THE STRATEGY FORMATION PROCESS: A STUDY OF IRISH SMEs

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This thesis is submitted to Prof. Brian Leavy, in the Business School, Dublin City University in candidature for the the degree of Doctor of Philosophy

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I hereby certify that this material, which I now submit for assessment on the programme of study leading to the award of Doctor of Philosophy is entirely my own work and has not been taken from the work of others save, and to the extent, that such work has been cited and acknowledged within the text of my work.

Signed: Breda McCarthy I.D: 93701446

Date: 25th Sept. 1997.

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A thesis is a reflection of the work of its author yet it conceals the contribution of others. I would like to acknowledge the contribution of certain people who helped make this thesis possible.

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ABBREVIATIONS AND GLOSSARY

BES	Business Expansion Scheme
BBS	Bachelor of Business Studies
B.Sc	Bachelor of Science
EDP	Enterprise Development Program
EPOS	Electronic-Point-of-Sale/Service
GMP	Good Manufacturing Principles
High-tech	High Technology
IDA	Industrial Development Authority
ISO 9000	International quality standard
LAN	Low area networking
MBS	Master of Business Studies
NHS	National Health Service
OEM	Original Equipment Manufacturer
POS	Point-of-sale
PC	Personal Computer
RTE	Radio Telefis Eireann
SME	Small and medium sized enterprise
WAN	Wide area networking

ABSTRACT

This thesis is based on a comparative study of the strategy formation process in nine Irish small/medium enterprises (SMEs). The study adopted a longitudinal-processual approach which is still rare in the literature. A conceptual framework was developed from the literature based on three main variables - entrepreneurship, context and history. Realised strategy was seen to be the result of the interplay between these elements over time. The use of this framework facilitated the development of the study's main contributions.

Among these contributions, the study identified, and distinguished between two types of entrepreneurs - `the pragmatic' and `charismatic' types - based on orientation towards risk, underlying personalities and world views. The study also revealed a phase pattern of strategy formation - an early fluid, quasi-strategic phase linked through a `defining episode' (usually a crisis) to a more formal and focused strategic phase. This phase model is developed in the study and presents a perspective on strategy formation in SMEs which departs from the normative rational planning model that still tends to dominate in the literature on SMEs.

Among its other findings, the study highlights how the risk-taking capacities of entrepreneurs are seen to change over time due to both intrinsic and extrinsic influences; the study reveals how entrepreneurial effectiveness varies more generally over time and tenure; and attention is drawn to some of the `darker' elements in the entrepreneurial personality. The implications of these and other findings for future research and practice are discussed.

INTRODUCTION

This thesis examines the process of strategy formation through a comparative analysis of nine Irish SMEs (small and medium sized enterprises) in a variety of commercial contexts. The primary concern of the study is to identify and analyse the main factors that impinge on this process.

Rationale for the research project

The inspiration for this research can be traced to the researcher's educational background and employment record. The author has worked in the SME sector, and the finalisation of M.B.S. thesis in entrepreneurship prompted a desire to carry out further research.

Entrepreneurs form an important group of people in present-day society. The high status of entrepreneurs is indicated by the public interest in, and fascination with, figures such as Richard Branson and Anita Roddick, who have become media celebrities in today's world. Governments have attempted to foster an 'enterprise culture' through the provision of training programmes and education for enterprise. The 1980's was characterised by an increasing interest in entrepreneurship as an academic field. David Gumpert (1982, p. 50) notes that 'suddenly entrepreneurship is in vogue.' This surge of interest in entrepreneurship is understandable, considering the role of small business in most economies. Entrepreneurs are widely perceived to personify creativity; they come up with big ideas and build the organisation. They take the initiative and devise new solutions to old problems. They start vibrant new companies, turn around failing corporations, and shake up staid ones (Gilder, 1984). Although Robert D. Reich (1987, p. 78) talks about the 'myth of the entrepreneurial hero' and substitutes the 'team as hero' in other words, collective entrepreneurship, the popular view of the entrepreneur is still valid. A belief in the entrepreneurial spirit has penetrated both the academic and corporate circles. Small enterprise development is important for many economies and the recognition exists that the individual is a key actor in the whole entrepreneurial process.

The importance of the small and medium sized enterprise sector in the Irish economy

SMEs are a worthy research topic for a number of reasons. An emphasis on the development of indigenous industry has been a feature of Ireland's industrial strategy since the watershed Telesis Report of 1982 and the subsequent White Paper on Industrial Policy. This approach was endorsed by the government in its Review of Industrial Performance (1990) and more recently by the Culliton Report (1992), the Moriarty Task Force (1993) and the Task Force on Small Business (1994). While acknowledging the importance of foreign grant-aided industry, policy makers have targeted indigenous industry as a panacea for Ireland's economic ills. The Culliton Report (1992, p. 67) argued that:

> If industrial policy is to be successful in helping to generate a competitive industrial structure which can sustain long-term employment growth and improve living standards, the focus must shift decisively to indigenous companies. The view of Porter is that in Ireland the shift has been 'too little too late' and that there has not been a full commitment to the slow process of developing a broader base of indigenous firms. We consider Porter's basic conclusions are correct despite the efforts undertaken to promote indigenous industry.

Today, it is increasingly difficult for Ireland to attract foreign investment, as seen by the recent diversion of major projects from Ireland to Scotland. Ireland is not a low-wage, low-cost economy. This has posed difficulties for traditional industrial policy. Large scale, foreign companies are extremely vulnerable to changing economic conditions, as the recent closure of Packard in Tallaght, Ireland has shown. The failure of such a large corporation can have catastrophic effects on local communities and constitutes a serious blow to economic performance at both local and national level.

There has been much debate on ways in which to improve the climate for enterprise in Ireland. The recent White Paper on Education has emphasised enterprise and innovation; a plethora of 'start your own business' courses have been established to encourage a move to self-employment. The IDA is moving away from general grant assistance towards a more selective approach of assisting companies that exhibit potential. There is also a shift towards repayable incentives (see The Task Force on Small Business, 1994). This is part of the re-direction in Irish industrial policy. Mechanisms such as grant aid, tax incentives, small business programmes, and other instruments of Irish national policy, have been used to promote industrial development. The Irish government has attempted to stimulate entrepreneurship by fostering an environment conducive to individual enterprise, risk-taking and action.

Entrepreneurs and the population of small firms have been somewhat neglected in economic and regional development theory. They have been overshadowed by theories of economies of scale and the orientation to big companies (Sweeney, 1995, p. 2-112). However, they are becoming central to regional development policy in some countries such as Germany, Japan and the US. The SME forms a strong dimension of policy in Ireland. In spite of the dominance of large organisations in many countries, new and small firms continue to provide a good return to the economies. The small firm sector has a crucial role to play in industrial development. It serves a variety of purposes, be it that of preserving competition, sponsoring innovation, providing an alternative career path, generating employment or meeting new market needs (The Task Force on Small Business, 1994). Small firms also supply an industrial infrastructure that has links with larger enterprises.

Academic studies of the strategy process in SMEs

An initial literature review revealed a poor understanding of the strategy formation process in the SME context.

The lack of focus on small/medium sized firms in the strategy literature

The role of SMEs (small and medium sized enterprises) has received little explicit attention in mainstream strategic management literature. Most of the cases in the best known strategy textbooks have dealt with large, powerful firms such as IBM, Honda, Ford, Wal-Mart, etc., rather than small or medium sized firms. For instance, Murray (1984, p. 56) has claimed that:

> Strategy and its implementation is most usually studied in formally organised mature organisations. Our research suggests that strategy formulated at pre-launch stages is of vital long term significance for the organisation and deserves far more attention that is traditional.

Olson and Bokor (1995) have claimed that information about the strategic behaviour of entrepreneurial firms has been limited. Although numerous strategy studies have been conducted since Chandler (1962) and Ansoff (1965), most of them have focused on large firms. Robinson (1982) has proposed that efforts must be undertaken to develop a greater understanding of strategic management in small firms.

This preference for large firms and lack of focus on smaller firms is based on many factors. The complexities of large firms are seen as intellectually fascinating, compared with which the small firm is basically simple, all-too familiar, lacking challenge. This view has pervaded business schools, management consultancies and top industry circles (Boswell, 1972). It is often said that small firms do not need strategy; they can pursue other routes to business success. According to Porter (1991) that view is erroneous. He has argued that, on the contrary, small business owners have to see their environment with particular clarity, and have to stake out and protect a position they can defend. Unlike large firms, small firms cannot rely on brute force, throwing resources at problems (Porter, 1991, p.90). There is a growing sense that the Irish SME in the 1990s is facing a more challenging environment and the discipline of strategic management may have much to offer to the smaller firm.

The lack of focus on process in the strategy literature generally, and particularly in the SME context

Strategy process research is concerned with understanding how strategies actually form in organisations, whereas strategy content research is concerned with identifying and describing the type of strategy adopted by firms. Process research is not as well established or as voluminous as the field of strategy content research (Pettigrew, 1992). Empirical studies to date on strategy process have focused on a few, large, mature firms. For example, Mintzberg and Waters (1982), Pettigrew (1985) and Blair and Boal (1991) studied strategy formation processes in a chain of grocery outlets, a manufacturing group, and health care organisations, respectively. These studies dealt with decision making and change. Pettigrew's study (1985) characterised the process of strategy formation as one of change. He focused on the strategic development of ICI, one of the UK's largest manufacturing companies.

The lack of focus on strategy process is even more marked in the case of small and medium sized organisations. Strategic processes and small firms are both legitimate domains of enquiry, but they tend to develop in isolation. There is a relative paucity of systematic, research supported findings in this area, (i.e. the process of strategy formation in small and medium sized firms) in journals such as the Administrative Science

Quarterly and the Journal of Strategic Management. Over the past ten years, not one article has been published in these journals relating to strategy formation processes in the smaller firm. Hendry et al., (1995, p. 21) claim that:

> An in-depth investigation of how strategy unfolds has been rare in the small firm sector.....Specialist journals have either emphasized a 'black box' view insensitive to the inner workings of the small firm, or have pressed normative assumptions that smaller firms should imitate the comprehensive - and potentially stultifying - management approaches of large firms.

Very few studies have concentrated upon the process of strategy formation in small or medium sized firms (see for example, Gibb and Scott, 1985; Hanlon and Scott, 1995; Hendry et al., 1995; Murray, 1984). Hanlon and Scott (1995) have observed that much of the literature on strategy process and the small firms has concerned the rational, planning model, which has described how firms should go about formulating their strategies. Hanlon and Scott (1995, p. 19) have claimed that:

> Barring a few exceptions (see, for example, Gibb and Scott, 1985), research on how strategies are actually formed in entrepreneurial small firms is virtually non existent.

The focus, or niche strategies of Miles and Snow (1978), as well as Porter (1980) seem to surface again and again in studies of the SME. Empirical studies aimed at identifying 'success' and 'failure' have been included in the strategy content category (Hanlon and Scott, 1995). A problem with this stream of research is that there has been a preoccupation with strategy content, rather than strategy process. Bouwen and Steyaert (1990, p. 648) claim:

> Content knowledge concerns what to do, process knowledge describes how. In the study of small and medium sized enterprises the emphasis, up to now, has been mainly on collecting content knowledge - rules of thumb or techniques. This knowledge is of limited value since the number of things to do and the number of situations is endless.

It is perhaps wise to comment on why process-sensitive research is so necessary. Bouen and Steyaert (1990) suggest that process knowledge allows entrepreneurs to deepen their understanding of their own behaviour and of organisational processes. Critical reflection produces new, applicable knowledge. Insights can be generated into the organising process and entrepreneurs can use such knowledge to improve their performance as architects of their firm. As a result, a process-centred paradigm for understanding the formation of strategies in SMEs shows promise.

The lack of focus on SMEs over time

The start-up and early phase of development of a new venture seems to be of particular interest to small business researchers. For instance, Murray's (1984) study looked at the process of strategy formulation and implementation in the entrepreneurial new venture. While there is now substantial research on the start-up process, research on how strategy forms and changes over time in SMEs seems to be sparse.

It has been claimed that there is an over focus on small start-ups (Hendry et al., 1995) which is a negation of the lessons to be gained by studying small firms that have a longer and richer history. It is easily forgotten that many small firms are not new and are more than five years old. The literature in general suggests that between a third and a half of all new firms fail within four to five years (Cromie, 1990). In Ireland, a study of grant aided firms showed that 56% had gone out of business nine years after start-up. Ireland is above the European average in terms of small business failures (Fitzpatrick and Associates, The Task Force on Small Business, 1994). Data on mortality rates for SMEs underscores the need for researchers to go beyond their fixation on start-ups and pay greater attention to the smaller, more mature firms. This shortcoming of the literature is alarming because of the importance of small companies to the economy in general and to technological development in general. This research takes a fresh look at the topic of strategy formation in SMEs by adopting a longer time frame. The research goes beyond the start-up stage and stays with a few companies for as long as ten years. The concern is, therefore, with foundation and early history, with tracking the development of strategies in the small firm over the longer term.

The potential to learn from small enterprises

Recent theoretical arguments affirm the importance of the smaller enterprise to national economies. A perception in the literature is that large, bureaucratic firms suffer from structural and political barriers to information flow which hinders innovation. It has been advocated that larger corporations (Hendry et al., 1995) should learn from, or even duplicate the advantages of, smaller organisations. Many organisations, such as IBM, have recognised the benefits that limited size or 'fragmentation' can bring. Many established firms have been subject to efforts of 'intrapreneurship' aimed at rekindling risk-taking, innovation and flexibility (Burgleman and Sayles, 1985). The trend towards downsizing and the de-construction of large companies allows companies to concentrate on their core activities and subcontract non core activities; this enables them to reduce their fixed cost base and flatten their organisation structures, so ensuring quicker response times to changes in the marketplace (Burns, 1996). Charles Handy (1989) predicts that there will be a growth of the 'shamrock organisation' in larger companies, the three leaves being core staff, temporary staff and part-time staff, to ease them over peaks and troughs in work. Smaller organisations will supply specialist services. In his book 'The Empty Raincoat', Charles Handy (1994) advocates business federalism. In Handy's model, a small, central core organisation monitors the performance of highly autonomous business units. It transmits information to knowledge workers who often work outside the traditional organisation. In this way, efficiency is increased. With the erosion of job security and the increasing popularity of homeworking and teleworking, the number of small firms is likely to increase (Burns, 1996).

That even large companies are interested in implementing the spirit of entrepreneurship and in gaining the advantages of thinking like a small business, shows that research on small firms holds promise.

The purpose of this research

Given the importance of the SME sector to the Irish economy, and in the light of the lack of attention given to strategy processes in SMEs, the purpose of this research is to address this weakness in the literature.
The main research purpose of this study is explore how strategies form and change in SMEs over time and the key factors at work in the process. This study draws upon concepts from different streams of literature in the search for a greater understanding of the underlying process.

Structure of the thesis

The thesis starts with an introduction to the topic of strategy formation processes in SMEs; a rationale for the study of the topic is offered and the structure of the thesis is outlined. The SME tends to be neglected as a site for the study of strategy process in favour of the large firm. SMEs are a worthy research focus because of their importance to the Irish economy. The SME sector is vital to the social and economic well being of Ireland.

Fostering the development of an indigenous SME sector has become an important objective of Irish public policy. If Ireland is to alleviate its unemployment problem, it is no longer realistic to depend on the large firm sector. The SME sector serves a variety of valuable purposes, such as preserving competition, sponsoring innovation, providing flexibility or generating employment. The high failure rate of business start-ups underscores the need to focus on both small and small, mature firms. To survive beyond the first five years of existence represents some kind of achievement from which something may be learned.

The objective of the first chapter is to review the diverse directions of strategy process research. This involves an inclusive examination of the concept of strategy and the factors that shape strategy. The chapter presents a brief review of the two major schools of thought in the strategic management literature: the planning and the process schools. There is evidence of a paradigm shift in the strategic management discipline. The concept of entrepreneurship is sometimes perceived as inimical to the concept of strategic management, and the utility of strategy to the small firm is often questioned, but these notions may be outdated. This study counts among its influences the work of Mintzberg (1978), who suggests that strategy is rarely formulated in a synoptic manner and then implemented. Instead it is often characterised by informality, learning-by-doing, and by chance occurrence.

Chapter two summarises the literature pertaining to strategy formation processes in the SME context. A broad conceptual framework is developed from the literature review which is based on three main variables, leadership, context and history, and their interactions over time. This framework allows for the consideration of a wide variety of factors that impinge on the strategy formation process. The adequacy of existing approaches to explain strategy formation processes in SMEs is also examined in this chapter.

The literature review reveals that the vast majority of researchers concentrate on the substantive issue of leadership. The literature on strategic management and entrepreneurship tends to glorify the role of the leader/entrepreneur in the development of the organisation. The leader is seen as instrumental in forging a distinctive culture for the organisation which, paradoxically, enables the firm to achieve success and hinders the firm's ability to adapt. A first research theme is therefore to establish the role of the founder in the strategy formation process in SMEs. The role of contextual forces on the strategy formation process is underpinned by the debate on voluntarism and determinism. Thus another research question is to establish whether contextual factors lead to variations in the strategy formation process. Another research agenda is to explore the unique forces that inhibit and facilitate the formation of strategy in the SME. This study also draws upon organisation theory literature since it deals with constraints or obstacles to change. A question that emerges from this literature stream centres on the role of history or early social processes in the development of the SME.

Chapter three describes the study's research methodology and method. The study is located in the subjective/interpretative mode of analysis. It was shown that prior studies on the strategy formation process in large firms adopted an inductive, qualitative, longitudinal approach. This approach was used successfully to generate theory. Researchers such as Pettigrew (1987b) and Mintzberg and Waters (1982) constitute the main methodological influences on this work. In other words, this study is guided by the state of the field. Due to the limited amount of research on strategy formation processes in SMEs, the inductive case method for discovering theory from data is adopted. Nine cases were selected. The nine firms range between 7 and 20 years old, with 2 to 120 staff and concern a variety of industries. Over 30 interviews were conducted, supplemented by archival material and secondary research. Through the use of the case method, considerable attention was focused on emerging themes, such as the often neglected cultural and historical influences on small firm behaviour. The chapter also indicates a number of features that may be of interest to researchers using case studies to investigate strategy process issues in the SME sector and elsewhere. Firstly, the use of comparative case studies assists in the process of generating theory from data. Secondly, the issue of confidentiality is vital. Gaining the trust and confidence of those under investigation is of major importance.

Chapter four presents the data that describe the strategy formation process in Irish SMEs. Four cases are described in this section: Fiacla, QFS, RTI and McKeown. These cases are included here since they were used in the latter stages of the research to probe certain issues in depth (such as phases, leadership and crises). The remaining five case studies are to be found in the appendices.

Chapter five presents an analysis of the case findings. The analysis centres on the role of leadership, contextual and historical variables in the strategy formation process. In terms of conceptual development, this study shows that there are variations in the personas of entrepreneurs, some but not all fit the heroic mould. The characteristics of two main types, 'the charismatic' and 'the pragmatic' were outlined. Learning and change are features of the entrepreneur's and the firm's development. The entrepreneur matures along side with the firm and gains new skills, new knowledge and new roles. The entrepreneur's attitude to risk often changes over time and his or her credibility with key stakeholders is undermined due to the incident of crisis. Crisis is a common feature in the development of SMEs and has both functional and dysfunctional effects.

Chapter six, the final chapter, assesses the contribution of this study and discusses its implications for future research and practice. In addition, the unique issues that emerge naturally from the research are discussed. The thesis concludes with an acknowledgement of the limitations of this research. Three main contributions were asserted in this concluding chapter. Firstly, this study has expanded the strategy process literature by taking a model generally applied to the large organisation (leadership, context and history) and transferring it to the small firm sector with some refinements. A highly voluntaristic approach is generally adopted in entrepreneurship. It is assumed that the entrepreneur, by sheer force of his personality, can influence strategy and outcomes. Within entrepreneurship, there is a predominance of the choice perspective (Child, 1972) and it is assumed that the process of forming a strategy is proactive, deliberate, rational and under the control of the entrepreneur. This study found that although the founder plays a major role in the strategy formation process, his role is circumscribed by history and context. In contrast to most personality-based studies in entrepreneurship, this study found that the strategy formation process was a multi-dimensional rather that one-dimensional process. This study assigned importance to the role of history in the strategy formation process. The concept of 'history' referred to the founding history - the history of the firm to date and it also incorporated the incidence of defining episodes or crisis. At certain stages, the entrepreneur was faced with inertia and the firm tended to be undermined by crisis. There was some limited evidence to support the notion that firms in the high-tech sector were subject to greater constraints in the formation of strategies than firms in the low-tech sector. The second main contribution of this research was the proposal of a phase model of the strategy formation process. This was made possible by the use of a broad conceptual framework. The third main contribution of this study centred on the findings in relation to risk. This study has expanded the personality trait theory by adopting a processual perspective on entrepreneurship. Trait theorists define the entrepreneur in terms of personal attributes, such as the ability to take risk, and static terms of reference are generally used. This study found that there were different types of entrepreneurs: the pragmatic and charismatic entrepreneur who were primarily distinguished by their fundamental world views and attitudes to risk. The former sought to minimise risk whereas the latter displayed a greater willingness to assume risks, thereby conforming to the typical stereotype of the 'bold risk taker'. In addition, the entrepreneur's attitude to risk varied over the course of business development. Entrepreneurship is seen therefore in dynamic rather than static terms. Risk in entrepreneurship can be seen, not just in terms of a a personality variable but also in terms of a situational variable. Leadership capacity is not purely defined by personal attributes, but is shaped by organisational context and history.

