrepreneur's previous experience (Berry, 1998).

### 3.2.2. Strategy content

The market entry of a start-up is of major importance because it determines the strategic basis from which the enterprise tries to achieve competitive advantages in the market place (Gruber, 2004). The enterprise's relative position within the market strongly influences its performance. Within the spectrum of the *generic strategies* by Porter (1985), there are (at least) three options: 1) cost leadership, 2) differentiation, and 3) focus on a market niche. Whether there is a cost advantage or a differentiation potential for the enterprise is the result of the enterprise's ability to cope with the *five competitive forces* (industry competitors, potential entrants, buyers, substitutes, and suppliers) better than its competitors. Young SMEs can seldom develop cost advantages, as these are often based on economies of scale. For these enterprises, most researchers recommend the *niche strategy* (e.g. Vesper, 19800). Besides, young SMEs can hardly target a market as a whole, but more likely have to target certain narrow market segments which larger competitors ignore (Lee, Lim, Tan, & Wee, 2001). A niche strategy allows an enterprise to target customer needs by focusing the enterprise's limited resources on a narrow segment of the market. This gives time for establishing a market position and developing both the necessary resources to survive (Bamford, Dean, & McDougall, 1997). Numerous empirical studies confirm that the niche strategy is often the most successful initial entry strategy. Ibrahim (1993) made this observation with small enterprises and Bantel (1996) with 166 small technology-based enterprises. Still, the niche strategy leaves several risks for SMEs, since larger enterprises can easily launch an attack on the market niche simply by making the choice to do so.

The *differentiation strategy* is also possible for SMEs. The core of this strategy is to offer the customer a special advantage along dimensions that are highly valued by the customers (Porter, 1985). This could be e.g. quality leadership where the enterprise aims to offer the market the best quality compared to its competitors. The differentiation potential of SMEs is mostly imbedded in the business idea of the enterprise or in a technical innovation. A common mistake of entrepreneurs is being enthusiastic about their new ideas, neglecting the market, and failing to assess if there is a target group for the new products or services.

Another dimension of assessing an enterprise's market entry is the *product/market strategy*. The decision within this strategy is whether to implement existing or new products in present or new markets. The original matrix concept of the product/market strategy by Ansoff (1965) consists of four different strategies: 1) present product in present market, representing status quo, 2) present product in new market, e.g. through internationalization, 3) new product in old market, usually based on some innovation, and 4) new product in new market, which is the most risky and most expensive strategy



option. These strategies can be useful for young SMEs as well, despite the fact that these enterprises are usually restricted in their actions because of their limited resources. The product/market matrix can be an efficient management instrument for identifying new strategies and for planning resources accordingly. For achieving the highest performance, each strategy option needs to be linked with appropriate resources (Borch, Huse, & Senneseth, 1999).

### 3.2.3. Strategy Process

With regard to the strategy process, several different *strategic management instruments* can be applied in SMEs, depending on the respective situation the enterprises are in. For instance, any enterprise needs to assess its position within its environment and within the market (Zahra & Dess, 2001). A common instrument for this is the *SWOT analysis*, which aims at studying internal strengths and weaknesses and matching them with the enterprise's external opportunities and threats (Andrews, 1987). A SWOT analysis can be used as a basis for developing future strategies as well as for developing the business plan. Another part of the environmental analysis is the *PEST analysis*, which tries to identify political and legal (P), economical (E), socio-cultural (S), and technological (T) factors influencing the enterprise. Finally, the *industry analysis* tries to assess the attractiveness of a specific industry for the enterprise (Analoui & Karami, 2003). The industry analysis again can use sub-instruments, such as *market analyses* (e.g. Wickham, 2001) and Porter's (1985) *five forces analysis*.

The *product life-cycle (PLC) concept* can be utilized in enhancing the effectiveness of operative instruments and in changing the strategies, especially in young SMEs. The basic idea of the PLC concept corresponds to the law of birth and death of all biological existence. This idea can be transferred to man-made systems, such as products or markets. Even if the forecasting ability of the PLC concept has been deemed rather limited (Levitt, 1965; Cox, 1967), it provides a good overview of marketing decision options, especially in the implementation phase and growth phase of an enterprise (Kraus *et al.*, 2007).