Lastly, this study has gathered information on the strategy formation process in an Irish context, which is important given that most strategy process studies are predominantly American and British in orientation.

CHAPTER ONE: AN OVERVIEW OF STRATEGY FORMATION MODELS

Introduction

In this chapter, the concept of strategy formation is explored. This chapter focuses on the process school of thought since this study and analysis is located within the process view of strategy development originating with Mintzberg (1978; 1987, 1990b) and further developed by Pettigrew (1985). It will be shown that the great bulk of studies in the strategy field concerns the normative, rational planning model which seek to describe how firms should go about formulating strategies. While both large and small firms may devise formal plans, several alternate models of strategy formation exist which will be described in this section. Bearing in mind that process related research in the SME context focuses almost exclusively on the planning model (Hanlon and Scott, 1995) the more recent models appear to hold promise in their ability to explain how strategies form in firms, and especially in small firms. The literature on entrepreneurship tends to lag behind strategic management in terms of explaining how strategy forms in SMEs, and therefore researchers in the SME field have much to learn from this discipline.

The planning school of thought

The discipline of strategic management has its historical roots in the normative (planning) model of strategy (Hanlon and Scott, 1995). Mainstream research on business strategy has traditionally treated strategy formulation as a rational process, based on the objective analysis of the environment, of resources and the objective evaluation of alternative choices (see for example, Ansoff, 1965). There is by no means universal agreement on the concept of 'strategy'. However, Chandler's (1962, p. 13) definition of strategy is a typical one in the planning school of thought;

it is a careful, future-oriented statement of intent:

> Strategy is the determination of the basic long term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.

Terms associated with the planning school of thought include strategic planning, strategy formulation and strategy implementation (Chaffee, 1985). Definitional problems occur in addressing the concepts of strategy, and strategic planning, particularly in relation to the small firm. Strategy in relation to the SME has been defined by Bamberger (1980. p. 1) as follows:

> ...broad frameworks of behaviour which guide the company providing both opportunities and constraints for operational decision making.

Under this definition, there is no implication that strategies are either tightly or coherently formed. Gibb and Scott (1985, p. 598) shed light on the issue of planning versus strategic planning by defining planning as follows:

> Planning is thus seen as the process by which management sets out where it is determined to go, identifies the means of getting there and coherently focuses its operational activity on the necessary tasks.

Strategic planning would seem to imply 'a more systematic and more formal approach' (Gibb and Scott, 1985, p. 599) to establishing strategy. Defining strategic planning more tightly means making judgements about a number of factors including: the degree of formalisation necessary, the role of forecasting as a basis for planning, the necessary time horizon, the degree of flexibility to be built into the process, the management of the process, and the techniques associated with bringing it about (Gibb and

Scott, 1985). Some researchers have advocated that strategic planning in the small firm is desirable and associated with success (Bamberger, 1980; Timmons, 1978). However, there is by no means, universal agreement that planning is either necessary or desirable (Karger and Malik, 1975). Still (1974) found that small firm owners/managers do not engage in systematic planning. Planning in the small firm is frequently only a mental activity of the owner and is informal, sporadic and closed.

The terms 'formal' and 'informal' are often used in connection to strategy and refer to the explicitness of strategies. It is believed that formal strategies are more associated with medium and large-sized firms than small ones. Miller and Toulouse (1986) propose that the complexity of projects in large firms requires diverse functional experts to get together to solve problems. An explicit, codified strategy is needed to coordinate and focus the efforts of second tier managers. In smaller organisations, an informal strategy often suffices. Mintzberg (1973) claims that smaller organisations tend to have unexplicit, intuitively derived strategies that reside mainly in the mind of the CEO. The strategy is rarely written down. Time horizons may be very short as managers react in an unplanned and piecemeal fashion to conditions.

The planning approach is at odds with a growing number of commentators who see strategy making as an imprecise and substantially emergent process (Mintzberg, 1987; Pettigrew, 1985). The growing disenchantment with strategic planning has been given expression by writers such as Mintzberg (1978; 1994), Peters and Waterman (1982) and Quinn (1980). The 1980s and 1990s has constituted a separate period of progress as regards strategic management.

Three main features can be ascribed to the planning school of thought. Firstly, the planning model is mechanistic in the sense that strategy is designed and refined to 'fit' a relatively stable and predictable environment.

The organisation is viewed as a rational machine which sets goals, formulates and implements plans in order to achieve objectives. Morris (1988), for instance, criticises textbook strategic planning as being mechanistic and super-rational. Secondly, the planning model is hierarchial in the sense that a step-by-step approach to planning is taken. Writers in this school of thought advise strategists to select a mission statement, formulate goals, choose between alternatives, design and then implement the strategy. A top-down approach to planning is taken. Managers at the top of the hierarchy plan strategy and the lower levels are responsible for its execution. The linear model, as described by Chaffee (1985), is implicit in much of the strategy literature; strategy is viewed as deliberate, methodical and sequential with a heavy emphasis on planning. The linear model is also voluntaristic (Hanlon and Scott, 1995) in the sense that it allows for proactive, purposeful choices made by the CEO. Some authors have labelled this approach the 'normative' or 'prescriptive' approach since the overriding concern has been with how organisations should formulate strategy as opposed to how organisations actually make strategy (Hanlon and Scott, 1995).

Thirdly, the planning school of thought sees strategy making as an adaptive, rather than inventive, process. The adaptive model, as described by Chaffee (1985), is where a match between the organisation and its environment is developed. Under the systems view of organisations, as described by Astley and Van de Ven (1983), the manager's basic role is a reactive one; he forecasts environmental trends and adapts strategy accordingly. The adaptive model is therefore deterministic. Recent work by Hamel (1996, p.69) advocates the notion of 'strategy as revolution' where a company revolutionize the way it creates strategy. Hamel (1996) argues that strategic planning is a calender driven ritual in most companies and few of an industry's conventions are ever challenged, rendering strategy making largely extrapolative. Adaptation suggests that the organisation is continually striving to keep up with an environment that has moved ahead of it, whereas the concept of 'invention' suggests that changes in strategy may be encouraged and may occur before changes in the environment are experienced by the firm.

Interest in the planning model of strategy waned in the mid-1970s for several reasons, but mainly because it did not work and it did not reflect reality. Interestingly, those who choose to examine how firms actually make strategy are virtually unanimous in their rejection of the rational, planning model (Bower, 1970; Mintzberg, 1976; Nutt, 1984). Nutt (1984, p. 446) in a study of 78 organisations, concluded that: 'nothing remotely resembling the normative methods described in the literature was carried out'. Such findings led Hanlon and Scott (1995, p. 20) to claim that 'it appears that these models are incapable of explaining strategic behaviour in large firms as well as small.'

When conditions are predictable, a manager can perhaps anticipate changes and move the organisation towards its desired end. But in today's world of uncertain conditions and rapidly changing product markets, the manager is simply unable to dictate the response of the organisation. Peters and Waterman (1982) stressed the need for fluidity or 'adhocracy' as a way of corporate life in rapidly changing times. They advocated the achievement of 'results first' or 'small wins' which rejected the inflexibility of systematic planning. They found that most innovation arose outside of the strategic planning system. The impression given by the planning school of thought is that of well-informed leaders who can choose between clearly articulated alternatives. Huff and Reger (1987, p.215) argued that:

> The planning approach as a whole, however, can still be chastised for advocating an overly heroic approach to strategic management; it has been too optimistic about the possibilities of synoptic, rational analysis.
> It has also been too far removed from the specific problems of the individual organisation trying to find some way of achieving competitive advantage over similar firms.

A major problem with formal planning (Mintzberg, 1994) was that it tended to drive out vision and learning. Mintzberg (1994, p. 113) argued that formal plans were often devised as a facade to impress outsiders and reflected an 'obsession with and illusion of control'. Strategic planning attempted to formalise and institutionalise the entrepreneurial function in the mature organisation, with the result that it tended to displace the entrepreneurial impulses that led to success (Mintzberg and Waters, 1982). Mintzberg and Waters (1982) found that planning often came after strategy formation. When Steinberg's grocery chain developed its first plan, it was really justifying, elaborating and making public a strategy that was already based on its leader's vision. Quinn (1989, p.55) found that many companies appeared to have cohesive strategies but that these strategies 'seemed to come from somewhere other than the formal planning process.'

The process school of thought

The process school of thought is based on entirely different precepts than the planning school of thought. Mintzberg's (1978, p. 935) offers a succinct definition of strategy which clearly places him in the strategy process school of thought:

> Strategy in general and realized strategy in particular, will be defined as a pattern in a stream of decisions.

Mintzberg (1978) suggests that strategy is something that is found after the fact. He sees strategy as a form of retrospective rationalization; it is built up step by step, it is something that is best learned over time. Defining strategy in this way allowed Mintzberg (1978) to consider strategies as intended, a priori guidelines as well as strategies as evolved. In his view, realised strategies are the product of intended and emergent processes; not all intentions are realised, and not all realised strategies are carefully pre-planned or fully under the control of management. This definition of strategy necessitated the study of decision streams in organisations over time long enough to detect the development and breakdown of patterns. Mintzberg (1978) also suggested that strategy can be inferred, despite the lack of any intended strategy. Mintzberg (1979, p.1) argues that there are certain conditions that support the emergent mode of strategy formation:

> When the central purpose of an organisation is to innovate, the result of its effort can never be predetermined....so it cannot specify a strategy in advance, before it makes its decisions. Any process which separates conceptualization from action - planning from execution - impedes the flexibility of the organisation to respond creatively to its uncertain environment.

Mintzberg (1979) argues that the concept of strategy formulation loses its meaning among firms in complex dynamic environment where sophisticated innovations are required for survival. There are different meanings attached to the term 'strategy', so it is important to be clear about what constitutes strategy. Mintzberg's simple definition constitutes a step forward, since most definitions of strategy typically sees it as a plan. Mintzberg's (1978) definition is perceived to be particularly suitable for the study of small firms; for instance, Murray (1984) argues that it is critical in studying small ventures to allow for this richness of definition.

Quinn (1980) and Mintzberg (1987) highlighted the inadequacies of the traditional two-stage model, with its tendency to separate the thinking and action stages of the strategy process. In their view, the execution of strategy was not just subsidiary to strategy but was part of its very essence. The concern for 'soft' issues, the political, cultural, visionary and learning elements of strategy, has challenged the prescriptive and rational focus of earlier work. Very often, objectives are unclear, intended objectives are not followed, and even when strategists seek to consciously meet the stated objectives, they are subject to the same cultural, social and psychological limitations as any individual. Power in strategy making has illuminated much of the non-rational behaviour of managers. The question of how knowledge and skills are gained over time also entails a process perspective to firm growth. Strategy formation is not simply a rational, analytical process but often reflects bounded rationality, politics and power, culture and chance (Mintzberg, 1973; Pettigrew, 1977, 1992; Quinn, 1980). All these factors are idiosyncratic to the firm. However, with the exception of Mintzberg and Waters (1985), all these writers have focused on large, rather than small, organisations.

In the planning school of thought, the internal processes of the organisation have remained largely unexplored. Instead, the economic context of strategic choices was the focal point, giving rise to Porter's (1980) five force model of competitive strategy. Process researchers have shown that decisions are rarely based on full information or made by such rational processes. Competitive advantage was seen as being rooted in the company's ability to learn, to innovate, implant vision, renew, and leverage relationships. There was a growing recognition that internal processes and competencies were directly linked to competitive advantage. With industries growing more volatile, and product life cycles shortening, the search for sustainable competitive advantage has shifted away from industry analysis and market positioning to internal capabilities. In simple terms, firms competing in the same industry often fare differently depending on the unique skills each possess. This shift was reflected in the resource-based view of the firm in the strategy field with its focus on 'firm-specific advantages' (Leavy, 1996).

The term 'process' is an elusive term, one that is not easily explained. It generally refers to how decisions were arrived at, and how strategic change is implemented. Van de Ven (1992) argued that process often focused on actions and how things changed over time. Pettigrew and Whipp (1991, p. 12) argued that:

> ....the hallmark of the process approach is that strategy does not move forward in a direct, linear way and not through easily identifiable sequential phases...The pattern is much more appropriately seen as continuous, iterative and uncertain

Strategy process research has a generalized concern with action, movement, dynamism, growth and development, change, time and outcomes (Pettigrew, 1992).

The great bulk of contributions by process scholars has been in the study of decision making and strategic change (Eisenhardt, 1988; March and Simon, 1958; Mintzberg, 1978; Pettigrew, 1985, 1992; Quinn, 1980). A strategic decision is defined by Eisenhardt (1992, p.17) as one which 'is important in terms of the actions taken, the resources committed, or the precedents set.' Since the strategy of the firm at any point simply reflects countless decisions that have taken place over the years (Mintzberg, 1978) moving from a 'plan' to a 'decision-based' view of strategy makes practical sense. These process researchers adopt an approach which is sensitive to the political and cultural modes of analysis, and is neither overly-voluntarist nor overly determinist in world view. Many of these researchers are concerned with describing what firms do, not with what they should do. The next section describes the main perspectives of the process school of thought: the perspectives of incrementalism, politics, culture and learning.

The perspective of incrementalism

'Incrementalism' is a logical, experimental approach to the development of strategy and has been accounted for as the outcome of not only political processes (Pettigrew, 1977, 1985) but also learning (Mintzberg, 1977). Quinn (1978, 1980, 1981) is sceptical of the planner's ability to devise goals and formal strategies, due to political and cultural barriers to change. His prescriptions tend to dwell on the need to make small, incremental changes and wait for feedback before making further changes. He sees a close link between strategy formulation and implementation. He argues that incrementalism had its own logic that well served the strategy maker.

Firstly, Quinn (1978, p. 17) suggests that it is impossible to achieve the level of integration demanded by most strategic planning systems. Secondly, creating change within organisations depends on the effective use of politics. Executives implement strategy in a piecemeal manner to build a power base for their ideas. Thirdly, management has no control over external events, such as oil crises and frame-breaking innovations, which can precipitate crisis decisions. Recognising this, top executives attempt to keep their options open and have a strong incentive to postpone final commitments as long as possible. This creates the acceptance, understanding and commitment that is needed to implement strategies effectively. Finally, Quinn (1980) argues that it is impossible to adjust a strategy radically in the short run. The typical organisation has resource commitments which allows it to absorb only a few major changes at once. Quinn (1980) argues that attempting to pursue multiple goals will strain the organisation and will meet with resistance.

The political perspective

Several studies raised important challenges to the view that strategy could be planned and implemented in a rational manner. The political perspective raised a debate on the distinction between formulation and implementation of strategies (Steiner and Miner, 1977). Since the publication of Cyert and March's (1963) influential book 'The Behavioural Theory of the Firm' the political nature of the business firm has been a key component in the literature (Allison, 1971; Aharoni, 1966; Bower, 1970; Hardy, 1996; Murray, 1978; Narayanan and Fahy, 1982; Pettigrew, 1977; Pfeffer, 1981; Perrow, 1986; Quinn, 1980). In the late 1970s and early 1980s, various writers explored the political dimension of decision making. Strategy is often a matter of controversy within the firm since many different views may be held. Given that strategy may involve many functions and professions, as well as major uncertainties, it is bound to be a choice area for the advocacy, battles and negotiations, to which writers such as Bower (1970), Pettigrew (1977) and Pfeffer (1981) in the process school of strategy give such great importance.

Studies on organisational politics were important for drawing attention to the way in which strategy was connected to the majority in an organisation not just senior management (Mintzberg, 1983). Bower's (1970) study on capital investment decisions suggested that executives choose among alternatives based on their sponsor's track record. Pettigrew (1977, p. 80) argued that: 'strategy formulation can be understood as a process of political decision-making.' Strategic change is likely to threaten the existing distribution of organisational resources as represented in salaries, promotion opportunities and control of tasks, people, information and new areas of business. Others may see it as an opportunity to increase their power, status and rewards in the organisation. As a result, it can be important to mobilise power and generate demand for change, or else modify the preexisting demand, in the formulation of strategy (Hardy, 1996).

In advancing the logical-incrementalism model of strategic change, Quinn (1978, p. 17) suggests that it is impossible to achieve the level of integration, and consensus for change, demanded by most strategic planning systems:

> It is virtually impossible for a manager to orchestrate all internal decisions, external environmental events, behavioural and power relationships, technical and informational needs, and actions of intelligent opponents as that they come together at a precise moment.

As an alternative, Quinn (1989, p.46) has offered his model as a 'proactive management technique' for integrating both the rational-analytical and power-behavioural aspects of strategy formulation. A highly political process of mutual influence and bargaining was observed by Aharoni (1966) and it led Narayanan and Fahey (1982) to suggest that strategic processes can be studied as a series of 'evolving coalitions.' Allison's (1971) study of the Cuban missile crisis explained government action as a 'political compromise' or the 'outcome' of organisational capabilities. Many studies viewed politics in negative terms; organisations were seen to be rife with conflict which acted as a constraint to action. For instance, Murray (1978, p. 963) described strategic choice as a 'negotiated outcome.' The work of Kanter (1983), however, marked the beginnings of the 'empowerment' notion which had more positive connotations for the political perspective. Kanter (1983) demonstrated that it was possible to create a culture that was hospitable to innovation and enterprise. Making power accessible to organisational members and promoting employee involvement helped make it possible for people to exert more leverage in organisations and initiate innovation.

All these studies have shown the impact of political factors on managerial action in large organisations, and the implicit assumption is that decision making in smaller organisations is less political. Pfeffer (1992, p. 30) remarked that the smaller simple organisation is less political since it is characterised by 'less internal inter-dependence and less internal diversity.' The lack of a hierarchial structure and functional departments along with sole ownership and control, is perceived to reduce political influences on strategy in the small firms. For instance, Buchele (1967) argues that smaller firms are often closely held by the CEO; frequently the CEO is in a position to decide everything himself. Bird (1988, p. 443) remarked that:

> ...the impact of the leader's intentions will be greater at the birth of an organisation, when the influence of external stakeholders, corporate structure, politics, image and culture have not yet been established.

Quinn (1980) suggests that broad participation in strategy making is needed in large organisations in order to motivate managers, achieve consensus for change and build comfort levels for risk taking.

In general, studies highlighting the political nature of the process has helped to highlight some of the limitations of the rational planning model of strategy. The role of political forces in the strategy formation process in the smaller firm seems to be an under-researched area.

The cultural perspective

The limitations of the planning perspective has also been highlighted by those researchers emphasising the cultural nature of strategy. The concept of culture, generally referring to shared values and beliefs that characterise organisations (Schein, 1985), has become a central concern of those interested in strategy processes. According to Schein (1983) the founder's beliefs can be transformed into collective beliefs over time through the medium of values. Values are connected with moral and ethical codes and determine what people think ought to be done. Founders, by virtue of their position and personality, fulfil a unique role in the early history of their organisations.

The 1980s brought a great interest in the notion of culture, particularly since many came to realise that the competitiveness of many high performance companies, like the Body Shop, Herman Miller and Marks and Spencer, seemed to be based on the ability to foster high-commitment, high-involvement corporate cultures (Deal & Kennedy, 1982; Peters and Waterman, 1982). In the 1980s attention gradually shifted away from the use of planning techniques and external analysis of the industry environment, to a concern with the internal sources of competitive advantages. In their book 'In Search of Excellence', Peters and Waterman (1982, p.26) argued that 'excellent companies had gotton the way they are because of a unique set of cultural attributes that distinguished them from the rest.' They gave advice on how to create 'excellent' companies through the use of symbols, role models, communication and rewards. The explicit assumption was that it was possible to manipulate and change the culture of the organisation. A new emphasis was placed on the implementation of strategy and superior implementation was perceived to be rooted in strong corporate culture. Others have found that the values underpinning organisational culture were much less amenable to change than was previously thought (Zucker, 1977) and that it was difficult, if not impossible, to alter the culture of the organisation. More recently, Collins and Porras (1996) examined a wide range of successful and long lasting companies such as General Electric, Procter and Gamble, and Johnson and Johnson, and found that they were generally characterised by enduring philosophies or a cherished core ideology that remained constant.

This new emphasis on the internal sources of competitive advantage led to a focus on leadership, and in particular, the role of the visionary leadership (Bennis & Nanus, 1985). The term 'vision' is an ambiguous one; some viewed vision as having a picture of the future marketplace, others saw it in terms of a technology or product vision (Collins, and Porras, 1996). Major change was often linked to visionary leadership (Bennis and Nanus, 1995) which was inextricably linked with culture. Westley and Mintzberg (1989, p. 19) argued that vision was not just equated with an idea, 'a private mental image', they were more concerned with the vision 'articulated' and 'communicated in words and actions'. Strategic vision was part style, part process, part content and part context. Visionary leadership depended on the use of language and metaphors, it involved the unique qualities of the leaders, sociological dynamics and the luck of good timing. Wesley and Mintzberg (1989, p. 30) argued that good leaders 'are products of their times, of their followers, of their opportunities.' Noel (1989) allowed a large role for the CEO in the organisation. He found that the values, obsessions or compulsions of the CEO to address certain issues over others, such as quality or financial issues, influenced the future direction of the company.

Culture was seen as both an enabling and constraining force in the company's search for competitive advantage. Pettigrew's (1985) study of change in ICI suggested that it was important to be sensitive to both political and cultural issues. It was difficult to marshall the commitment and energy needed to create radical change, particularly since it challenged dominant ideologies and the interests of dominant groups. Pettigrew (1985) suggested that the management of meaning - the manipulation of symbols, language and beliefs - was central in legitimising change. This took the form of appointing managers sympathetic to one's viewpoint, hiring consultants, changing the reward system, altering structure, promoting a new openness, which all helped overcome forces for inertia in ICI. This process of change was a protracted one; it was a complex mixture of changes in the core beliefs of top decision makers, followed by changes in structure, systems and rewards, with business strategy changes emerging and implemented rather more slowly.

A recent study by Green (1995) distinguished between the 'structural static' perspective and the 'interpretative' perspective. The 'structural static' perspective views culture in terms of static behaviours constraining change; a normative orientation is inherent in this perspective since the focus is on how corporate culture can be manipulated to improve company performance - often by a lone individual. The key issue for organisational architects is how to lever culture into excellent shape. The 'interpretive' perspective, on the other hand, redirects attention to the way people collectively make sense of the world in which they live. This view of culture, unlike the constraint view favoured by structuralists, places people at centre stage (Green, 1985). Culture can be shaped through symbolic means rather than by technical levers such as conventional reward systems. The terms used in the literature such as cognitive models or interpretative schemes (Huff and Schwenk, 1990), mental maps (Huff, 1990), theory of business (Drucker, 1994) organisational paradigm (Johnson, 1988), ideologies (Pettigrew, 1985) and dominant logics (Prahalad and Bettis, 1986), may differ somewhat in emphasis, but all converge around the recognition that managers hold a set of shared beliefs and assumptions; these beliefs are deeply held and are not therefore easily manipulated by simply adjusting reward systems or the organisational structure.

Writers who adopt an interpretive perspective of culture propose that there are compelling reasons why organisations remain within the confines of existing strategy even though the time for change has come. Because culture is often linked to the values and personality of the founding entrepreneur, since these values becomes institutionalised over time, it is not a simple matter to alter deeply entrenched beliefs about the source of company success. Plans fail to get put into practice because they conflict with powerful ideologies or mental models. Johnson (1993, p. 63) argues that the consequence of responses by culturally bound managers is 'strategic drift' which in time requires major reform. Hedberg (1981) argues that it may take shared trauma or the experience of crisis to help management alter culture and so unlearn deeply entrenched attitudes.

The concern with culture has further challenged the rational and prescriptive focus of the planning school of thought.

The cognitive perspective

Since the mid-1950s the ideas of Herbert Simon, Noam Chomsky and others have inspired growth of cognitive science where human knowledge holds a particular position. Cognition is seen as information processing and rule-based manipulation of symbols. Knowledge is abstract, task-specific and oriented towards problem solving (Roos and Slocum, 1994).

The cognitive perspective has inspired substantial theory development is strategic management, related to the social cognition of organisations and the cognition of individual managers. Several writers see the environment, not as a neatly packaged, objective reality 'out there', but as enacted and interpreted environment (Huff, 1982; Isabella, 1990; Smircich and Stubbart, 1985, Weick, 1987). Contexts can be changed, or their meaning interpreted and managed, and processes can be fashioned and played out in ways that favour certain outcomes (Leavy, 1992). Decision makers construct simplified mental models in dealing with complex problems (March and Simon, 1958); they may be subject to selective perception (Tversky and Kahneman, 1973) and without such simplifications, managers would become paralysed by the need to analyze extensive data (Weick, 1979, Daft and Weick, 1984). This duality of simplicity versus the complexity in a given environment, raises problems for managers.

Central to the cognitive perspective is the appreciation that managers often interpret the environment and make decisions in the light of cultural norms. Writers such as Prahalad and Bettis (1986), Drucker (1994), Isabella (1990) and Johnson (1992) show how culture is a barrier to learning and change. Plans fail to get put into practice because they conflict with overriding ideologies (Schein, 1983), cognitive maps (Prahalad and Bettis, 1986) or mindsets.

Prahalad and Bettis (1986) propose that organisational members have a shared perception of the world, an organisational-wide, ingrained knowledge: the 'dominant logic'. This affects the 'way in which managers conceptualize the business and make critical resource allocation decisions' (Prahalad and Bettis, 1986, p. 490). Such conceptualisations and resource allocation decisions may endure in organisations and develop into 'cognitive rigidities' due to conventional wisdom and past experiences. Similarly, Johnson (1993, p. 63) argues that the consequence of responses by culturally bound managers is 'strategic drift' which in time requires major reform. Reger and Huff (1993) projected the concept of 'dominant logics' further by proposing that strategists who work in the same industry environment are likely to develop shared perceptions of the competitive environment over time. Company executives interact with each other, share the same sources of information, hire from the same labour pool and frequently hire the same consultants (Huff, 1982). There is a dearth of organisational theory concerning young entrepreneurial firms. However, one study by Bouen and Steyaert (1990) found that the concept of 'dominant logic' emerged as important in their in-depth case study of a young high-tech firm. They viewed the emergence of the new organisation as a process of social construction.

Many writers suggest that organisations are more likely to persist with past strategies rather than change in response to environmental stimuli. Organisations tend to experience strong pressures towards 'strategic persistence' due to potent psychological, political and structural forces over a period of time (Lant, Milliken and Batra, 1992) . Huff, Huff and Thomas (1992, p. 56) describe inertia as follows:

> The level of commitment to current strategy, reflecting individual support for a given way of operating, institutional mechanisms used to implement strategy, monetary investments and social expectations

Hedberg (1981) argues that it may take shared trauma or the experience of crisis to help management alter culture and so unlearn deeply entrenched attitudes. The most common perspective on crisis has been to see it breaking old strategic recipes, challenging belief systems and over-turning existing power structures (Miller and Friesen, 1980; Tushman et al. 1986). Managers involved in a change need to undergo an alteration of their cognitive structures (Benne, 1976) that facilitates and supports the need to change, the process of changing and the maintenance of what has been changed. The frame of reference - the perspective through which people view an event - shifts (Starbuck, 1976). Theorists propose that testing assumptions is crucial if the organisation is to survive. According to Isabella (1990, p. 8):

> ...as change unfolds, different assumptions and orientations are required, at different times in the process.

To some extent, hiring consultants can influence strategic change by bringing different perspectives to the organisation. Hiring people who remain outside the culture of the firm is another way of encouraging a critical examination of the organisation's key assumptions (Smircich and Stubbart, 1985). Prahalad and Bettis (1995) propose that organisations need to 'unlearn' the dominant logic of the past.

In using concepts from cognitive psychology, researchers in strategic management have given insight into what goes on in the mind of decision makers in organisations. In raising fundamental questions about the 'real' and 'the perceived', this work lends further support to the view that strategy is not the product of a rational, planned process. For these researchers, the image of the CEO sitting in a office, objectively assessing the environment, devising alternatives, choosing the most optimum course of action and then implementing it, just does not fit with the complex reality of decision making and change.

The 'strategy as learning' perspective

Since the mid 1980s, some management academics have moved beyond the issue of culture to investigate the way that organisations acquire knowledge and learn (Whipp, 1993). Organisational learning tends to be viewed in cultural-interpretative terms. The 'strategy as learning' notion has grown to become one of the most powerful themes in the current strategy literature (Mintzberg, 1990). Interest in organisational learning has been driven by the contention that it may provide firms with sustainable competitive advantage (Arie de Geus, 1988, Senge, 1990). De Geus (1988, p. 74) argues that 'learning is not a luxury. It's how companies discover their future.' Organisational learning (Wick and Leon, 1995) underpins all current theories on how to improve business success whether through re-engineering, total quality management, fast cycle time, commitment to new product development or high growth. Without learning, any attempts at improvement fail.

Distinctions are made in the field of organisational learning between single loop and double loop learning (Argyris and Schoen, 1978), adaptive and generative learning (Senge, 1990), higher and lower level learning (Fiol and Lyles, 1985) and first-order and second-order learning (Levinthal and March, 1993); these distinctions all converge around the notion that the learning processes that foster efficiency in social systems are not the same as those that foster change. For instance, single loop learning involves detecting and correcting errors so that the organisation can carry on with its present objectives. Double-loop learning involves making changes to the organisation's underlying norms, policies and objectives. Double-loop learning tends to be associated with strategic renewal and paradigm shifts. In the words of Arie de Geus (1988, p. 71), the real purpose of strategic planning is 'not to make plans' but to challenge the 'mental models' that decision makers carry in their heads. This view is echoed in Nonaka's belief (1991, p. 97) that creating new knowledge means to 're-create the company and everyone in it in a nonstop process of personal and organisational self-renewal.' However, experience-to-date suggests that most social systems find it difficult to achieve the appropriate balance between exploitation of existing knowledge and exploration for new knowledge that are essential for their long run stability and survival (March, 1991). Arie de Geus (1988, p. 74) pointed out that organisational learning is a slow process:

> In fact, the normal decision process in corporations is a learning process, because people change their own mental models and build up a joint model as they talk. The problem is that the speed of that process is slow - too slow for a world in which the ability to learn faster than competitors may be the only sustainable competitive advantage.

Interest in organisational learning has stimulated a search for how to improve and accelerate the learning process within organisations. De Geus at Shell found that the key to survival was the ability to experiment. The initial tool used to foster learning was 'scenario analysis' whereby managers were encouraged to think through how they would manage in the future under different possible scenarios, which helped challenge their basic assumptions about the industry. Nonaka's (191) distinction between tacit and explicit knowledge suggested different ways of creating knowledge. Tacit knowledge is gained through observation, imitation, practice and includes shared mental models and beliefs. Moving from the tacit to the explicit is a process of articulating one's vision of the world. Nonaka (1991) suggested that crisis challenged employees to re-examine that they take for granted. Hendry et al. (1995) found that crisis was a significant force in triggering change and new learning in the SME. Crisis first introduces 'unlearning' by loosening attachment to the past (Hendry et al., 1995). Nystrom and Starbuck (1984, p. 54) claim that:

> Encased learning produces blindness and rigidity that may breed full-blown crises. Our studies of organizations facing crises show that past learning inhibits new learning. Before organizations will try new ideas, they must unlearn old ones by discovering their inadequacies and then discarding them. Organizations in serious crises often remove their top managers as a way to erase the dominating ideas, to disconfirm past programs, to become receptive to new ideas and to symbolize change.

However, it was suggested that learning and renewal could be gained in a much less painful and reactive way (de Geus, 1988; Nonaka, 1991). Using one's imagination through the use of figurative language, metaphor and analogy were all seen as inventive ways of fostering new learning (Nonaka, 1991).

Taking an organisational learning perspective means seeing a firm's strategy as something emergent rather than preordained (Mintzberg, 1978). Mintzberg (1994) cogently outlined the difference between the strategy-as-learning and the strategy-as-planning perspectives. Mintzberg (1994, p. 107) argued that strategic planning was conservative in nature, it was really 'strategic programming', the articulation and elaboration of strategies, or visions, that already exist. It often promotes strategies that are extrapolated from the past or copied from others. Mintzberg argues that the planning school of thought is based on certain assumptions that are open to question: planners assume that it is possible to forecast the future and separate formulation from implementation. Instead, turbulent conditions create havoc with carefully designed plans and strategy formulation precludes learning-by-doing. According to Mintzberg (1994), learning plays a crucial role in novel strategies. The strategy-as-learning perspective involves strategic thinking - which is unpredictable and beyond formal planning:

> Strategic thinking, in contrast, is about synthesis. It involves intuition and creativity. The outcome of strategic thinking is an integrated perspective of the enterprise, a not-too-precisely articulated vision of direction (Mintzberg, 1994, p. 108),

The strategy-as-learning perspective involves capturing soft data such as gossip, heresay as well as judgement and intuition, not just hard data from market research and accounting statements; it is flexible enough to deal with uncertainty and remains open to change. It involves seeing strategy as a process of logical incrementalism (Quinn, 1978; Mintzberg, 1977). The organisational learning model incorporates the idea of 'bounded rationality' (Simon, 1955; 1956). A few studies in relation to the SME have found that learning is a significant part of company development (Gibb and Scott, 1985; Hendry et al., 1995).

It is obvious that all organisations learn. The challenge for theorists is not so much to create learning organisations but to help them learn faster and more effectively (Schein, 1989). Practising managers have a difficult time trying to apply organisational learning concepts to everyday operations (Garvin, 1993) probably because it is an elusive and abstract concept. Another challenge for this research stream is to develop valid measures of learning outcomes.

The applicability of strategic management to the small firm: the concept of strategy formation:

The entrepreneurship literature seems to lag behind the strategic management literature in that it tends to focus almost exclusively on the rational, planning model (Hanlon and Scott, 1995). Here, researchers argue the case for, and against, planning in the small firm. An issue to be addressed is whether the concept of strategic management is compatible with the concept of entrepreneurship. An extreme view to be found in the literature is that concepts of management and entrepreneurship are polar opposites (Zaleznik, 1977). Managers were perceived to be concerned with routine behaviour, standard operating procedures and the supervision of functions, whereas entrepreneurship was concerned with the creation of new situations which could not be dealt with by means of experience or routine. Entrepreneurs are also seen to have a symbolic function to fulfil; they represent freedom, creativity, dream-building - the personification of the American dream (Czarniawska-Joerges and Wolff, 1991).

Nodoushani (1991) argues that the current enthusiasm for entrepreneurship is based on an ideological foundation that is useless for managers and management scholars. He claims that entrepreneurship is an extension of avant-gardism to the business world. The ideology of avant-gardism was first used in relation to art in the 1820s and is based on two fundamental principles:

(1) the possibility that its representatives conceive themselves as being in advance of their time and,
(2) the idea that there is a bitter struggle to be fought against an enemy symbolizing the forces of stagnation, the tyranny of the past and old forms and ways of thinking.

According to Nodoushani (1991, p.23):

> ...what makes the ideological crusade of entrepreneurialism so unique is a sense of anti-management bias which stems out of the spirit of avant-gardism. In essence, entrepreneurialism is an extension of avant-gardism to the corporate and business world

The author portrays avant-gardism as a sense of contempt for the communal or corporate life; it incorporates an anti-management temperament; it is based on an outdated view of innovation - the lonely but creative hero. The belief in the lack of integration of the individual within the organisation is part of this ideology of avant-gardism. Nodoushani (1991) seems to reject entrepreneurship, advocating instead the concepts of team venturing and intrapreneurship. The individualism of entrepreneurship, he argues, contrasts with the realities of everyday life and group structures.

The value and applicability of strategic planning for the small firm seems in doubt for some researchers (eg. Bhide, 1994, Patterson, 1986). Bhide (1994) has noted that small and entrepreneurial firms focus on doing rather than on formal strategic planning, with action based largely on intuition. Entrepreneurs are extremely sensitive to the perishable nature of the opportunities they identify in a rapidly changing environment. To take the time to plan under conditions of high uncertainty may result in the loss of that opportunity (Bhide, 1994). Patterson (1986) suggests that resource constraints, in terms of management time as well as financial resources, in small and entrepreneurial firms is an obstacle to strategic planning in the uncertain conditions. However, such confusion over the value of small firm planning may stem from notions of strategic planning and entrepreneurship which are outdated.

Entrepreneurship seems to have both positive and negative connotations. The term 'entrepreneur' encourages the use of over-simple stereotypes, such as the bold, risk-taking hero (Mintzberg and Waters, 1982) of organisational life. Yet, the much more negative image of the entrepreneur as a deviant or an unstable personality also exists (De Vries, 1990). The notion of entrepreneurship is sometimes used to support outmoded conceptions of the entrepreneur as an intuitive, disorganised, impractical, creative loner who has to learn the common sense skills of management and the ability to delegate. This view is implicit in the literature on stage of growth models (eg. Charan, Hofer and Mahon, 1980). The notion of strategic management was traditionally used to denote formality, rationally planned strategies and goal seeking behaviour. Strategic management has been moving realistically and healthily away from 'the myth of the rational, neutral, hierarchical goal seeking system' and towards a recognition that all organisations are permeated with conflicts, ambiguities and diverse purposes (Watson, 1986, p. 6). The view put forward here is that the nature and quality of leadership (strategic or entrepreneurial) is crucial, regardless of the size or type of organisation. The challenge for the entrepreneur is to retain and build on his or her unique strengths.

In taking exception to the traditional view of strategy, Mintzberg (1990) has been one of the most articulate and influential. Mintzberg (1978) makes the insightful distinction between strategy formulation and strategy formation. This distinction may be an important one in relation to SME since it is widely accepted that small firms have even less control over their environments than larger, more well established firms. The term 'strategy formation' illustrates that strategies can form either explicitly or implicitly, that what is intended is not necessarily what is realized. Mintzberg's (1978) contention that the formation of strategy is multi-faceted led him to distinguish between intended, emergent and realized strategies. The implications for this research is that strategy may be formed in a deliberate manner, it may emerge over time or may contain both deliberate and emergent elements.

Research domain of strategic management in the 1990s: content, context and process

The 1990s constitutes a further period of progress. The backlash against the planning school of thought has abated somewhat. Instead of dismissing the preoccupations of scholars in the planning school of thought, some researchers seek to combine the best of the old with the new. Pettigrew (1985; 1989; 1992) proposes that the domain of strategic management consists of three major components and their interactions:

(1) The context or environment (general, industry or organisational specific) in which decisions are made.
(2) The strategic content of the decision itself (the substance of the strategy).
(3) The who and how of the decision-making process. Here, the focus is usually on the CEO or the top management team and how decisions are formulated and implemented.
(4) The outcomes/performance of those decisions.

In the past, studies have dealt mainly with strategy content research (Pettigrew, 1992). This is not surprising given that studies of strategy content tend to be linked with the planning school of thought. Some researchers have argued that process and content are inter-linked (Huff and

Reger, 1987; Mintzberg, 1978, 1987, 1977; Pettigrew, 1992; Quinn, 1980). Pettigrew (1992) regards the 'what', 'how', and 'why', the 'content', 'process' and 'context' as inseparable. This view may be relevant in the case of the smaller firm, where content and process are likely to be intertwined.

The term 'content' refers to the 'what' of strategic decisions; it is concerned with the type of strategic decision or the actions taken by an organisation. Content models focuses on the linkages between conditions (in the environment and the organisation), strategies (e.g., generic/novel) and results (Fahey and Christensen, 1986). Focusing on content, however, sometimes ignores the role of the human agent in forming and implementing the plan. Process focuses on the processes by which actions are decided and implemented. The 'how' of change can be understood from an analysis of process (Pettigrew, 1992). An analysis of the major forces that give rise to strategies can be encapsulated under the label 'context'. There are two aspects of context: the inner and outer context of the firm (Pettigrew, 1992).

Summary

This chapter has presented a brief review of the various models of the strategy formation process. Strategic management has progressed beyond the rational, planning model of strategy. Although process research has constituted the minor tradition in strategic management, well developed precedents have been established. Recent concepts from the strategy process field include culture, learning, politics and incrementalism which may, or may not, drive the strategy formation process in SMEs. Although much has been written on the nature of strategy process research, little of has focused on the small and medium sized enterprise. There is still imperfect understanding of the strategy process in SMEs.

There has been a paradigm shift in the strategic management field and the old 'myth of rationality' has been considerably undermined. In its first incarnation, the study of strategy was inherently rational and underpinned by notions of voluntarism. The main task of the strategist was to assess the environment, predict the future of the organisation and align the strategy of the organisation with its internal strengths and weaknesses and external threats. High expectations were held of the application of sophisticated planning tools and techniques.

The 1970s saw a reaction against the mechanistic and rational nature of strategic planning, with writers such as Mintzberg (1987), Quinn (1989) and Pettigrew (1977) drawing attention to the ways in which strategy was not rational. Early studies of organisational politics were important for drawing attention to the way in which change initiatives were connected to the majority in an organisation, not just senior management (Mintzberg, 1983). Mintzberg (1978, 1994) argued that strategy did not evolve neatly from careful analysis and implementation. The contribution of the process school of thought has been manifold and allowed for an appreciation of the 'softer' elements of strategy such as culture, learning and politics. Mintzberg's (1987) distinction between strategy formation and strategy formulation may be an important one, particularly in relation to the SME, to innovative organisations and to entrepreneurial new ventures. Pettigrew's (1977) work had important contextual nuances which suggested that factors outside of the leader's control impinged on the strategy formation process. It was suggested that the entrepreneurship literature lagged behind the strategic management literature in terms of explaining how strategy developed in the smaller firm. The compatibility of strategic management concepts with the concept of entrepreneurship was also explored.

All these perspectives provides a rich tapestry upon which to address the research problem of this study. A real opportunity exists to explain how strategy forms in SMEs by being 'theoretically sensitive' or open to recent concepts in the strategic management field. Having reviewed a range of important perspectives on the strategy formation process in large firms, the next chapter explores the literature pertaining to the SME sector.