*Business portfolio models*, such as the Boston Consulting Group (BCG) matrix or the McKinsey matrix rely, on the one hand, on the PLC concept as a predictor for the axis of market attractiveness and, on the other hand, on the concept of the *learning curve* as an indicator for the relative market share (Hedley, 1977). Originally, these matrixes were designed to facilitate resource allocation between different strategic business units (SBUs) of an enterprise. In this sense, portfolios are not applicable for young SMEs which, due to their small-scaled structure and age, typically do not consist of SBUs. However, transferring the concept to the range of different products, these matrixes can be useful strategic management instruments for young SMEs as well. The ideal distribution of products within the portfolio can especially be interpreted as the optimal structure of the product line, as it shows opportunities and threats of each single product in relation to both the market share and the maturity of the market. Such analyses can reveal when a new product should be introduced into the market in order to rejuvenate the product line, and furthermore when measures need to be taken to boost a product into a market dominating position (to make a *cash cow* out of a *star*).

Other well-known strategic management instruments, such as e.g. benchmarking, GAP analysis or Balanced Scorecard, which can also be used in SMEs, are often unfamiliar to entrepreneurs, especially if the entrepreneurs do not have an educational background in management (Kraus, 2007).

### 3.2.4. The business plan

Every business, regardless of its size, has some form of a strategic plan. In small enterprises, this may include e.g. the general ideas put forward by the entrepreneur; with increasing size of the enterprise, however, the strategic plan usually becomes more formal and elaborate. Such a document is called a *business plan*. It is the document which describes the enterprise's strategy, i.e. content and process, thereby presenting the vision of the enterprise and how the enterprise is going to attain its vision (Honig & Karlsson, 2004). The business plan can particularly serve as the basis of the strategy itself and as its formalized documentation. Usually, it is written to serve as a means of communication with external stakeholders, especially potential investors (Castrogiovanni, 1996). In addition, it can serve as a mechanism for internal control and goal-achievement.

Entrepreneurs who prepare a business plan become more conscious of their business instruments and their assumptions about how to become successful. In some cases, after devising the business plan, especially after making the financial calculations, the entrepreneur might even find that his business is not likely to succeed, and thereby gets the chance to *not* go into business rather than engaging in one which is *ex ante* deemed to fail. This can be seen as a most positive outcome of the pre-start-up planning process.

The pure existence of a business plan and the quality of the business plan are commonly regarded as indicators of the enterprise's attitude towards strategic planning. They also provide insight into how

much the entrepreneur is committed to his venture (“signalling effect”). Research has indicated that the probability of actually founding the new company is six times higher among entrepreneurs who have written a business plan than among entrepreneurs who have not written a business plan (Heriot & Campbell, 2004). Furthermore, the existence of a business plan has been positively associated with the success of the enterprise e.g. in an Austrian study of 458 young SMEs by Kraus and Schwarz (2007) and in a study of 312 nascent entrepreneurs from the USA by Liao and Gartner (2008). Similarly, a study by Schulte (2008) of 585 business plans from Germany also regarded pre-start-up planning as an important requirement for success.

The business plan can be regarded as one of the most important strategic management instruments in young SMEs. Nevertheless, the actual process of decision making that can be observed in reality often deviates substantially from the management’s ideal picture of rationality – planning in SMEs seems to be rather unstructured, sporadic, and incremental, due to e.g. limited resources, limited time, or the entrepreneur’s attitude towards formal planning (Kraus, 2007). As a consequence, the majority of SMEs still do not have a written business plan (e.g., only 29.5% of the 468 young SMEs in the study by Kraus & Schwarz, 2007 had a business plan).

### 3.2.5. Limitations of previous research studies

Previous research on the fields of strategic management in SMEs has numerous limitations that need to be addressed in future research. First, it is often limited to those enterprises that have already been identified as conducting strategic planning or to the surviving enterprises, whereas failed companies are not considered (“survivor bias”). These studies’ response rates have mostly been rather low. It can be assumed that questionnaires are more frequently returned by such enterprises that apply strategic management instruments more than the others. The results concerning the use of strategic management instruments might therefore be unintentionally inflated. Furthermore, in previous studies, the aggregation of single functional plans has often been a sufficient condition for categorizing an SME as using strategic planning, which might give a questionable picture of the real nature of the strategic management in the companies.

Furthermore, previous research studies are difficult to compare with each other due to their differences in terms of enterprise type, field of industry, sample size, company size, or investigation period. Likewise, previous studies are often limited to only one industry, which reduces the potential to derive generalizable conclusions. In this respect, it would be interesting to examine whether there are differences in the usage of strategic management instruments as it regards the industry sector. It can be assumed that in these industries, in which product development and order processing have a shorter time frame (e.g. in the services industry) or in those with a generally smaller range of products, strategic management instruments are less frequently used.