CHAPTER TWO: THE LITERATURE ON STRATEGY FORMATION PROCESSES IN THE SME

Introduction

While much has been written on the nature of strategy process research, little of it has focused on the small and medium sized enterprise. This chapter undertakes a more focused literature review in order to identify the principal factors likely to influence the strategy formation process in SMEs. The literature review is undertaken for two main reasons:

(1) First, by taking an inter-disciplinary approach, a more complete framework for thinking about the process of strategy formation in small firms is offered. The overall purpose of the first two chapters is to propose a conceptual framework for the study of the strategy formation process in SMEs.

(2) A second role of the literature review is to identify the main research questions and an appropriate research design, from a critical evaluation of the current state of the field.

The literature is organised under the following headings (1) leadership (2) context (3) history and (4) process.

(1) Leadership

The role of the founder

The literature suggests that the way in which companies pursue different types of strategies may be due to variations in leadership. The theme of leadership is a central ingredient in explanations of the strategy formation process. Here, many scholars have raised questions such as: 'What makes a good leader?', 'How much control does he or she have in determining outcomes? and 'What is the role of the entrepreneur in influencing outcomes?'. The individual is seen as a key actor in the whole entrepreneurial process, with motivation, competency and networking perceived as vital (Cromie, 1994). A strong vein of voluntarism runs through most accounts of both leadership (Bennis and Nanus, 1985; Kanter, 1983; Kotter, 1990; Peters and Waterman, 1982) and entrepreneurship with great emphasis placed on the heroic leader, the omnipotent and omniscient CEO (for a critique of this literature see Pettigrew and Whipp, 1991; Hendry et al., 1995; Leavy and Wilson, 1994).

Mintzberg and Waters (1982, p. 495) concentrated on the role of the founder in forming strategy, in particular, the personality and vision of the entrepreneur. The entrepreneur was seen as 'the bold decision maker, fully in control, who walks confidently into an uncertain future.' The founder of Steinberg's grocery chain was clearly seen as a strategic leader, who had to define, maintain and protect product-market domains and adapt to changing environments. The success of the grocery chain was attributed to the unique abilities of its entrepreneur. Mintzberg (1990) therefore views strategy formation as a visionary process for entrepreneurial firms. Kimberly (1980) argues that creation is a time when individual personalities have an unusually strong influence on organisational outcomes. Hambrick and Mason (1984), among others, argue that an organisation and its strategies are a reflection of its top managers. Control is often closely held by the owner in smaller firms, so frequently the CEO is in a position to decide everything for himself (Buchele, 1967).

Various studies (De Vries, 1990; Gibb and Scott, 1995; Murray, 1984; Schein, 1983; Hanlon and Scott, 1995) show that the entrepreneur plays a key role in influencing the culture, strategy and performance of the new organisation. Gibb and Scott (1995) argue that the process of new product/market development depends, to a great extent, on the personal judgement of the entrepreneur. Culture provides some novel and useful concepts which can be used to explain strategy formation in entrepreneurial small firms. In explaining how the entrepreneur interprets a situation, it assists in explaining how different patterns in strategy formation may arise in small firms. Hanlon and Scott (1995, p. 33) propose that the entrepreneur alone provides the initial vision; culture has a profound impact on 'not only how we see the world, but also what we see.' Schein (1985) sees the building of an organisation's culture as the 'unique and essential function' of leadership. Senge (1990, p. 10) claims that:

> Few acts of leadership have a more enduring impact on an organisation than building a foundation of purpose and core values.

Murray (1984) argues that the ideals that drive successful firms generally originate in the aims of the founding entrepreneur and are propagated through time. He suggests that there is a connection between the entrepreneur and the corporate personality, such as defender, analyzer, prospector, reactor (Murray, 1984). This 'imprinting' of a corporate personality takes place during the early stages of development and is unlikely to be easily discarded even after the entrepreneur has bowed out of a maturing company. For instance, for the 'prospector', maintaining a reputation as an innovator in product and market development is important whereas analyzers watch the actions taken by the leaders in their field before taking action. The importance of leadership in the strategy formation process in the SME context seems to be universally recognised. This is a contrast to the strategic management literature where the importance of leadership is less universally recognised (Edelman, 1988; Joerges and Wolff, 1991; Lieberson and O Connor, 1972).

The Entrepreneurial trait theory

The literature on entrepreneurial traits is both well established and voluminous and indicates the importance of leadership in the strategy formation process. Trait theorists use two very simple conceptual frameworks as the bases for constructing their theories (Gartner, 1989):

(1) ideas about the differences between entrepreneurs and non-entrepreneurs, or
(2) ideas about the differences among types of entrepreneurs.

This stream of research is similar to the 'great man' theory (Kahn et al., 1964) of leadership which places undue emphasis on the psychology of the individual. The theory suggests that entrepreneurs and leaders are distinct from everyone else and by the sheer force of their personalities can influence the strategy of an organisation and shape the future direction of the organisation. There have been many attempts to isolate the characteristics of entrepreneurial people, based on the conviction that these 'rare and inspired' individuals are born and not made (Leavy, 1996, p. 10). Some of the qualities regularly attributed to the entrepreneurial personality have been high achievement motivation, need for autonomy, power and independence (McClelland, 1962, 1975, 1987).

Entrepreneurial risk-taking

Many writers have asserted, and continue to assert, that risk bearing is a prime characteristic of the entrepreneur (Liles, 1981; McClelland, 1961; Mill, 1848). The term 'risk' can be defined as 'the perception that any given course of action might possibly produce a negative result' (Brockhaus, 1980, p. 370). Starting a business is a risk situation since success cannot be predicted with certainty and it carries favourable or unfavourable consequences. Cantillon (1755) first outlined the importance of the entrepreneur as a bearer of uncertainty. Frank Knight (1921) formulated his theory of entrepreneurship upon the foundation of risk and uncertainty. The entrepreneur bears the responsibility and consequences of making decisions under uncertainty. Knight (1921, p. 310) claimed that:

> The venture itself may be of the nature of a gamble, involving a large proportion of unpredictable factors.

Knight emphasised the key distinction between insurable risks and non-insurable uncertainty. He saw risk as a subset of uncertainty. Risk implies knowledge of the objective probability that an event will occur whereas under conditions of uncertainty no such calculation can be made; uncertainty is unmeasurable and therefore, not insurable. The entrepreneur was an individual who could assess, evaluate and accept risk. He was a man of confidence with the disposition to act courageously upon his ideas, whereas his more timid counterparts were otherwise incapacitated. The elasticity of the supply of self-confident people is, in Knight's view, the most single determinant of the level of profit and the number of entrepreneurs.

Researchers are, however divided as to the risk-taking propensity of entrepreneurs. Drucker (1985) is prominent among those who dispute the risk-taking propensity of entrepreneurs. He argues that entrepreneurs (1985, p. 23) 'take risks, of course, but so does anyone engaged in any kind of economic activity.' Instead, entrepreneurs are described as individuals who define the risks to be taken and they then seek to minimise them as much as possible. Drucker (1985, p. 23) is also to the fore in questioning the existence of a distinct entrepreneurial personality: 'Entrepreneurship, then is behaviour rather than personality trait.'
There is some debate as to whether entrepreneurs are low, moderate or high risk-takers. Palmer (1971) argues that the entrepreneur will correctly interpret the risk situation and determine policies which will minimise the

risk involved. As entrepreneurs scan the environment for opportunities, they will simultaneously seek to exploit opportunity and avoid risk. Brockhaus (1980) suggested that the entrepreneur has such a high belief in his ability to achieve business goals, that the perceived possibility of failure is relatively low. In other words, the entrepreneur's perception of risk is low. More recently, studies by Brockhaus (1987) and Sexton and Bowman (1983) did not provide conclusive evidence of a causal relationship between entrepreneurs and risk-taking propensity. Brockhaus (1987) found no statistical difference between a group of entrepreneurs and a group of managers on a number of personality traits. Ray (1993, p. 347) considers that the search for a prototypical entrepreneur has been ill-conceived and considers that:

> There is no empirical evidence or conceptual base to say much, if anything about entrepreneurs and risk-taking.

Ray (1993) considers that risk in entrepreneurship may be better understood as a strategy and contextual variable rather than a personality variable. For instance, a high technology firm may be faced with more risk than service sector firms (Deakins, 1996). Equally, if the firm grows it is possible to reduce financial risk through the issue of shares. The conflicting findings suggest that a fresh look at the issue may be warranted. Deakins (1996, p. 11) noted that:

> ...issues such as the extent to which the small business owner assesses, accepts and transfers risk have not yet been explored in research

He suggest that it is more helpful to see the entrepreneur as a 'risk manager' in the process of entrepreneurship, instead of focusing too closely on the role of the entrepreneur as some form of calculated risk-taker. The implications for this research is that it may be useful to explore how risk is managed in the strategy formation process.

Typology research

Typologies of entrepreneurs have been developed to make sense of the heterogenous population of entrepreneurs. Some of these studies are summarised in Table 2.1.

Table 2.1: Studies on Small Business and Entrepreneurial Typologies

Author (s)	**Description of Entrepreneurs**
Birch (1987)	Income substitutors and Builders.
Chell and Hawworth (1992)	The entrepreneur The quasi-entrepreneur The administrator The caretaker
Smith (1967)	Craftsman and Opportunistic
Hornaday (1990)	Craft, Promoter and Professional Manager.
O' Farrell (1986)	The Graduate Founder. The Satisficer Opportunist. The Ambitious Opportunist. The Craftsman Entrepreneur.

Studies by Smith (1967) and Birch (1987) propose similar types of entrepreneurial figures. Birch (1987) describes 'income substitutors' as individuals whose main concern is to make a reasonable living. Typically, their enterprises reach a limited size of a few employees. 'Builders', on the other hand, are driven from the outset by an ambition to create a business that will be a significant force in the business world. Smith (1967) proposes two main types of entrepreneurs, the craftsman and the opportunistic model. The craftsman entrepreneur is motivated by a desire to do the type of work that he wants to do, whereas the opportunist wishes to build an organisation. These types reflect the difference between the small business and the entrepreneurial firm. Smith (1967) also found some limited evidence to support the existence of another type of entrepreneur - the inventor. The major concern of the inventor entrepreneur is to build an organisation, not as an end in itself, but rather as a vehicle to allow the invention and production of various products. The systematic differences in entrepreneurs may have a bearing on the strategy formation process; for instance the inventor may be interested in a company strategy of new product development or diversification.

A more recent study by Chell and Haworth (1992) identified four types: entrepreneur, quasi-entrepreneur, administrator and caretaker. The prototypical entrepreneur is alert to business opportunities, this type is proactive, restless, ideas-oriented, highly innovative and a high profile image maker. The quasi-entrepreneur is not as opportunistic and shows more restraint. At the other end of the spectrum is the caretaker, who is reactive rather proactive, this type may take opportunities but not regardless of current resources. Caretakers have a strong disinclination to grow the business and are content to pursue their trade or occupation. The administrators do not feel comfortable with the entrepreneurial mode of management. They are prepared to relinquish control of the administration by partnering or hiring someone to fill the skill gap. This type is concerned with building existing business, rather than pursuing new opportunities. Chell and Haworth (1992) allowed for the possibility of movement between categories. For instance, it was possible for the 'quasi-entrepreneur' to become an 'entrepreneur' through the normal process of experimental learning. These writers argued that the business owner must be aware of his or her personal development over time and the need to acquire skills and key competencies if the business is to grow.

Hornaday (1990) proposes three types: the craft, the promoter and the professional manager. The values which motivate each type of business owner are loyalty to the firm or career, independence and personal control, innovation and organisational growth. O' Farrell (1986) developed a typology of Irish founders based upon quantitative data such as turnover, product mix, use of agencies and export orientation, attitudes to growth, trade unions, government, state agencies, the wider community and so on. For instance, the graduate founders are distinguished by their knowledge and use of state incentives and advice.

The results of studies on both traits and types of entrepreneurs are inconclusive: there seems to be as much variation among entrepreneurs as there is between entrepreneurs and non entrepreneurs. According to Alder (1995, p. 207) 'there is nothing different about a leader excepts he thinks like a leader.' The ever widening list of attributes and types suggests that the only indisputable characteristic common to entrepreneurs is that they are homo sapiens. However, recent work by Chell and Haworth (1992) suggests that a new focus on process rather than just personality may be warranted and may generate fresh insight.

The utility of the trait perspective

Most new venture research looks at people, concentrating on the personality, education and experiences of the founder (Hisrich, 1986; Sexton, 1982). Other work suggests that the personality trait theory adopts an overly heroic approach to entrepreneurship and that too much faith is placed in the entrepreneur's degree of control over strategy making processes. Aldrich (1990) claims that the traits or supply perspective has reached 'a dead end'. These theorists are sceptical of associating the success or survival of the firm with the attributes of individuals, and instead look at the role of the environment in determining outcomes. Sarason (1972) suggests that while the role of early leaders may be critical during organisational birth, as the organisation matures, it develops norms, acquires a history and identity, and the importance of the person at the top diminishes in explaining organisational outcomes. The role of the entrepreneur in influencing organisational outcomes seems to be a controversial one in the literature.

The theory of entrepreneurship does not seem to have developed in parallel with the literature on leadership, in the sense that the entrepreneur is still defined mainly by traits, and the performance of the firm is perceived to be intimately linked with the entrepreneur. Psychology's focus on the individual does not preclude its recognition of the fact that the environment is a joint determiner of behaviour as well. Psychologists are not 'hard' determinists, they are 'soft' determinists (Low and Macmillan, 1988). Social psychologists recognise the influence of environmental factors in shaping personality and that traits have a limited influence on specific people in specific situations (Gartner, 1989). However, the personality based studies are still divorced from the wider business context.

The implications for this research is that a move away from the simple trait approach towards a more dynamic approach to the study of strategy formation processes may be warranted. Perhaps adopting a more contextual and processual approach to this type of research may be fruitful, particularly since trait research has resulted in equivocal findings (Chell, 1985, p. 51) with no clear evidence of any single trait which could distinguish successful entrepreneurs from unsuccessful ones.

The dark side of the entrepreneur

Entrepreneurial trait theorists tend to ascribe positive and virtuous qualities such as daring, need for independence, need for achievement and so on to the entrepreneurial personality. The entrepreneur is rarely depicted in negative terms. However, some studies have revealed the dark side of entrepreneurship and have outlined the obsessive, narcissistic and insecure nature of the entrepreneur. Some studies suggest that the influence of the entrepreneur on the strategy formation process is not always benign. These more clinically oriented studies (de Vries, 1985;1990; Collins, Moore and Unwalla, 1964) are concerned with looking at the exercise of entrepreneurship in the arena; these studies are concerned more with process rather than just personality, with explaining entrepreneurial behaviour rather than simply documenting the phenomenon.

In these studies, the entrepreneur's background is given closer scrutiny. For instance, Collins, Moore and Unwalla (1964) found that entrepreneurs had difficulty in dealing with authority figures and accordingly did not function well in the context of bureaucratic organisations. This dislike of authority figures stems from early childhood experiences. The entrepreneurial life was stimulated by, and became a remedy for, the psychological traumas or material deficiencies of childhood.

Moreover, these studies describe the 'dark side' of the entrepreneur (Kets de Vries, 1985, 1990). Many entrepreneurs counteract feelings of low self-esteem, inferiority and helplessness through excessive control and activity. These individuals like to be in control and appear antagonistic to authority. This personality can manifest itself in an over-centralisation of power and irrational, dysfunctional behaviour. Other researchers (Hendry et al. 1995; Mount, Zinger and Forsyth, 1993) propose that the entrepreneur's need for control over the venture can affect the strategy formation process: the entrepreneur's desire for independence or unwillingness to share authority may be a stumbling block to further evolution. There is a growing awareness in the literature that leaders who are a driving force in the business world are sometimes driven by insecurity. De Vries (1990) suggests that these types of entrepreneurs are rarely strategists acting according to rational principles. They do not carefully analyze the business environment, preferring to rely instead on instinct. Although they may have a master plan, its rationale is driven by the individual's 'inner theatre' (Kets de Vries, 1990, p. 876). Hence, impulsive leaders are capable of entering new markets while abandoning others at a whim, putting a sizeable portion of the firm's capital at risk. All these studies seek to link personality with behaviour and organisational outcomes which represents a progression towards a more dynamic approach to the study of entrepreneurship.

A political perspective

Various studies suggest that the role played by the entrepreneur in the strategy formation process is not always in the best interests of the firm. The personality trait theory has given rise to the stereotypical view of the entrepreneur as a power-seeking individual. One of the distinguishing traits of the entrepreneur was his desire for power (Collins and Moore, 1964; Kets de Vries, 1985) which tended to be dysfunctional and led to certain patterns arising in the strategy formation process.

A challenge facing firms is that they must resolve issues of autonomy and control. Various problems are associated with sole ownership. In one study, the founder's personality was seen to take on great importance (Kets de Vries and Miller, 1984) and an autocratic, essentially top down planning approach was taken. Because of his dominant and isolated position within the organisation, the entrepreneur rarely received, or valued, feedback from his employees. Kimberly and Miles (1980) argue that inflexible, defensive CEOs can be a major cause of strategic stagnation. Founders may be committed to methods of the past, and fail to recognise the need for strategic renewal (Miller and Toulouse, 1986).

Hendry et al., (1995) claim that the dominant personality of the founder can be an obstacle to a small firm's development, leading to crisis of control and customer dependence. The company is particularly prone to failure through the perpetuation of outdated founding assumptions about what is the source of organisational success. Whereas large firms can remove executives this is less practical in the owner-managed firm. As a result, a new perspective is not as readily forthcoming as it needs to be and renewal can be delayed (Hendry et al., 1995). Most commentators suggest that the entrepreneur inhibits the development of a management cadre (e.g., Stanworth and Curran, 1973). Entrepreneurs may see the firm as an extension of themselves and resist handing over responsibility to others. They neglect issues of succession and do not develop a second tier of managers.

It is argued that for firms to adapt and innovate they must delegate authority for decision making and hire professional managers (Miller, 1983). Lindell (1991) suggests that there is an urgent need for top managers to change their style in small entrepreneurial firms during a business life cycle. Delegation avoids overtaxing the CEO and puts more initiative in the hands of the lower level managers who are close to the markets, enabling them to exploit opportunities for growth (Miller and Toulouse, 1986). However, if it is the case that entrepreneurs crave power, then a modification in behaviour or personality is difficult. A quantitative study of 79 entrepreneurs on succession planning and power (Peay, Dyer et al., 1989) found that entrepreneurs who need personal power are likely to have trouble turning over their positions of power to someone else. Personal power is expressed through a desire for authority and control over others.

A dynamic process perspective

A question that the literature review raises is whether entrepreneurship is a property or a process? The literature tends to define entrepreneurship in static 'trait' terms of reference but it may also be seen as a dynamic process. The 'trait' theory focuses exclusively on the inherited traits of the individual and suggests that the individual is born with his personality and there is little that can be done to change it. To quote Fiedler (1965, p. 115):

> It was surely easier to change almost anything in the job situation that a man's personality and his leadership style.

While the entrepreneur must be prepared to acquire skills, many skills are learnable, whereas behaviours which underpin the entrepreneurial profile are much less learnable (Chell and Haworth, 1992). However, other researchers adopt less static terms of reference. This may have implications for the strategy formation process, for instance a founder with problems ceding power may eschew growth rather than share power. If, on the other hand, the founder is capable of changing his innate preferences and style, then patterns may be different.

Lamont's (1972) seminal piece compares technical entrepreneurs with first versus second generation ventures and his conclusions support the notion that entrepreneurs not only learn from experience but profit from it:

> Learning is the property of almost all business activity. Applied to technical entrepreneurship, it means that experienced entrepreneurs exhibit substantial learning when they form a second technology based venture. Usually their experience is reflected in a business having a product orientation, substantial internal financing and a balance of essential business skills.

Gibb and Scott (1985, p. 621) conclude that the process of development in the small and medium sized firm is 'characterized by a great deal of learning by the owner manager and is considerably influenced by his personal appraisal, knowledge and attitudes.'

Some researchers advocate that a more dynamic perspective of entrepreneurship should be taken and they emphasise the leader's capacity for learning and change. According to Deakins (1996, p. 20), characteristics are not stable and change over time. There is a danger that the personality trait theory can ignore other issues such as the environment, culture, gender, social class, education, age, all of which have a bearing on the entrepreneur's behaviour. Trait theory has diverted attention away from the ability of entrepreneurs to learn and gain from their business experiences. In the words of Deakins (1996, p. 22):

> There is now a need for re-focusing research away from the emphasis on picking successful entrepreneurs or picking winners, to identifying the key issues in the learning and developmental process of entrepreneurship.

A social development approach encourages one to believe that behaviours can be acquired over time which in turn modify the personality (Rotter and Hochreich, 1975). In this way, researchers (Chell and Haworth, 1992) tentatively suggest that one need not take the personality profile as given. They suggest that the key to personal development is self-awareness and an honest self-appraisal. Constructivism is a social psychological theory of personality in which traits are construed as categorising concepts which classify observed behaviours (Hampson, 1988). It enables connections to be made between meaningful acts and the personality traits of the incumbent. Since accounts of behaviour are given in context, detailed explanations of the incumbent's behaviour are possible.

The study by Hendry et al., (1995) is one of the few SME field that adopts a social development perspective on leadership. They found some indications that the fortunes of SMEs may be more closely tied to personal life cycles than the strategy literature in general acknowledges.