## 4 DISCUSSION AND CONCLUSIONS

The objective of the present article was to create a better understanding of the intersection of the academic fields of entrepreneurship and strategic management. The article was based on an aggregation of the extant literature in these two fields. It has been shown that there are intersections between both of these fields of studies, and this is pointed out e.g. by Mintzberg’s *schools of strategy*. Obvious intersections are strategy content and processes within SMEs, i.e. the development of strategic management instruments for enterprises. The niche strategy has been shown to be a most successful market entry strategy for new enterprises, whereas the differentiation strategy can also gain importance once the enterprise grows. Success for any enterprise – regardless of its size or age – is highly dependent upon its ability to find a valuable strategic position (Thompson, 1999).

Nonetheless, some authors have questioned the overall value of strategic management in SMEs (e.g. Bhidé, 1994), and argued that it does not work in a dynamic environment where flexibility and responsiveness are key conditions for survival (Mintzberg, Quinn, & Ghoshal, 1995). We are of a different opinion. Many of the strategic management instruments which have originally been developed for large enterprises, such as the SWOT analysis, can be important for SMEs as well, but need to be adapted according to their particularities. Since SMEs considerably differ from large enterprises in their amount of resources, it is doubtful that ‘standard’ strategic management instruments work in the same manner in SMEs as in large enterprises. The instruments therefore need to be aligned with the personnel as well as the cultural, organizational, and financial conditions of the specific enterprise in order to be successful. Since many strategic instruments are simply not known or applied in SMEs, a consciousness regarding the virtue of the use of proper strategic instruments needs to be raised. This is

where politics and education have to take over. They both need to use their respective channels for generating a greater strategic awareness, starting with SMEs, especially the young ones.

All in all, the integration of entrepreneurial (opportunity-seeking) and strategic (advantage-seeking) perspectives seems to be a promising approach for contemporary management, and is probably even a necessary approach for coping with the effects of the new competitive landscape. Both perspectives can be regarded as essential for value creation, although neither is sufficient on its own (McGrath & MacMillan, 2000; Ireland *et al.*, 2001). Strategic management must therefore without a doubt become more entrepreneurial, and shift from the traditional administrative approach to a *strategic entrepreneurship* approach. This would characterize a new management philosophy that promotes strategic agility, flexibility, creativity, and continuous innovation. It can also be used in transforming administrative-oriented employees into intrapreneurs.

A concrete managerial implication of the strategic entrepreneurship approach is the possibility to develop more entrepreneurial and innovative thinking, especially in young SMEs. This stands in contrast with the traditional strategic management approach, which characteristically emphasizes administrative management and focuses on day-to-day business. Intuition and utilizing “gut feelings” are important elements of the entrepreneur’s strategy development, although they have to be supplemented by wise use of strategic management instruments. It is also generally acknowledged that proper planning has its positive implications for successful implementation. Accordingly, planning complements and enhances entrepreneurial behaviour or, as Liao and Gartner (2008) put it: “Planners are doers!” (p. 18).

With regard to research, recent years have brought significant progress in the investigation of strategic management in (young) SMEs (e.g. Kraus, Harms, & Schwarz, 2008). This has mostly taken place only on a general, i.e. cross-sectoral level, and has been limited to one country at a time. Future research regarding the intersection between the entrepreneurial approach and the strategic management approach should concentrate on (quantitative) empirical investigations from different contexts, i.e. firm sizes, industries, countries etc. Also, other entrepreneurial sub-groups such as family firms or spin-offs (corporate venturing) should be investigated regarding their strategic management particularities. Numerous areas are still under-researched. For example, the changes in enterprise strategies when the SME grows and the entrepreneur has to delegate power should be investigated in more detail. Possible correlations between the strategic management instruments applied and company success need more research. One of the most promising areas for future research is the *pre-start-up planning stage*. Strategic management of an enterprise before and during the phase of its foundation is a topic of increasing interest. This includes research on the role of the business plan in the planning process, another topic of growing academic interest.

The question of whether the formality of the business plan or the strategic management in general is beneficial for the success of young SMEs seems to be promising. The dichotomous questions of whether there is a plan and/or how the qualities of the plan relate to enterprise success should be investigated. Other relevant research questions entail the content of a business plan, its single elements and areas, as well as the quality and quantity of such a document. The timing in the preparation of the business plan (e.g. prior, during or after the founding process) should also be investigated further. Both quantitative and qualitative research studies, including case research, are called for.

Last but not least, the interplay between personal, structural, strategic and environmental factors in SMEs, the so-called *configurations*, (e.g., Harms, Kraus, & Reschke, 2007) is a promising approach for conceptualizing *strategic entrepreneurship* by integrating these elementary domains. Of these four domains, this present article has tried to shed light on the personal and strategic elements of SME strategy. Accordingly, the two remaining domains of the four in the configuration approach need more attention. Both theoretical and empirical research work should be done on the (company) structure and (industry) environment. We regard the configuration approach as one of the most promising avenues for future research where valid questionnaires for quantitative empirical investigations can be developed.

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