There is much evidence to suggest that periods of personal development and change coincide with start-up and periods of significant transitions in new firms (Gersick, 1991). O' Farrell (1986) proposes that the freedom of the entrepreneur to start a company becomes hindered by the financial, and other obligations, of the typical Irish male/female life cycle. Between the ages of twenty-five and forty-five, most individuals get married, purchase a house and start a family. Hence, they acquire the cost burden of a house, the upbringing of children, education and insurance (O' Farrell, 1986). When the entrepreneur starts a family, the security of his children is related to the security of his career, and therefore, career security becomes more important to the entrepreneur (Liles, 1981, p. 42). As a result, the effective capacity for starting a company increases between twenty-five and thirty (Liles, 1981) and decreases as the person grows older. The notion of studying leadership capacity across the duration of tenure is a relatively recent concept in the literature (Hambrick and Fukutomi, 1991). Thus, key words in discussing entrepreneurship seem to be flexibility, learning, change and personal development.

The influence of the entrepreneur on the organisation, on its strategy and outcomes, has been the subject of much debate in the literature. On the one hand, attempts to explain organisational outcomes are very person-centred in orientation; the suggestion is that patterns in the way strategies are formed over time depend on the traits or typology of entrepreneur. On the other hand, other researchers tend to understate the importance of the individual on organisation outcomes. The personality trait theory is highly voluntaristic which contrasts with the more deterministic assumption underlying other studies, where strategy is shaped by a wide range of variables, not just personality variables. Leadership is seen as a symbolic process that must be understood and evaluated in context. These studies are outlined in the following section.

(2) Context

A question raised by the literature review is whether the strategy formation process is determined by personality variables and the leader's personal development over time, or whether outcomes are determined by circumstance, by context and by prior history. Pfeffer and Salancik (1978) are prominent among those who argue that context has a deep impact on organisational action and outcomes. Pettigrew (1985) is another important contributor to the contextualist perspective. There is a growing awareness in the literature that leadership is a symbolic force (Czarniawska-Joerges and Wolff, 1991) expressing the hope of control over destiny. Czarniawska-Joerges and Wolff (1991) suggest that organisation theory should shift its attention to the study of contexts in which a given role acquires dominance. This belief in the leader as a causal factor in bringing about change, according to Edelman (1988, p. 65) is erroneous:

> ...the assumption that leaders have caused the events for which they take responsibility is reductionist because it ignores the consequences of historical developments, material conditions, and interpretations of those conditions. Except as minor elements of a complex transaction, leaders cannot provide security or bring about change.

The voluntarism-determinism debate

The question of the relative influence of leadership and context on strategy formation is rooted in the underlying debate between voluntarism and determinism to be found in organisational studies. In order to assess the potency of leadership in the strategy formation process, the concepts of voluntarism and determinism are highly pertinent. A definition of the voluntarism is provided by Burrell and Morgan (1978, p. 6) as meaning: 'that man is completely autonomous and free-willed.' The determinist view, in contrast, 'regards man and his activities as being completely determined by the situation or "environment" in which he is located.'

Both the strategy and entrepreneurship literature is characterised by a voluntarism-determinism dialectic view of organisational adaptation (Aldrich, 1979). The voluntaristic perspective, which is implicit in much of the entrepreneurship literature, assumes that strategy is the result of choices and decisions taken by leaders. The deterministic perspective argues that leader's choices are constrained by the external environment and consequently, that the formation of strategy is the result of environmental forces. This dichotomy has been, and remains, a persistent controversy in the literature.

The concept of a system influencing the form of the environment it occupies has been noted by many system theorists (Ackoff, 1974). The basis of this argument is that organisations do not have to adapt to an external environment but can take actions to shape their environment. Child (1972), an early proponent of the voluntaristic perspective, argues that decisions as to the location of the organisation, the customers it serves, the products or services it offers, the types of employees it recruits, all determine the boundaries of the firm's environment. These decisions determine the effectiveness of the organisation. Bennis and Nanus (1985) postulate that major changes in an organisation's direction can be attributed to visionary, transformational leadership.

In contrast to the voluntaristic theses underlying many studies on leadership, other researchers embrace a more deterministic view of leadership. Ecologists (Hannan and Freeman, 1977; Aldrich, 1979) maintain that leaders are relatively helpless in the face of environmental forces. The relationship between the organisation and its environment is akin to Darwin's notion of natural selection, in which populations of organisations are subject to a process called 'survival of the fittest'.

Economic approaches tend to focus on the external (market) determinants of change. Most argue that organisations have to respond to changes in demand and supply if they are to survive. Bain's (1956) discussion of barriers to entry such as economies of scale, switching costs, differentiation, government involvement, and so on, suggests that entrepreneurial activity is limited in certain industries. In highlighting how industry forces shape strategy and performance, Porter (1980; 1985) lends support to the determinist perspective. Porter (1980), for example, suggests that optimal strategies exist for an organisation depending on the industry life cycle stage.

Business planners in the 1980s advocated the use of planning tools such as SWOT analysis, the Boston portfolio matrix (Abell and Hammond, 1979) and Porter's (1980) five force model of competition, in analysing the environment. Many of the tools tended to give primacy to the environment in shaping strategy. Achieving a 'fit' with the industry and the organisation was the primary concern of content theorists. The internal processes of the organisation remained largely unexplored and most models of strategy were devised on the basis of a stable, predictable environment that dictated change.

Other researchers also see the external environment as the prime mover of change. Institutionalists (Meyer and Rowan, 1977) suggest that organisations are influenced by normative pressures which are placed on them. These pressures emanate from the state and other regulatory bodies. They predict that once change is legitimated by powerful organisations within sectors, the dependent organisations will respond by incorporating the required changes. The organisation's need to reduce resource dependency (Pfeffer and Salancik, 1978) has been proposed as an explanation for conformity. DiMaggio and Powell (1983, p. 149) use the term 'isomorphism' to refer to the constraining forces that force an organisation to resemble others in the same sector. Authors such as Huff (1982) and Spender (1989) argue that sectors are informed by 'dominant logics' or 'recipes' that limit decision-making at firm level. All these studies suggest that contextual features play a large part in determining change, or alternatively the formation of strategy.

A slight trend towards determinism can be found in the entrepreneurship field. The view of the firm as a product of its environment suggests a firm that is vulnerable to market forces, such as the unexpected loss of a key customer (Hendry et al., 1995). Small firms are generally seen as having limited impact on the marketplace (Carson, 1985) and to be literally at the mercy of market forces. A literature has evolved in entrepreneurship that emphasises the role of strategy and industry variables in company success (Covin, 1991; McDougall and Robinson, 1990; Sandberg and Hofer, 1987; Murray and O Gorman, 1994).

The seminal study by Sandberg and Hofer (1987) emphasised the role of the environment, together with strategy, on the performance of the firm. A surprising finding was that a weak link existed between the entrepreneurial personality and company success. They advised small firms to enter industries in the development or growth stages of evolution, or ones with heterogenous products, supply shortages or evident disequilibrium. They advised firms to use strategies or enter industries that would create barriers to subsequent entry. Sandberg and Hofer (1987, p. 12) postulate that the trait theory is 'incomplete, probably inaccurate in its priorities and possibly even wrong.' Other authors have argued that the selection of the correct environment is a determinant of growth. Many authors view the choice of a niche strategy (Broom and Longenecker, 1979; Buchele, 1967) as an integral part of the small firm's success, since the firm avoids direct competition with large firms.

A study by Murray and O'Gorman (1994) found that high growth companies were positioned in market segments which had high growth rates. They concluded that growth in the SME was driven both by management and the market. This study highlighted that the choice of market, 'where to compete' and the nature of the strategy, 'how to compete' (product differentiation, unique personnel policies, innovation, flexibility, high product quality, new plant and equipment) distinguished high growth from low growth firms. Market selection was a critical decision particularly since this choice was not subject to frequent change.

Some researchers, such as Pettigrew (1985), place themselves somewhere in-between these polar perspectives of voluntarism and determinism. For instance, Miles and Snow (1978) tend to underplay the role of leadership in the process of change. Researchers tend to avoid the issue by claiming that the firm can be conceived as influencing, and influenced by, the environment. It is hoped that this key debate on the primacy of leadership may be illuminated by the author's study of Irish SMEs. This debate provides a rationale for the conceptual framework proposed at the end of this chapter, since it was deliberately chosen to avoid the extremes of voluntarism and determinism. The interaction of entrepreneurs and their contexts was seen as a problem to be studied, using a processual perspective.

(3) History

Some studies highlight the constraints that an organisation faces which arise from its history; this challenges the voluntaristic approach to entrepreneurship. This perspective is not frequently mentioned in the mainstream literature but since it challenges a basic paradigm in entrepreneurship, it should not be ignored.

Constraints to change

Several writers emphasise the role of history in circumscribing an organisation's scope for future change. Lawrence (1984) argues that an organisation's history is crucial to its future development and organisations can only be understood in the light of their early phases. Selznick (1957) proposes that early political and social processes largely determine organisational strategy and patterns of subsequent activities.

Stinchcombe (1965) emphasises the importance of founding conditions. The 'imprinting hypothesis' postulates that the character and structure of an organisation that are formed during its creation persist, despite changes in the environment. Kimberly's (1975) work on rehabilitation organisations, and the creation of a medical school (1979), demonstrates that foundation plays an important role in shaping the future direction of organisations. Kimberly (1979) argues that the personality of the founder, the environment at founding and nature of initial decisions, have long lasting effects on organisational structure and behaviour. Creation is a time when individual personalities have an unusually strong influence on organisational outcomes. In a study on the establishment of a medical school, Kimberly (1979, p. 438) observes that:

> just as for a child, the conditions under which an organisation is born and the course of its development in infancy have important consequences for its later life.

Boeker's (1988; 1989) studies on the evolution of strategy from founding suggest factors that may perpetuate given strategies. He argues that the conditions under which an organisation emerges can explain persistence in strategy. Results indicate that conditions at founding, including the extent to which initial strategy (i.e. first mover, fast follower, low cost producer, or niche) is dominant, the distribution of functional influence and whether it is aligned with the dominant strategy, a firm that is owned by its founding managers, helps form the initial strategy by building internal consensus around a given approach. Boeker (1988) observes that most organisations do not significantly alter the strategies they establish during start-up. Young organisations are set on a course that may be difficult or costly to change (Boeker, 1989). Investments are made in people, technology and assets that they are unable to change because they are too myopic or resource poor. Managers must recognise that they operate within constraints, many of which come from the initial establishment of structures, routines and repertoires that become institutionalized over time. A recent study (Tucker, Singh and Meinhard, 1990) investigated the effects of founding conditions on organisational change. The conclusion was that organisations are imprinted by founding conditions but also have a propensity to change. Tucker, Singh and Meinhard, (1990, p.197) conclude that:

> ...explanations of organisational change requires contending simultaneously with the effects of events that occurred earlier in the organisation's life, as well as with changes in current environmental threats and opportunities.

This echoes Pettigrew's (1992, p.10) view that:

> The past is alive in the present and may shape the emerging future....but there is no assumption of predetermined timetables, of ordered and inevitable sequences and stages.

Several researchers (Boeker, 1989; Kimberly, 1979; Stinchcombe, 1965) consider change to be a rare event and emphasise the fact that past history can shape and fashion the future direction of the company. The imprinting perspective tends to be ignored by the strategy and entrepreneurship literature for various reasons. Ecologists pre-suppose that a dominant strategy is present from the outset, when, very often, start-up companies lack well defined strategies. Imprinting theory is narrow in its focus and tends to highlight only a small part of a complex phenomenon. The emergence of a new paradigm, organisational learning (Senge, 1990a), suggests greater scope for change and development. Recent perspectives on organisational learning distinguish between single-loop learning and double-loop learning (Argyris, 1977). Single-loop learning is the most basic form of learning (such as learning by trial and error) and results in minor changes that are within the traditional scope of the organisation's activities. Double-loop learning occurs when the organisation is willing to question its long held assumptions about customers, capabilities or strategy. It requires a fundamental change in the company's strategy and its way of looking at the world.

One perspective emphasises the endurance of founding strategies and the opposing perspective emphasises organisational learning and change, illustrating yet another dichotomy in the literature. A study on the formation of strategy in the small firm may help resolve some of these conflicting accounts in the literature.

(4) The process and its patterns

The central research agenda is to explain how strategy forms in the SME and to examine patterns of continuity and change in that process over time. Various models, such as life cycle or stage of growth models, chart the growth of the firm over time and discuss changes in growth patterns, life cycles, managerial style, ownership structures and degree of planning.

A dominant theme is the literature on the small firm is that of a 'stage' of 'life cycle' model of growth which describes the growth of the firm from a small unit to a large corporation. This theory suggests that distinct patterns are evident in the course of an organisation's development. This theory suggests that there is a movement from an entrepreneurial to a professionally managed organisation which has become a source of controversy among theorists. It suggests that the role of the founder is circumscribed as the company matures, acquires a history and changes its ownership structure.

Proponents of life cycle theory (Kimberly & Miles, 1980; Greiner, 1972) argue that there is a fixed series of stages in firm evolution. For instance, the initial stage stresses the individual entrepreneur with a business idea. The second stage is usually concerned with the division of managerial tasks, since the entrepreneur can no longer exercise total control. In the remaining stages, the firm takes on the general character of a larger company with a board of directors, working relations with trade unions, and exploitation of sophisticated marketing, management and production techniques.

Life cycle theory encouraged the view that firms should move from an entrepreneurial mode to a professional management mode in the growth stage (Greiner, 1972; Charan, Hofer and Mahon, 1980). The professionally managed organisation is defined by Charan, Hofer and Mahon (1980, p.3) as one that:

(a) permits delegation of authority
(b) utilises formal information analyses and an intra-firm consultative process to make decisions, and
(c) is free from dependence on certain key individuals
(d) displays a certain interchangeability among its components.

The Charan et al. (1980) study is normative and prescriptive and suggest that the principles of formality, neutrality, rationality and so on constitute ideals to which the entrepreneur aspires. The study gives guidelines on how to manage transitions: the entrepreneurial organisation has to be dismantled and its characteristics of strong centralised leadership, informal controls, lack of planning and interpersonal loyalties are to be replaced by the principles of 'professional' scientific management.

The validity of life cycle theory has been frequently debated in the literature and its weaknesses have been highlighted. Watson (1995, p. 36) questions the forcing of firms into 'the straightjacket of an evolutionary model which poses some kind of natural trajectory for firm to follow'. Watson (1995) questions whether principles such as formality and rationality really exist in the large organisation. He argues that stage models gives support to outmoded conceptions of organisations as entities that moves from an early fluid and disorganised state into a rationally planned, tightly integrated and formalised system (Watson, 1995). Watson (1995) states that stage of growth models encourages the use of over simple stereotypes of firms at different stages of growth. He is forceful in his criticism of the stages approach saying that the distinction between entrepreneurship and management is misleading and dangerous. He points out that the language used has pejorative overtones, it encourages a naive way of looking at business change and draws attention away from the importance of management in firms of any size. He argues that there are grounds for abandoning the notion of a transition from an entrepreneurial to a professionally managed firm. Drucker (1954; 1974) also stated that the separation of the managerial from the entrepreneurial function should be avoided.

The implicit assumption underlying these phase models is that an organisation will grow large and formal. This assumption is belied by the finding that many small Irish firms remain small and do not make the transition to medium or large firms (The Task Force on Small Business, 1994). The inexorable growth-or-fail assumption underlying life cycle models is also questioned (Stanworth and Curran, 1976). In addition, Greiner's (1972) model, like most stage of growth models, tends to emphasise internal re-organisation and ignore contextual issues. The stage-of-growth perspective is a highly positivist one and the small firm is seen to behave in highly predictable way. Stanworth and Curran (1976) remark that the object of theory construction is the generation of law-like propositions concerning the growth process.

Various writers have suggested that as organisations become larger, the process of strategy formation becomes more formalised (Ansoff, 1965; Charan, Hofer and Mahon, 1980; Mintzberg and Waters, 1982). Again, the implicit assumption underlying these phase models is that an organisation will grow large and formal.

Ansoff (1965) claims that as organisations grow, they require broader managerial participation in strategy making, more explicit strategies and plans that guide, co-ordinate and motivate managers. Strategy making then becomes a more co-operative, formal and analytical process. Child (1984) claims that a large and complex organisation will need to apply bureaucratic principles to a greater extent than small and simple ones. Other studies also suggest that the increased size is associated with greater planning. Firm size is generally associated with greater available resources and increased internal differentiation which leads to increased planning (Fredrickson and Mitchell, 1984; Mintzberg, 1973).

One of the few studies conducted on the strategy formation process in the entrepreneurial organisation to date reveals two distinct patterns: the entrepreneurial mode and the planning mode (Mintzberg and Waters, 1982). The former is characterised by informality, creativity, strong visionary leadership; entrepreneurs are guided by intuition and possess an intimate knowledge of the business. The planning mode emerges as an inevitable result of larger organisation and a more formalized structure. It is a more formal, more stable and more systematic method of managing a business, but pays a large price in terms of less innovation and less vision. As the organisation ages, it becomes more formalised to the point where it becomes stifling and may replace the initiative of the founder.

Many criticisms of stage models of growth have been offered and there is no consensus as to what these phases are (Watson, 1995). The literature suggests patterns in the firm's development, but it is unclear as to the nature of these patterns and studies reveal little about the processes of transition across phases or stages. Perhaps a fresh look at the issue is needed in order to identify and explain patterns in the development of the SME.

Major research questions that have emerged from the literature review

The literature just reviewed suggests that leadership, context and history are the three key elements that impinge on the strategy formation process in SMEs (see the summary classification of the literature in Table 2.2).

Table 2.2: Classification of studies on strategy formation processes

Feature	Area of study	Conceptual approach
Leader	The role of the founder in shaping strategy.	The 'heroic' leader (as indicated by Peters and Waterman, 1980; Bennis and Nanus, 1985; Kanter, 1983; Kotter, 1990; Pettigrew and Whipp, 1991; Hendry et al., 1995). Archetypes (Sexton, 1989; Smith, 1967). The personality trait theory (McClelland, 1961). The social development perspective (Rotter and Hochreich, 1975)
Context	External context:	Voluntarism and determinism. Market selection (Murray and O' Gorman, 1994). Barriers to new competition (Bain, 1956). Model of extended competition (Porter, 1985). Industry 'recipes' or 'dominant logics' Huff (1982) and Spender (1989). Isomorphism (DiMaggio and Powell, 1983). Institutionalism (Meyer and Rowan, 1977) Resource dependency theory (Pfeffer and Salancik, 1978).
	Internal context:	Politics (Pettigrew, 1977; Pfeffer, 1981). Culture (Johnson, 1992; Green, 1995). Organisational Learning (Argyris, 1977; Senge, 1990; Mintzberg, 1994). Cognition (Huff, 1982; Isabella, 1990; Weick, 1987).
History	The role of historical factors in shaping strategy.	Constraints to leadership effectiveness. (Leavy and Wilson, 1994) Imprinting theory (Boeker, 1989).
Patterns of the process	The role of temporal factors in the formation of strategy.	Deliberate and emergent modes. (Mintzberg, 1982). Life cycle theory (Kimberly and Miles, 1980). Stage of growth models (Charan, Hofer and Mahon, 1980). Evolution and revolution (Greiner, 1972). Entrepreneurial and planning mode (Mintzberg and Waters, 1982). Logical incrementalism (Quinn, 1980).

The literature review has shown that the entrepreneur is generally depicted in 'heroic' terms; qualities such as daring, need for achievement, independence, with all their emotional overtones of being good and desirable, are generally attributed to the entrepreneurial personality. Attempts to explain organisational outcomes tend to be very person-centred in orientation: the entrepreneur is seen to have a profound, and often enduring, impact on the strategy, structure and culture of the new firm. Likewise, the literature on leadership in the strategic management field has defining leadership in terms of traits, but has progressed beyond a concern with attributes to a concern with leadership vision, leadership styles, leadership behaviour and the role of context in facilitating or constraining leadership capacity. Some researchers suggest that greater attention should be focused on entrepreneurial behaviour, on the exercise of entrepreneurship in the arena, rather than on traits. Recent studies suggest a more dynamic role for entrepreneurs through an incorporation of political and learning perspectives. For instance, entrepreneurs are expected to learn and gain from their business experiences, adopt new goals, change their management styles and share power rather than have it centralised in the hands of the owner/manager.

Despite the predominance of studies on the role of the entrepreneur in the strategy formation process, other studies suggest that strategy is shaped by a wide range of variables, not just personality variables. Researchers such as Pettigrew (1977) and Pfeffer and Salancik (1978) highlighted the impact of context on organisational life. Their work was underpinned by the debate on voluntarism-determinism to be found in the literature. There is a small, but growing literature in entrepreneurship that is sensitive to context and based on slightly more deterministic assumptions. For instance, a study by Hofer and Sandberg (1987) proposed that outcomes do not depend on the personal attributes of the founders but on strategy and industry variables. In addition, the literature review on life cycles/stage of growth models suggested that the strategy formation process can be described in terms of patterns, but the literature is unclear as to the nature of these patterns and does not fully explain why a transition is made from one life cycle phase to the next.

Certain questions arise from the literature review which centre on the role of the entrepreneur in the strategy formation process and the role of context in facilitating or inhibiting entrepreneurial behaviour. In addition, the literature review suggested that an examination of patterns in the strategy formation process over time may be warranted. The main research questions are presented as follows:

(1) What role does the entrepreneur play in shaping the strategy of the enterprise and how does this role change over time?
(2) How important are the personal attributes of the entrepreneur in influencing the formation of strategy?
(3) Are there moderating influences, such as contextual and historical forces, on entrepreneurs and their role in the strategy formation process?
(4) Can patterns or phases in the process be discerned?
(5) Which of the 'strategy as planning' and 'strategy as learning' perspectives comes closest to describing and explaining the character of the process?

A conceptual framework for the study of the strategy formation process:

The literature review suggested that the strategy formation process was influenced by the interaction of three main variables: leadership, context and history (see Table 2.2). The first chapter showed that the dominant perspective in the entrepreneurship field has been the rational, planning model which is based on a number of assumptions. Inherent in this perspective is the assumption that the entrepreneur is in control of strategy formation; it also assumes that planning is necessary and desirable, that it is possible to predict the future, to objectively analyse the environment and formulate a strategy in advance of implementation. However, there are many other explanations of how strategy forms in SMEs and therefore it is important to adopt an open-minded outlook in relation to this research topic. The process school of thought contends that strategy is rarely formulated in a synoptic manner and then implemented. Instead, strategy may be the result of a deliberate or emergent process or contain elements of both. A focus on strategy formation widens the conceptual lens beyond planning to consider both the deliberate and emergent elements of the process.

In addition to identifying the three main variables of interest as leaders, context and history, then the literature review also highlighted the need to view the process of strategy making through a perspective that is much wider that just rational planning. The conceptual framework developed for this study reflects these requirements and is presented in Figure 2.2. It takes as its main point of departure Mintzberg's (1987) distinction between strategy formulation and strategy formation. It recognises that strategies are formed through the interaction over time of three main variables - entrepreneurship, context and history. The main focus of the empirical enquiry will be to attempt to explain the realised strategies of the companies under study without any preconceptions as to how those strategies were formed (i.e. by planning or learning, deliberate or emergent processes or otherwise). The concern is not so much with the micro-dynamics of particular discrete decisions or episodes as with the overall development of the organisations - as reflected in the patterns of continuity and change in realised strategies over time.

Figure 2.1: A conceptual framework for the study of the strategy formation processes

This conceptual framework is similar to that used successfully by Leavy and Wilson (1994) in their comparative study of strategy formation processes in a number of large Irish organisations. It is used here for the first time in the study of SMEs. The framework is underpinned by the contextualist perspective on social action of Pettigrew (1985; 1989) which seeks to link context, process and outcome in the study of strategy formation and change. Pettigrew's (1985; 1989) perspective is characterised by a number of broad principles which are as follows:

(1) it involves multiple levels of analysis in connecting context, process and outcome, using economic, political and cultural modes of analysis.
(2) it involves an underlying theory of social action that is neither over-voluntarist nor over-determinist in world view.
(3) it involves longitudinal case-based research strategies that allow patterns of continuity and change to be observed over time (Leavy, 1992).

This is the kind of underlying perspective which has guided this study and will be discussed more fully in the next chapter.

Summary

This chapter has presented a review of the literature pertaining to strategy formation processes in the SME. A conceptual framework, based on the literature review, has been developed based on three main elements: leadership, context and history. The literature review has suggested that the way in which strategies are formed over time in SMEs may well vary according to the interactions between leadership, context and history.

Since the psychological studies of the 1950s, the theme of leadership has been a key issue in the study of strategy. Early studies have focused on the personality traits and typologies of entrepreneurs. Although many researchers still hold romantic views on the desirability of strong leaders, this view can be criticised for being incomplete, overly static and overly voluntaristic. It tends to neglect the potential for learning and change on the part of the individual, as well as the role of context in determining outcomes.

Very few attempts have been made to synthesis the 'great man' and 'environmentalist' views of leadership, although studies have found that strategy, industry variables and market selection all play important roles in determining organisational outcomes. The role of leadership in the strategy formation process has been a contested one in the literature.

The literature revealed the importance of 'historical' influences on strategy formation processes. The term 'history' refers to constraints faced by organisations as they seek to develop a strategy. Organisation theorists have highlighted constraints to change arising from history and have challenged the view of the eternally flexible organisation. The major contribution of organisational theorists has been that an early consensus develops around a particular strategy which is retained, the 'imprinting' hypothesis. A major criticism of this theory is that it does not incorporate recent perspectives on organisational learning. The theme of phases or patterns being embedded in the organisation has emerged as a dominant theme in the context of the small firm. This theory has also been a subject of controversy in the literature. Life cycle theory has been underpinned by the assumption that an organisation will grow large and formal at some stage and that the role of the entrepreneur is circumscribed by the inexorable march of time.

Chapter one and two of this thesis have reviewed a range of theories and perspectives relevant to the study of the strategy formation process in SMEs. Table 2.2 provides a helpful summary for the reader. The literature review has not only formed the basis from which the main research questions and the conceptual framework have been developed, but the range of perspectives reviewed has also contributed to 'theoretically sensitising' the researcher for the inductive work to follow, without undue 'premature categorisation' (Miles and Huberman, 1994) of data. The next chapter describes the research methodology adopted for the purposes of examining how strategy forms in SMEs.

CHAPTER THREE: RESEARCH METHODOLOGY, DESIGN AND METHODS

Introduction

The main question that the research seeks to answer is how do strategies form in small and medium sized enterprises and what are the key factors at work. The study is concerned with identifying patterns in the strategy formation process and establishing whether these vary according to leadership, contextual and historical variables. As C. Wright Mills (1959, p.159) puts it:

> Social science deals with problems of biography, of history and their intersections within social structures.

C. Wright Mills observation applies to the discipline of strategic management, it is highly useful, and should have significant explanatory value when applied to the strategy formation process in SMEs. It was found that existing theory on strategy formation processes in SMEs was inadequate and inconclusive. The majority of studies on SMEs adopted the rational planning model. The literature was found to be divided on many issues, for instance, it gave mixed messages on the role of the founder. The few studies on strategy process in the SME category tended to focus on new start-ups rather than firms with a much longer, richer history.

This research attempts to describe the process of strategy formation based on a detailed observation of nine companies over time. The data obtained was retrospective in nature, based on respondents' attitudes, their perceptions of the key decisions taken and their interpretations of how the company developed over time. Mintzberg's (1982, p. 466) argues that the study of strategy making is '...the analysis of the relationship between intended and realised strategies'. Following this line of argument, the researcher here searched for realised strategy and drew upon the work of Mintzberg's (1982, p. 446) to ascertain: 'whether the strategies are deliberate (intentions are realised), when unrealised, and when emergent (patterns are realised without intention)'. The inductive case study method is seen as the most appropriate research method to achieve the objectives of this study. The inductive approach allows the researcher to be 'theoretically sensitive' (Miles and Huberman, 1984) to many different concepts while remaining open to the possibility of new information or surprising findings. Looking at the strategy formation process from only one perspective would have narrowed the scope of the research and the true value of the findings would have been lost. Induction involves the movement from the particular to the general (Pettigrew, 1985; 1989) and the central thrust of this approach is to 'let the data speak for themselves' as far as possible. Research that is exploratory in nature, concerned with theory-building rather than theory-testing, description rather than prescription, demands that the researcher comes as close as possible to the realities of the situation.

It is believed that the inductive case-based approach offers greater scope over other methods (such as questionnaire) to explore the strategy formation process. Concepts such as traits are measurable up to a point, even if some of the measurement techniques can be perverse (for a critique of the techniques used to measure entrepreneurship see Hornaday, 1987 and Wortman, 1986); other concepts such as strategy formation, learning and change, are more complex, more diffuse and more subjective. The possibility of these concepts being measured through the instrument of a questionnaire is problematic.

This study was guided by process researchers such as Bower (1970), Burgelman (1985), Pettigrew (1973, 1987) and Mintzberg and Waters (1982) who all used the inductive case-based approach. The study involved a two stage design in which nine cases were used to identify the main categories of interest and four of the nine cases were taken for more intensive examination of the strategy formation process. These four cases generated a richer insight into significant issues (such as change in the founder's perception of risk over time, the ramifications of crisis, phases in the process of strategy formation) that emerged from the data. Companies were chosen from a variety of industries in order to introduce variety and explore the influence of context on the process of strategy formation.

This chapter explains the processes of data collection, preparation and analysis that were used in this study. The conventions of qualitative research require the explicit reporting of data and procedures (Miles and Huberman, 1994, p. 439). The chapter is divided into three sections: the first provides an examination of the meta level, the philosophical assumptions guiding the research on strategy formation processes in SMEs. The second section gives a statement of some of the central research questions in the empirical work. The choice of method is discussed and this section points to the strengths and limitations of the chosen method. The last section describes the challenges presented, skills required and problems that had to be overcome in order to carry out the research. Particular attention is paid to practical considerations such as selecting and gaining access to firms, and also to issues of confidentiality and credibility. The chapter is organised under the following headings (1) methodology (2) the research method and (3) the research experience.

(1) Methodology

The sociological positivism (objective) and German idealism (subjective) approaches represent two major intellectual traditions in social science (Burrell and Morgan, 1979). Both are reviewed below.

The objective approach

The first intellectual tradition is described as 'sociological positivism'. Positivism reflects a belief that the social sciences can be investigated in the same way as the natural sciences. The social world is seen as being hard, real and external to individuals. This is backed up by a 'positivist' approach to epistemology (the search for universal laws which explain and govern the reality which is being observed), a 'realist' approach to ontology (the belief that social entities have a concrete reality), 'deterministic' views of human nature (the belief that man is a product of the environment) and the use of 'nomothetic' methodologies (eg., quantitative methods). However, most researchers (eg. Pettigrew, 1987) tend to place themselves somewhere in-between the polar perspectives of voluntarism and determinism, and see man as a social actor who is both enabled and constrained by the environment. The positivist approach often ignores the inevitable act of interpretation by the scientist. There is a strong tradition in scientific writing that insists on the third person and the passive voice which depersonalises the arguments (Smircich and Stubbart, 1985).

The subjective/interpretative approach

The 'German idealism' school of thought is based upon highly subjectivist assumptions. The emphasis is on understanding the unique and what is particular to the individual rather than what is general and universal. It rejects the view that the social world is a reality which is independent of the minds of people. Instead it is constructed by individuals who, through use of a common language and the interactions of every day life, may create a social world of shared meaning. It is 'voluntarist' with regard to human nature (the belief that man is the creator of his own environment). It is 'anti-positivist' in epistemology (does not search for universal laws). It is 'nominalist' in its approach to social reality, (the belief that social entities do not have absolute meaning or reality) and it favours ideographic methods (eg., qualitative methods) as a foundation for social analysis.

Interpretative research should explore what strategists were thinking, why they acted as they did, what they wanted to accomplish. This approach emphasises the relativistic nature of the social world (eg., social entities can only be understood from the point of view of individual not the observer). The interpretative approach has implications for the way research accounts are written. The interpretative approach highlights personal involvement and puts the author back in the text as one who authorizes the account. It embraces the multiple and varied perspectives with the organisation rather than trying to merge them into a single, objective explanation (Smircich and Stubbart, 1985). Furthermore, since interpretations tend to be formulated after, not during events, interpretative research is often built upon events which have already transpired. This means that a critical viewpoint has had time to emerge (Isabella, 1990). Another feature of interpretative research is that research questions tend to emerge from the data instead of being predetermined from the outset (Glaser and Strauss, 1967).

This study, with its use of the inductive case study method, is located more towards the subjective rather than the objective end of Burrell and Morgan's (1979, p. 22) methodological continuum. It also seeks to avoid the extremes of voluntarism and determinism by taking the middle ground. Table 3.1 outlines the key differences between the interpretative/subjective approach and the objective approach.

Table 3.1: Interpretative versus objective approach

Interpretative	Objective
Words	Numbers
Theory building	Theory testing
Within context	Independent of context
Open windows	Closed window
Is not constructivist*	Aggregate patterns
Judged by significance coherence, insight, results.	Judged by levels of generalisation.

* ie. not seeking to merge all viewpoints into one, instead it embraces multiple realities and subjective viewpoints.

Source: Carson, D.J. (1995), 'A structured approach to generating insight from cases.' U.C.D: Seminar series.

Methodological stance taken in studies in the strategy field

Within social science generally there has long been criticism of positivist research orientations, which has been acknowledged within the management literature (Bonoma, 1985; McClintock et al., 1979). Mansfield (1989, p. 6) proposes that like management practice 'research in management is also more of an art than a science...'. The knowledge of the researcher is so limited that logic and evidence will only achieve a certain amount without the addition of judgement, intuition or even guess work.

Some researchers (Johnson, 1992; Pettigrew, 1973) in the strategy field focus on the cognitive, cultural and political impediments to change. They have sought to demonstrate that the socially constructed world can become all too real and can constrain the actions and orientations of human beings. Many of the key components in the strategy formation process are socially constructed. In any organisation, the manager collects and evaluates only a portion of the information on the environment. Due to 'bounded rationality' (March and Simon, 1958) decision-makers construct simplified mental models when dealing with complex problems; otherwise, decision makers would become paralysed by the need to analyze extensive data (Daft and Weick, 1984). Therefore, strategists have incomplete and flawed perceptions of the environment. The external environment is not a neatly packaged, objective reality to be perceived and reacted to but as an 'ambiguous field of experience' that has to be interpreted by strategists (Smircich and Stubbart, 1985, p. 726). Managers do not react to the environment, they 'enact' (create) it (Weick, 1969). Enactment consists of sense-making; meaning is created through action and the process of attention. In other words, the environment is a social construct. For instance, the entrepreneur's personal vision can become a social reality if he/she can gain support for his/her goals.

The last ten years in the strategy field has been characterised by a growth in qualitative studies. The various features of the qualitative research make it relevant for the study of strategy formation processes in SMEs. Qualitative researchers are often concerned with what is known and what needs to be explored. Van Maanen (1983, p.2) claims that:

> Qualitative researchers in contrast to their quantitative colleagues claim forcefully to know relatively little about what a given piece of observed behaviour means until they have developed a description of the context in which the behaviour takes place and attempted to see that behaviour from the position of its originator...

Qualitative research implies an emphasis on interpretation and context in tandem with a concern for process that is not measured exclusively in terms of quantity, intensity or frequency (Burgelman, 1985). With quantitative methods, a questionnaire is sent out simultaneously to all respondents. The researcher has only one chance to collect data. According to Miles and Huberman (1984, p. 36) the 'beauty of qualitative research is that there is (nearly) always a second chance' to collect data. Qualitative research is not as systematic or as structured as quantitative research. It tends to be a step-by-step cumulative learning process.

(2) The research method

The main focus of this research is the study of the strategy formation process in SMEs. The central research question is how does strategy form in SMEs and what are the key factors at work. Since the literature (as reviewed earlier) reveals large gaps in the understanding of the strategy formation process in SMEs, grounded theory and the case study approach is highly relevant. The following section discusses both of these approaches.

Grounded theory

The term 'grounded theory' (Glaser and Strauss, 1967) simply means the discovery of theory from data and is pertinent to studies of an exploratory nature. This approach has been used to good effect by Hamel (1991) in a study on inter-partner learning in strategic alliances. Burgelman (1985) has argued for the greater use of grounded theory in strategic management.

In theory, the researcher is supposed to go into the field with few theoretical preconceptions. In practice, few social scientists would claim to enter the field with empty minds waiting to be gradually filled by evidence. Glaser and Strauss (1967) argue that the researcher should be 'theoretically sensitive'. He or she queries many different theories and is guided by emerging gaps in his theory. Theoretical sensitivity can be lost when the researcher commits himself to one specific theory. The concepts and questions not only come from the research, but are worked out in relation to the data during the course of the research. Theory based on data should closely mirror reality, and cannot be easily refuted since it is too intimately linked to data. For the purposes of this study, the researcher gained a working knowledge of the literature on strategy formation processes but remained open to the possibility of new information.

A striking feature of grounded theory is constant comparative analysis. Comparative analysis puts a high emphasis on theory as a process. Theory is an ever-developing entity, not a finished product. Comparing groups, irrespective of differences or similarities, is necessary to generate theory in the fullest possible way. In grounded research, fundamental differences and similarities are important qualifying conditions. Constant comparison across types of evidence controls the generality of the emerging theory on two levels - conceptual scope and population scope. For some researchers, comparative studies are a means of validating facts, for establishing generalisations and searching for universal law.

Glaser and Strauss (1967, p. 43) argue for 'the joint collection, coding and analysis of data' which is generally not achieved by researchers to a great extent. This gives researchers the freedom to make adjustments during the data collection process. These adjustments can be the addition of questions to probe particular themes which emerge (Eisenhardt, 1989). This strategy proved useful for the purposes of this study. For instance, questions relating to the ramifications of crisis episodes were added. Thus grounded theory is iterative rather than linear, requiring a steady movement between the literature, interview data and analysis. The result of this fluid movement between theory and data is a re-conceptualization, often based on a creative leap (Mintzberg, 1979). This study was guided by the philosophy of Glaser and Strauss (1967), and adopted a research orientation that emphasised features such as induction, flexibility, constant comparison, attention to context and a concern for learning.

The choice of case-based qualitative research

This study deals with the strategy formation process in small to medium sized firms. It takes a look at variables such as culture, change, learning and the role of the entrepreneur. These concepts are not easily visualized; it is difficult to evolve the concepts into constructs and then develop measures of those constructs. The purist would claim that it is the research question that determines the most appropriate method. As Burrell and Morgan (1979, p. 399) claim:

> There is a need for organisation theorists to adopt methods of study which are true to the nature of the phenomena which they are attempting to investigate.

Researchers often find that the current state of the field drive them towards case-based research. Over the past ten years, there has been a significant growth in case-based research in the strategy process field. The research on strategy formation (Mintzberg, 1978; Mintzberg and Waters, 1982), Pettigrew's (1985) study on the management of strategic change in ICI, the Burgelman (1983) study of internal corporate venturing and Hamel's (1991) work on strategic alliances are among the most prominent examples. Mintzberg (1977) has argued for the continuing use of qualitative methodologies in strategic process research because many of the important concepts (i.e., goals, culture) are intangible.

A central feature of most case-based research is the use of interviewing techniques. The interview was seen by the researcher as the best way to obtain answers to the questions posed. Interview techniques may be standardized or non-standardized. With standardized interviews, each entrepreneur is asked an identical set of questions in a fixed order. In contrast, a non- standardized interview is much less structured and the questions asked and the phrasing of the questions vary from interview to interview. Interviews of this kind are most helpful in exploring new topics, sensitive or emotive issues and when the businesses are highly variable in their characteristics (Healey and Rawlingson, 1993). Face-to-face interviews also allows the researcher to probe vague answers and query discrepancies in the replies. Healey and Rawlingson (1993, p. 129) argue that non-standardized interviews are highly useful in certain situations:

> Non-standardized interviews are associated more with intensive research designs in which the main questions involve how the observed behaviour of a business is related to its own history and circumstances, or how some causal processes work out in particular cases.

With non-standardised interviewing, interaction between the interviewer and interviewee is emphasised rather than minimised (Healey, 1991). It is important to be flexible regarding the form and order of the questions. It should allow for discussion and dialogue. The investigator is: 'willing, and often eager, to let the interviewee teach him what the problem, the question, the situation, is' (Dexter, 1970, p.5).

Characteristics of case-based research

It is difficult to present a precise definition of case-based research. Eisenhardt (1979, p. 534) defines the case study as:

> a research strategy which focuses on understanding the dynamics present within single settings.

The case study method has the virtue of giving an in-depth picture of a particular set of circumstances. It helps develop the kinds of 'thick description' (Van Maanen, 1988, p. 221) necessary to make fine discriminations and interpretations. There will always be a large number of variables to be investigated (Yin, 1993). Mansfield (1989) proposes that this method is at its strongest in exploring relatively unknown areas, issues and processes over time. As such the case study method is highly relevant for the proposed study on the strategy formation process in SMEs. Researchers willingly acknowledge that all methodologies have limitations. There is the risk that theory from cases describes a very idiosyncratic phenomenon, or that the theorist is unable to raise the level of generality of the theory. According to Kitchener (1996), the tension is that of reconciling the particular (the case's uniqueness) with the universal (generic processes at work). Multiple cases, if available, should strengthen results by yielding greater pattern-matching and by yielding greater confidence in the robustness of the theory (Yin, 1993). It was decided to use multiple cases since it would allow the researcher to compare and contrast concepts across cases and would increase confidence in the findings. In this study, concerns of external validity were traded off to some degree against the opportunity to gain an insight into a phenomenon that is incompletely documented.

Particular skills needed by the case researcher

The case study is a method that has been as much abused as used so it is important to be clear about the skills needed on the part of the researcher. Exponents of case research tend to converge on the notion of a craft process (Leavy, 1994; Mintzberg, 1979; Pettigrew, 1985). Pettigrew (1985, p. 223) describes his approach as a 'craft process and not merely the application of a formal set of techniques and rules'. He goes on to point out that it has its 'artistic and subjective side.' Mintzberg (1979, pp. 584-5) refers to two essential skills, the first is 'detective work' or the 'tracking down of patterns' in the data, and the second is the 'creative leap' that generates fresh insight from these patterns. This creative leap can only come from being 'close enough to the source of the data to really understand what is going on' in organisational terms. Most case-based researchers live with a high level of uncertainty about the potential quality of the contribution right through to the end of the process (Hickson et al., 1986).

Validity and reliability

If procedures are properly followed, the case study method should be judged by the same criteria of reliability and validity as the traditional scientific method (Yin, 1993). The findings should have 'validity' in the sense that they are deemed probable, reasonable or likely to be true (Miles and Huberman, 1994, p. 431). If the findings are 'reliable', dependable, or trustworthy, then the researcher is measuring what he or she is supposed to measure. One of the traditional criticisms of case study evaluations is their alleged subjectivity (House, 1982). This can pose problems for validity. Did conclusions stem from the evidence or was it a case of selective interpretation on the part of the researcher? A related question concerns whether the case study was under-documented and over concluded? Did the researcher drop disconfirming evidence? One way of guarding against the selective interpretation of data is to make the 'raw' data as accessible as possible to the reader prior to interpretation and analysis. There should be a formal database of the case study data so that an external observer can inspect, question and re-interpret (if necessary) the data. This approach should increase the rigor of case study evaluation (Yin, 1993). This study was influenced by these considerations.

(3) The research experience

This study involved an inductive case-based study of nine firms. The personal interviewing technique was used to elicit information. The interview was not highly structured but a list of questions was devised beforehand as a guide. This is shown in Appendix 2. Some of the more practical issues encountered as a result of adopting the case study method are discussed as follows:

Gaining access

The researcher may spend weeks even getting people to allow him or her to study them at will (Glaser and Strauss, 1967). Academic enquiry is a reciprocal activity and people engage in research for a variety of motives. In today's world, gaining access to companies is increasingly difficult. Business people tend to have strong feelings about privacy, about confidentiality of information, and are often reluctant to spare their time for purely altruistic motives, or for an activity that is often misunderstood or under-appreciated.

This author found that gaining access, as to be expected, was difficult. Some founders had been a focus of enquiry for other researchers and so access was denied to this researcher. A word of advice to future researchers is to avoid targeting well known firms in cities with a large student population. Another strategy is make use of one's personal contacts, if any, in the business community. The author had contact with two firms on a previous occasion and the individuals agreed to participate in the study. Ethical issues were an important consideration in gaining access to firms. It was important to be open about the key objectives of the investigation and the degree of access required. All participants were assured that cases would be disguised in the final thesis is they so desired. Some feedback was promised to the respondents in order to encourage participation in the study. A professional approach was high amongst the researcher's priorities, and this involved first contact by way of letter on headed notepaper, a follow-up phone call, the guarantee of confidentiality and good image management. Some entrepreneurs had obtained a masters degree, or had siblings engaged in the academic world, and so had some affinity with academic research. It may be wise for future researchers to target individuals who may understand the work of academics. In total, letters were sent to approximately thirty companies and two thirds were the subject of a telephone call due to non-response.

Selection of cases

In Ireland, Forbairt (the Industrial Development Authority) uses employment as a benchmark to define the size of enterprises. SMEs are generally considered to be under firms with under 200 employees. The firms, in this study, range between seven and twenty years old, with 2 to 120 staff. Seven of the companies employ under 50 employees and the other two firms employ under 200 employees. The focus of enquiry is on firms with a relatively long history, not just start-ups. Since the research is concerned with a dynamic topic such as strategy formation, it is crucial to select firms that have some history. Since a high proportion of new firms worldwide disappear within a year or two (Hendry et al., 1995) to reach nearly ten years of existence still intact represents some kind of achievement from which something may be learned.

Since inductive research is normally conducted within context rather than independent of context, nine companies were chosen from a variety of industries such as the fast moving consumer good (FMCG) and software sectors. See Table 3.2. The literature review (see for example, Murray, 1984; Sandberg and Hofer, 1986) suggested that contextual forces might have an impact on outcomes. A prime interest was to examine how variability in context affects patterns in the strategy formation process.
The high technology sector was regarded as a useful basis for the study for several reasons: many 'hi-tech' companies have the potential to grow rapidly; the 'hi-tech' industry is characterized by short product life cycles and a volatile business environment; the study provides an opportunity to study how founders cope with a dynamic, as opposed to a relatively stable environment. Having a cross section of firms introduced heterogeneity and diversity within the sample. As Pettigrew (1988, p.1) noted:

> Given the limited number of cases which can be studied, it makes sense to choose cases such as extreme situations and polar types in which the process of interest is transparently observable.

So cases that seemed inherently dissimilar, which were likely to challenge or extend emergent theory, were included.

Table 3.2: Profile of industry sector

FMCG	Software	Various others
(1) Braycot	(1) McKeown	(1) Kestrel (electronic security)
(2) Irish Breeze	(2) QFS	(2) BFK Design (graphic design)
(3) Fiacla	(3) RTI	(3) Caraplas (plastics)

A list of companies that received grant aid from Forbairt was obtained from the Companies Registration Office, Dublin. This list gave valuable information on the location of each firm and its year of establishment. The researcher found, through informal discussions with peers and through her own general knowledge of business, that the import substitution firms founded in the 1980s seemed to be under-explored as research sites. Companies with a high profile were included in this study since there would be abundant public information about them. Other companies were randomly selected from Compass, the Irish Business Directory.

The age and size of firm, geographic location, access to founder and variety in terms of industry, were the criteria used to assess whether the cases were eligible for inclusion in the study. It was crucial to be able to gain information on the early period of company formation, so access to the original founder was important. The point of studying firms in Dublin and nearby counties was to save time spent travelling to the firms. The rationale here is straightforwardly pragmatic.

Choosing the number of cases

The information base for the descriptions of the strategy process was derived from nine cases and 33 interviews. The researcher who wishes to generate fresh insight into a topic through grounded research cannot state beforehand how many groups he or she will study and to what degree. The number of cases was largely dictated by resource and time constraints, and the researcher's judgements relied heavily on the experience of earlier researchers. Hamel (1991), for example, used 11 cases to reveal key conceptual categories and two cases were used to generate insight on inter-partner learning in strategic alliances. Mintzberg (1978) found that tracking the strategy formation process in four major studies fully absorbed his time over several years. However, Mintzberg (1978) benefited from using multiple fieldworkers. Bower (1970), on the other hand, spent two years on fieldwork in one organisation in his study of capital investment decisions. This study's target of nine companies was therefore ambitious. This study investigated nine cases in total in order to reveal key conceptual categories and four cases (Fiacla, RTI, McKeown and QFS) were investigated in depth in order to generate richer insight into the strategy formation process. For instance, these cases were used to explore the role of the founder in more depth, and in particular, how the founder's perception of risk changed over time. Given time and resource constraints along with the difficulties associated with gaining access, a decision was taken to limit the number of cases selected for more intensive analysis.

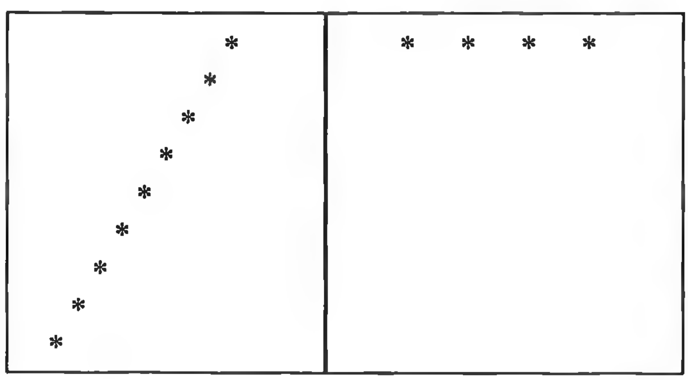
Having decided on the number of cases, it was still necessary to decide when the data collection process would cease. It is clear from grounded theory that data collection takes place in parallel with data analysis. It is important not to make conclusions from the initial data too early on in the study; it is advisable to revisit the literature in order to seek alternative explanations and interpretations. The data collection process was largely contingent on the degree of insight achieved, which may come quickly at some times and at others involve long periods of gestation. Some guidelines exist in relation to when the data collection process should stop in case-based research: in Leavy's (1994, p. 114) view it is 'when the process has reached the point of diminishing returns'; 'when additional data no longer adds to the refinement of the concepts (Burgelman 1983, p. 225); or where 'saturation of the core categories' is achieved (Hamel, 1991, p. 86).

Figure 3.1 illustrates the process of building theory from data. In the early stages, the research was exploratory in nature, aimed at identifying emerging themes. The later stages of the research project were aimed at clarifying relationships. Four cases were analyzed in depth in order to probe issues, explain and elaborate on well defined themes.

Figure 3.1: Stages in Inductive Research

'Exploratory' 'Explanatory'

Prior theory used
in Data Collection
& Analysis



Number of Cases

Source: Carson, D.J. (1995), 'A structured approach to generating insight from cases.' U.C.D: Seminar series.

Interview content and interviewing style

All interviews were recorded and transcribed verbatim so that all details were retained. The respondents did not have any objections. It was explained that written notes could be taken but that a tape-recorder would be more convenient to use. In one case, the respondent asked that the recorder be turned off for a short period so that comments could be made 'off-the-record'. Case-based research proved to be extremely labour intensive and many hours were spent gathering background information on the companies, interviewing respondents, transcribing data, reading and analysing the notes. Interviews ranged from beyond the requested one hour to half-an-hour depending on the respondent. All interviews began with some general information on the nature of the research study. The interviews ranged from two per company to four to six depending on the research stage.

Case research is generally recognised to be intellectually challenging and highly demanding in terms of social skills and resources. Skill in the field of interviewing is critical to the success of the case study endeavour. In this study, it was quickly discovered that addressing concerns of confidentiality was of paramount importance. Prospective respondents had to be reassured that anything they might say in the course of an interview would not be divulged to outsiders. A great deal of information was gained under these circumstances.

Advance preparation led to research dividends. The case studies covered the histories of the ventures from creation to the point when the last interview was conducted. Company documents, annual reports and press cuttings, were the researcher's secondary data sources. This spawned topical and current information and led to pertinent questions being asked at the interview stage. It also helped compare rhetoric with reality. Being well prepared helped increase one's credibility in the eyes of the interviewee. Gaining the trust of the interviewee was very important in order to elicit an accurate account of what actually transpired. Establishing rapport took time. It was found that a few individuals became more committed to the study after time and were more forthcoming with information in follow-up interviews.

Interviews consisted of open-ended conversations during which respondents were allowed to talk freely and tell their stories. The initial question was open ended: 'Please tell me about yourself and your experiences in starting and developing a business'. Particular attention was paid to if and why the organisation made a strategic change in direction. Later, when interviews and observations were directed by the emerging theory, the respondent was asked more direct questions bearing on defined categories. For instance, it emerged that crisis was prevalent in all firms, save Irish Breeze. This led to attempts to understand the source of the crisis, its repercussions, as well as including matters (eg., changes in ideology) not at first envisioned. The second phase used a more structured interview format specifically addressing categories such as crisis, key phases in the strategic development of the firm, the role of contextual factors and the role of founder in the process (see Appendix 1). Thus the content of the interviews reflected the conceptual concerns of this study. However, a conscious effort was made to aspire to objectivity. An attempt was made to pose the questions in a neutral manner to avoid the infiltration of bias and to encourage the respondent to think deeply about issues. At all stages, questions were carefully phrased in order to avoid overly theoretical language and establish a rapport with the respondent.

It was important to adopt a non-judgemental stance and be sensitive to the mind-set of the owner/manager. Avoiding the use of pejorative words, such as 'crisis' and 'failure' was part of the strategy of gaining rapport with the interviewee. Founders often take the opportunity to glorify their achievements but the boasts must be considered alongside evidence which suggests that disappointment, disillusionment and mistakes, are all part of the process of developing a business. When interviewing respondents on contentious or sensitive issues, such as crisis, it was useful to address the issue saying, "....In my discussions with other firms, I found that some had undergone a critical period, did you experience a critical period which may have had major implications for the business?" This strategy followed directly from Schein's (1985) notion that events are critical when participants themselves perceive them as such. Because certain events make a difference in people's thought and action, they are 'key' events in the eyes of the organisational participants. It is usual to leave sensitive questions until near the end of an interview because this allows more time for the respondent to build up trust and confidence in the interviewer (Healey and Rawlinson, 1993).

A number of insights were gained by talking to many people in the same organisation. In view of the small size of some companies, it was not always possible to talk to individuals in managerial positions. Interviews were arranged with the founder, outsiders (eg., distributors or financial shareholders) and employees. This provided an opportunity to investigate emergent themes and patterns as the interviews progressed. This fulfilled the need for research to be both accurate and pluralist, e.g., competing versions of reality seen by actors in the strategic formation process. These interviews provided a check on internal validity. One founder played down the experience of a crisis, while other employees remembered it very differently. A company founder has a tendency to look on the positive side and understate negative events, while other mangers or employees were more outspoken about the detrimental effects ensuing from a crisis. Many founders were willing to participate in another interview, and volunteered other respondents. This showed their interest in the study. A form of 'convergent interviewing' was adopted whereby themes and ideas identified from early interviews were followed up in subsequent interviews. At the end of each interview, the respondent was asked whether he or she had anything to add to the narrative account in order to provide a check on internal validity. The founders of the four companies were sent a copy of the written narrative in order to give them the opportunity to review the contents and to increase the reliability of the findings. Only a few minor corrections resulted from this exercise. Academic researchers have little tangible to offer as an incentive to interviewees for their time, but promising some feedback helped make the process relevant and stimulating to them. Also the chances of a repeat visit may well have been increased.

Figure 3.2 outlines the nature of the research process. It began with a literature review and its objectives were manifold: one objective was to examine the current state of knowledge on the strategy formation process in SMEs, and develop an understanding of strategy process research in general. The literature review was also used to develop the conceptual framework, the main research questions and the research design for the current study. The first phase of the research process involved building up a database of issues to be explored. An overview of the strategy formation process was sought through initial interviews with respondents. The second phase of the research process involved explaining and exploring issues in more depth. A deeper understanding of the inter-relationships between the founder, context and history was sought. Some individuals had to be re-interviewed so as to better understand the issues involved. The research agenda was much more focused in this stage. The overall aim throughout the research process was to strive for 'information richness' in the study of how strategies form in SMEs. The research led to the generation of conclusions, recommendations and a model of the strategy formation process.

Figure 3.2: An outline of the research process

Literature review, research method, research questions and conceptual framework.

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Phase 1
First interviewing stage
Tracking the strategy formation process in each case company
Building up a database of issues to be explored.
Preliminary coding of interesting themes

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Phase 2
Second interviewing stage
Exploring and explaining issues in depth.
Attention focused on leadership, contextual and historical forces.
Constant comparison
Categorization of patterns.

↓

Conclusions, recommendations and areas for future research

Analysing the data

Inductive research is perceived to represent a critical intellectual process for all engaged in the area. According to Eisenhardt (1989, p. 539), 'analysing the data is the heart of building theory from case studies, but it is it the most difficult and least codified part of the process'. Miles and Huberman (1984, p.16) remarked that it is often difficult to follow how a researchers got from field notes to the final conclusions. Eisenhardt (1989) argues for both within-case and cross-case analysis in order to generate novel, accurate and reliable theory.

Within case analysis

The first key task is that of within-case analysis. One of the realities of case study research is the staggering volume of data produced which is compounded by the fact that the research question is often open-ended (Eisenhardt, 1989). Within case analysis typically involves pure descriptions or detailed case study write-ups for each site. These write-ups are central to the generation of insight. The overall idea is to become as intimately familiar as possible with each case. This process allows the unique patterns of each case to emerge before investigators push to generalise patterns across cases (Miles and Huberman, 1984). In this study, within case analysis isolated certain issues such as the role of the founder, the role of contextual and historical forces.

Cross case analysis

Cross-case analysis involves the search for themes and patterns in an attempt to make intuitive sense (Miles and Huberman, 1994). People are notoriously poor processors of information. There may be a tendency to reach premature and false conclusions (Eisenhardt, 1989), to leap to conclusions based on limited data (Kahneman and Tversky, 1973) to inadvertently drop disconfirming evidence (Nisbett and Ross, 1980) or be overly influenced by elite respondents (Miles and Huberman, 1984). Good cross case analysis counteracts these tendencies by looking at data in divergent ways. This study adhered to these guidelines.

This author was guided by Glaser and Strauss (1967) and employed the constant comparative approach. Creative insight often arises from the juxtaposition of contradictory or paradoxical evidence (Cameron and Quinn, 1988). The goal is to identify the differences that are responsible for contradictory outcomes in relatively similar circumstances (Pettigrew, Ferlie and McKee, 1992, p. 29). In other words, powerful information may be revealed when two cases may appear very similar, yet experience very different outcomes. According to Eisenhardt (1989), the constant juxtaposition of conflicting realities generates theory with less researcher bias than theory built from armchair deduction or from incremental studies. A myth surrounding the case method is that the process is limited by investigator's preconceptions, in fact, the opposite is true (Eisenhardt, 1989).

Eisenhardt (1989) advocates the use of several tactics. One tactic is that of forced comparisons. She advocates that the researcher select pairs of cases and list similarities and differences between each pair. Another tactic is to select categories (eg. crisis, phases, role of founder, context) or dimensions and look for within group similarities coupled with differences. This forces the researcher to go beyond initial impressions and capture novel findings (Eisenhardt, 1989). Miles and Huberman (1994) advocate the use of tabular displays or sequence analysis to organise data. All these tactics lead to a more sophisticated understanding of the data and help break simplistic frames of thinking. In this study both within and cross-case analysis proved invaluable in generating insights. The constant comparative approach provided extensive data on phases of strategic development, the role of context, the role of the founder, the role of history and changing ideologies.

Whilst conducting inductive case study research, the author has discovered features which may be of interest to other researchers using the case method. In order to distil themes and patterns from the data, it is vitally important to avoid premature categorisation of data. This researcher found that initial conclusions were strongly influenced by other research findings. The inexperienced researcher may show a lack of confidence in the data and look for themes that confirm the work of others in the field. An over-familiarity with the literature can sometimes act as a barrier to interpretative analysis and it is therefore important to 'unfreeze' one's thinking patterns. This can be achieved by re-focusing on the data and allowing a story to unfold. The constant comparison of apparently dissimilar cases helped generate new insight which may not have been possible if similar types of firms were selected.

Colleagues and fellow researchers can play a very helpful role in the generation of fresh angles. By asking pertinent questions, these individuals can challenge the researcher to think more deeply about issues. At certain stages, there is the danger that the researcher becomes too 'close' to the data or too rigid in one's thinking. The use of research seminars, working papers, informal discussions with one's peers, all allows the researcher to discuss tentative research findings and obtain feedback. All these features of inductive research makes it a very fluid, unstructured and uncertain process. In the later stages of the research process, it was important to analyze the empirical data in tandem with the literature review in order to highlight divergent and congruent views. The process of generating fresh insight was central to the author's research interests. Discovering how this was achieved should provide a rich source of learning here. Throughout the study, a journal was maintained which documented initial impressions, ideas and potential areas of interest. This was a practical means of analysing data in tandem with data collection. It was important not to jump to conclusions too early on in the study. However, it was important to retain initial impressions in order to revisit these at a later stage. The data and the literature were revisited many times in order to seek improved explanations and interpretations of the strategy formation process. The journal proved useful in tracing the development of thought over the three years of the research.

Summary

This chapter described the research methodology adopted for the purposes of examining the strategy formation process in SMEs. The subjective/interpretative approach was taken since it was deemed most appropriate for the study of strategy formation processes in SMEs. This approach is congruent with the researcher's values, ontological and epistemological outlook. The chapter described the research methods used, such as grounded theory (constant comparative method) and the inductive case method. An account was given of the challenges and pitfalls inherent in the use of the case study method. It was stressed that creativity, perseverance and uncertainty lay at the heart of the inductive case method.

The chapter has indicated a number of features that may be of interest to other researchers. Firstly, ethical issues such as confidentiality, frankness and respect of those under study is of cardinal importance. This is crucial in negotiating access and in gaining good quality information. Secondly, the use of multiple interviews within one company not only increased the dependability of the findings, but also generated a great richness of information. Thirdly, the use of cases from a variety of industries helped 'unfreeze' thinking patterns and generate new insight, that may not have been possible if similar types of firms were chosen. The use of diagrams and tables also helped stimulate lateral thinking. Lastly, colleagues often adopt a mentoring role which is crucial in stimulating the researcher to think more deeply about the issues. The adoption of this method has uncovered a number of important elements in the strategy formation process in SMEs that have been previously missed or ignored.

CHAPTER FOUR: THE STRATEGY FORMATION PROCESS IN IRISH SMEs: CASE NARRATIVES OF THE CASES

Introduction

This chapter draws upon empirical data to describe the process of strategy formation in Irish companies. Table 4.1 gives a profile of the case companies. The case narratives of four cases are presented in this chapter and the case narratives of the other five cases are presented in the appendices.

Table 4.1: Company profiles

Firm	Estb.	Size	Turn Over	Industry	Interviews
QFS	1985	80	£6.5 million	Software	6
Fiacla	1983	25	£3 million	Toothpaste	4
McKeown	1976	120	£7.4 million	Software	3
Kestrel	1986	30	Confidential	Security	3
Irish Breeze	1984	2	£3.5 million	Soap	4
Caraplas	1987	Nil	Nil	Plastics	1
Braycot	1989	28	£1.5 Million	Biscuits	4
BFK Design	1989	20	Confidential	Graphic Design	3
RTI	1988	13	£0.5 Million	Peripheral Devices	5

Case company 1: Fiacla

Introduction

Fiacla Ltd. was established in 1983 over 10 years ago. Its main product is 'Fiacla', the only Irish-made toothpaste on the domestic market. It presently holds over 10% of the Irish toothpaste market and accounts for a further 4% of the market through the manufacture of 'own label' toothpaste for the major supermarket chains. Approximately 60% of business is for the export market. The company employs approximately 25 people in its facility in Dublin, including five part-time. At present, company turnover is around the £3m mark on the home and export markets.

Start-up

The firm was established by a former construction engineer, Richard Brierley. He worked abroad for some time before settling in Ireland in 1982. He decided to set up his own company, mainly because he was disillusioned with working for multi-nationals. Initially, the main goal of Brierley was to simply start up in business - any business. He looked at several possibilities, such as the production of soap. After being made aware of the lack of indigenous Irish products, he decided to examine the market for toothpaste. Research showed that, with the exception of Stafford Miller that mainly exports Sensodyne toothpaste, there was an import substitution opportunity for toothpaste. There were possibilities in the own label market as well. However, Brierley's intention of producing toothpaste was met with scepticism from state bodies. Little support was forthcoming from organisations like the Irish Goods Council. David Fox of Gillespies & Co. was approached by Brierley to act as distributor for the firm. Gillespie & Co. is a well established distribution company, founded in 1912, that handles various types of merchandise including household products, personal hygiene products and baby foods. Its products are strongly represented in the grocery trade and it has the advantage of a strong distribution operation. David Fox's first impressions of the entrepreneur were favourable:

> He seemed like a guy who knew what he was talking about. His background struck me as a bit strange, but sometimes they make the best entrepreneurs. They do not see problems only solutions. They do not realise the implications of things. We need a bull headed attitude; I think he went into the venture without realising the commercial risks involved.

He was full of praise for the entrepreneur:

> It was his idea, his drive, his initiative that got it off the ground. We facilitated it but we did not start it up. I would not take that from him for a moment. He put all his eggs in one basket. It was a speculative venture. He had to make it work. I suspect he made a few bob in England. He had money to invest although he was not wealthy. It was a case of either all or nothing.

Initially the company operated on a very modest scale. Only a few people were involved with the venture and the process of business start-up was fluid and haphazard. Richard Brierley began production by doing everything himself. His start-up capital was £15,000. He used the services of a local accountant and built up a relationship with his local bank manager. For the first few months, the toothpaste was sub-contracted out to a company in Connemara and a small grant was received from Udaras na Gaeltachta. This arrangement was soon terminated by the founder because of the difficulties associated with being too far away from the manufacturing process. He had no control over production or quality. The plastic tubes were sourced in Germany and the UK. In May 1984, the new venture moved to Bray, Co. Wicklow, where production began in earnest. Formal strategies did not exist in the early days. The marketing manager remarked that Richard Brierley had a clear idea of what he wanted to achieve but doubted very much if he had well defined goals or actual marketing goals. Brierley simply knew how much he had to produce in order to make a profit. He knew that he had to obtain a certain percentage of the Irish market in order to be successful. According to the marketing manager, the primary motivating factor for Richard Brierley was money.

The IDA (Industrial Development Authority) was unwilling to assist Brierley initially. Once the IDA saw that he was serious and was actually selling toothpaste, they helped him secure a basic, second hand mixer and filling machine. Thus Fiacla initially started out with some 'very basic, antiquated' production equipment. Aluminium tubes were used which caused problems. Customer complaints arose because the Fiacla design wore off the tubes. The tube suppliers were unhelpful and disclaimed all responsibility. Brierley decided to change from aluminium tubes to plastic in order to resolve this problem. He changed very quickly from an import substitute philosophy to one where he produced a product of top quality, at a competitive price, that could compete with the likes of Colgate and not simply be marketed and sold purely on an Irish platform. By November 1984, Fiacla was formally launched. The company concentrated on the home market selling through multiples. This kept the founder from despair and from bankruptcy in the early days. Richard Brierley remarked that his products today 'are every bit as good as the multi-nationals'. This company ethos helped him win sales contracts.

David Fox, the managing director of Gillespie & Co. the distributor, believed that Richard Brierley produced a very good product. He remarked that Brierley's strengths lay in manufacturing, product innovation and in his ability to source new business. He strove for a level of excellence in manufacturing. Another of Brierley's strengths was his ability to predict trends and developments in the market. For instance, he was the first to market baking soda toothpaste in the Irish market. His great belief in the venture helped him through difficult periods. His degree of commitment to the venture was noted by David Fox:

> It required a total degree of commitment.
> I do not know if I would have done it. He had family, commitments...

Richard Brierley described his own personal philosophy towards business:

> I suppose an entrepreneur is some one who believes in what they do, believes in the product, is able to make it happen...There were many times when I lost faith, but not for long though, because I would have nothing to go on with, it is a matter of keeping it going.

The distributor saw Richard Brierley as critical to the survival of the company; Brierley was very much a force on the ground and indispensable to the operation. He realised the danger of over-dependence on one key individual, but remarked that since Richard Brierley was relatively young in terms of retirement it was not a problem at the moment. Fiacla won the 1993 Small Business of the Year Award sponsored by The Sunday Business Post and ACC Bank.

According to the quality control manager, Maggie Gillespie, the company was very much 'a one-man company'. It was built up from nothing by Richard Brierley. He had no knowledge of the toothpaste industry when he first started. He had spent 20 years in the construction industry, so it was 'a matter of bringing people together who had industry knowledge and who knew how to formulate toothpaste, how to fill it, everything'. Brierley learned about business as he went along. According to the marketing manager, Paul O Neill, the entrepreneur was a very important force in the development of Fiacla. He did a great deal of work at ground level, he promoted the product and obtained retailer support. He was 'a driving force' in the business and applied pressure on Paul O' Neill, the marketing manager, to promote the product.

Maggie Gillespie (Quality Control Manager) attributed the survival of the company to the tenacity of the managing director, his risk taking, and his entrepreneurial spirit. She believed that the managing director was willing to give 'over 100% of himself' to the venture. She remarked that risks could work for or against a company, and on the whole, the risks worked for them. Richard Brierley persisted with the venture in the face of adversity and remarked that it was his 'sheer bloody-mindedness' that made him refuse to give up along with his sense of belief in the venture. Richard Brierley remarked:

> It's a matter of keeping it going, not losing faith in it but keeping it going. You have to make it work...{The one factor blocking the growth of companies} are people sitting back waiting for it to happen, instead making it happen. A lot of people sit back and say we need support, we have got to have support to do this, but unless they get up and go and do it themselves, they are not going to achieve anything...

One of the strengths of the founder was his ability to generate ideas, but this was a mixed blessing given that his ideas were not always practical. The marketing manager felt that Brierley did not always assess ideas in a strategic manner:

> Basically it is a filling plant. He could make cosmetic products tomorrow for example. We have to think do we want to get into the market?... He has come to us with all these ideas...Our idea is to bring his ideas forward, look at which are the best financially for him and for the strategic development of the company.

The distributor also saw him as an enthusiastic, ideas-oriented individual:

> He always wants to do something. You can never talk to Dick without him having some idea floating around in his head. He would be a progenitor of most of these ideas. We would be the passive shareholders. He has a very active mind, chase this, chase that. We would be more or less responding to his suggestions and requests.

Encouragement given to import substitution businesses

In the early days, Brierley planned to produce for the own label market, but realised very quickly that the company would not survive by depending on this high volume/low margin business. Within a year, Brierley realised that he needed to produce a branded product as well. The barriers to entry consisted of well established competitors who possessed economies of scale, a large advertising budget and brand name equity. Their products were heavily supported by above and below-the-line advertising. In spite of the fact that he would be competing against the multi-nationals in the FMCG (fast moving consumer goods) sector, Brierley was confident that the 'Irishness' of his product would be a key success factor.

An early marketing objective was to promote the toothpaste on a strong Irish platform and much thought went into the proposed marketing of the product. The gaelic name 'Fiacla', the Irish for teeth, was devised by the 'Buy Irish' campaigners. The package design was original and recognizably 'Irish' in style; for instance the letter "F" came from the book of Kells. Free publicity played an important part in generating awareness and interest in the new product. A slot on the 'Late Late Show' (a major Irish television show) helped boost sales. The entrepreneur spoke about the favourable conditions in the industry that facilitated company start-up:

> To set up the company in the present day, in the same way, would have been impossible. Twelve years ago, Ireland was pushing for import substitution and that's why the company was started and how it survived its first year.

Fiacla received considerable media coverage as one of the best home-spun success stories of the 1980s. The story had appeal and the company was portrayed by the media as a perfect example of 'David versus Goliath' in modern day business: it was a small company competing in an Irish oral hygiene market utterly dominated by multi-nationals.

The nature of the industry

Richard Brierley remarked that the environment was not subject to rapid change but on-going change; change depended mainly on the product development activities of the multi-nationals. His company was generally a follower rather than a leader of trends as regards new product development. Brierley monitored newspaper reports, patent advertisements and competitor activity in an attempt to keep pace with the competition.

According to Maggie Gillespie (Quality Manager) the toothpaste industry has become much more market-led than it was ten years ago. Toothpaste was no longer seen as a commodity product that simply cleaned teeth. The marketing of toothpaste has become much more sophisticated. Attributes such as: effectiveness in fighting cavities; breadth freshness; gum protection and whitening properties have become increasingly important. People were prepared to pay a premium for these speciality products.

Care for teeth was brought to the forefront of general health needs. Dentists encouraged consumers to care for their teeth, consumers became more educated about dental health and the wider availability of medical cards meant that standards of oral hygiene improved. These factors benefited the industry as a whole. As a result, the Irish market offered strong growth potential to producers of oral hygiene products. It was estimated that the Irish market for oral hygiene products was worth £23 million in 1995. Toothpaste accounted for £15.5 - £20 million. The growth rate in the toothpaste sector was estimated at 13% per annum. Total sales growth were spurred by increasing concerns about oral health, innovation, the proliferation of toothpaste products and the increase in promotional activity and market segmentation. The marketing manager noted that since toothpaste was a product used by virtually everyone, this helped fuel the sales of Fiacla.

Since the 1970s, concentration in retailing began to affect the power of the large food and non-food manufacturers. The latter's control over conditions of sale was substantially weakened by the abolition of resale price maintenance, concentration in the ownership of shops and the advent of own brands. Retailers started duplicating manufacturers' products, in effect, competing with the manufacturers. Retailers worked to discard the 'cheap and nasty' image of own label products and sought to provide good quality own label products at a competitive price to consumers. These trends stimulated Richard Brierley to produce own label for the multiples.

Role of distributors

Richard Brierley was introduced to Gillespie & Co. within the first year of operations. The distributor brought valuable marketing and management expertise to the company. According to David Fox:

> A company like him could not have got off the ground unless they associated with a company like us. They could not have afforded to do what we do due to the logistics involved... Distribution is an expensive business. There were hidden benefits as well. Banks did not lean as heavily on him as they would on someone else because of our background.

The marketing manager claimed that the arrangement with the distributor was mutually beneficial to both parties and helped offset each others strengths and weaknesses.

A major decision

In 1989, Richard Brierley was confronted with a fundamental decision. The company badly needed extra production capacity if it was to seize new export opportunities. New filling and mixing machines were needed to sustain high quality, timely delivery and low cost. It was estimated that investment of approximately £500,000 was needed to move the company from a very small concern into an enterprise geared for expansion and growth. The founder approached the IDA for grant aid, but they refused to give grants to the business unless the UK market was first developed. Only then would they consider grant aiding the business. He claimed that it was a classic 'chicken and egg situation'; the company urgently needed extra production capacity but had to have the markets to justify it. Moreover, in the toothpaste industry, there were conventions as to what constituted a respectable size, sufficient to impress potential customers. In the end, plant and equipment was financed through a leasing agreement with Gillespie & Co. and Richard Brierley invested a good deal of his own money. He remarked that the capital investment decision was the most significant decision taken by him. The company suffered the consequences of that decision for the following six years, since a heavy debt burden was placed on the company. Richard Brierley said:

> It was very risky, but without that decision, we would not be here today. We would not be able to produce a product as efficiently as we do now. We would not be able to offer to produce for people and do it on time, had we not taken the risk, had we not spent the money.

Experience of crisis

In 1989, disaster struck when the company through which the founder was selling into Poland collapsed, owing a substantial amount of money. The major problems faced by Fiacla were:

(1) Collapse of customer base
(2) Overdependence on one market
(3) Overcapacity
(4) Credit control problems

Maggie Gillespie explained that Poland was their prime export market and the company had reached the stage where it needed extra capacity. She explained the reasons for the crisis:

> ...we then bought a new mixing machine which had a capacity of 1,800 kilos. Having got that, we had to go out and find markets to make sure we were utilising capacity to the full. We went from a position of under capacity to over capacity, which economically, was not a good idea. Having got this new equipment, then suddenly the bottom dropped out of the Polish market we had been serving. We had got a lot of packaging in Polish and were really left in a hole. So we went through a year of crisis.

She believed that in retrospect they were over dependent on the Polish market. Yet, they had to make an investment in capital equipment simply to carry on making toothpaste for Poland. The export opportunity came along and they seized it, without having the capacity to do it very well. She said:

> We could not say no to it. In fact, we had to take the risk. It was a chicken and egg situation. It was a way of increasing production.

The causes of the crisis

It was generally agreed that the company was poorly managed at the time of the crisis episode. The marketing manager saw Richard Brierley as a very impatient man who wanted 'total control'. David Fox, the managing director of Gillespies remarked:

> He was hell bent on keeping the order book full, but that must be done on a rational, commercial basis.

The crisis could have led to the demise of the company save for the intervention of Gillespie. Their function, according to Maggie Gillespie, was to counter the risk tendencies of the entrepreneur, particularly since the firm was almost brought to the brink of disaster. After the take-over, the entrepreneur's span of control over all aspects of the business was curtailed. In retrospect, the entrepreneur claimed that there were many things he should have done differently:

> For one thing, I would have researched the idea a lot better than I did, and I would not have tried to do everything myself. Ideally, having a small team of people together means that you have a little think tank to come up with solutions. And share the worries. My biggest mistake was not having enough finance and expertise in the early days. Having both of these would have helped us get on a lot further a lot quicker. The factory was built up in a very piece-meal way. If I had the finance to buy the right machinery from the start, it would have made things so much easier.

Richard Brierley was perceived to have the expertise, the know-how and information needed to deal with all aspects of business start-up and development. However, the crisis exposed his areas of vulnerability. Davis Fox said:

> I do not think it was a bad idea to go into Poland. I think it was a bad idea to extend so much credit, far in excess of normal credit terms. It was very imprudent. Cash and credit control is critical to the well being of a company at that stage... Since then we have insisted that credit controls be taken. So if someone does not pay up, at least we are assured that he has assets....It was not the most glorious moment in the company's history, but we did not fall out over it.

Recovery from crisis and the on-going development of the firm

As part of the recovery plan, costs were cut and people were laid off. Proper cash and credit control procedures were clearly needed. To survive, Brierley was forced to put his workers on a three-day week. He fought aggressively for contracts and invested any profits into the company. Conditions improved within the year 'after a lot of hard work'. Richard Brierley had to rethink his strategy and his philosophy underwent a subtle shift. This critical phase left the owner with the intention of 'expanding prudently'. The company reviewed their contracts more carefully, looked for letters of credit, and became more cautious on the financial front. Richard Brierley regretted that the company did not grow as large as he had hoped it would. He attributed this to:

> customers going bust, customers giving us bad debt, things like that...that whole situation - 'we have not been paid, we are not paying you', these hiccups have caused difficulties. We have come through all of them, and worse, and survived.

There was a concerted effort to build a relationship with new distributors so that early warning signs of trouble would be detected. The importance of obtaining letters of credit and negotiating payment terms was underscored by the experience of crisis. The founder has also learned the paramount importance of cash flow to a small business as a result of the crisis:

> You have got to have a very close control on costs....our product and company reputation that we have built up over the years is a very important part of the business, but none of that works unless your efficiencies are there, and that's the most important thing, keeping control on the finances...Because of our borrowings, the number of people involved, we have to have formal procedures. We have to keep an eye on one of our major costs - transportation - and get the best rates we can.

According to Davis Fox:

> There were some very positive aspects to going through that period, from everyone's point of view. Credit limits were placed on all accounts. Credit insurance was sought. Richard realised that sales are one thing, getting payment is another. I think he learned an awful lot from that. It was a tremendous learning curve. It could have been a very expensive one...

David Fox remarked that Richard Brierley 'is a far more rounded business man today' than when he first started out. He gained greater knowledge of marketing and accounting. The company started from very humble beginnings. In David Fox's view, 'it was almost out of the bath, a bucket and shovel situation.' The company experienced major change with the passage of time. Its degree of sophistication improved, its in-house product testing along with its financial stability improved considerably. Maggie Gillespie said:

> I think, after the initial shock, we reacted positively. We had to pull ourselves up again, look for new markets, maybe safer markets...We were certainly more cautious for a time. It's a risk business. But, we do not put all our eggs in one basket any longer. We are spread. We are exporting to Russia a lot now. We have been doing a lot of work for UK companies, some of the blue chip companies, the safer ones.

Maggie Gillespie remarked that the company has undergone major change:

> We have learned as we have gone along. We are much more professional now. We have credibility. Richard came into the business knowing nothing about toothpaste. For people like the Body Shop to take us on shows that we have a certain standing in the industry. It has been a learning process. Hopefully, we have learned by our mistakes and we are now taken seriously. There has been major changes in that respect.

As a result of the crisis of 1989, Gillespie bought 51% of the company. They increased their share to 55%, leaving the founder with the remaining 45%. In return, they invested badly needed capital. Gillespie's involvement in the business was mainly on the marketing and distribution side and it was also represented at board level. According to the distributors, the day-to-day management of the business was left to the founder but major decisions went through the board of directors. Selling part of the business, according to the entrepreneur, represented the most difficult decision he ever faced. Ceding control was difficult since he had worked hard to ensure the firm's success and had assumed the risks of business start-up. According to the entrepreneur:

> Selling was a matter of safe-guarding what we had achieved and trying to make sure that it would survive into the future, which it has done. Any financial decisions after that were to help the company grow. Additional support in the management structure was the main reason for selling out.

A gap in management calibre seemed to be a factor that contributed to the crisis. According to Maggie Gillespie:

> They were a sort of controlling factor on our risk taking. They were a distribution company so they came to it with a rather different view.

This view was echoed by David Fox:

> Dick probably feels that we should have allowed him to grow quicker, faster. We are more prudent. As we move from one stage to another, there is a sound financial basis behind it. Looking to the future, there is a more strategic based approach to it, as opposed to say an instinctive based approach. So there is a dichotomy there. It is that Dick would be much more hell bent, lets go for that, lets try to run a 100 yards in 10 seconds as opposed to 15 seconds which will take longer...

It is unlikely that the founder will sell his shareholding to Gillespie & Co. in the future. The possibility of a management buy-out was not ruled out by him. The entrepreneur built up a reputation for his company based on high standards of customer service together with a high quality product. He also targeted the smaller manufacturers, which as a market niche, tended to be ignored by the multinationals. Maggie Gillespie suggested that Fiacla, like most small companies, had to be flexible and had to compete on service. If small quantities were needed, they supplied them, or if orders were needed in a hurry, they 'would do their utmost' to satisfy customer needs. The larger companies were not interested in supplying that market. Although Fiacla's facilities were quite limited, they carried out as much R&D as possible. Customer service was a crucial element in the company's strategy:

> The Body Shop has a rapport with us, which is the same with a lot of our clients......Our prime competitive advantage is our flexibility and the fact that we have a good relationship with customers. We have an expertise in our field. We are willing to pass it on to our customers, and are prepared to help them.

A reassessment of the company and its objectives took place in the aftermath of the crisis. A broad strategy emerged. The two major thrusts were:

(1) To improve competitiveness both in terms of costs and the ability to add value.
(2) To change the shape of the strategy in respect of both products and territorial spread.

A company strategy emerged over the years although planning was absent in the early days since the founder did not see it as being necessary. He maintained that with only three people it 'was very easy to know what was going on.' According to the quality control manager, they never adopted a deliberate strategy. The company seized opportunities and created their own opportunities. Its thrust was proactive, it was quite aggressive in pursuing markets, but it was also reactive in some areas. The company, by virtue of its size, was a follower of technological trends.

The entrepreneur's aim was to develop value-added products and enter markets where customers were not overly price sensitive. There was a significant price differential between own label toothpaste, regular toothpaste and speciality toothpastes such as the sensitive brand.

Consumers saw toothpaste as both a dental and a cosmetic product and concern with oral hygiene helped boosted the sales of Fiacla every year since start-up. New products included: a travel pack with tube and toothpaste; a toothpaste aimed at the children's market and Fiacla Smokers. Brierley was the first to introduce the flip-top tube cap to the Irish market which replaced the old screw-on caps. The company received the sensitive product licence in 1992, being the second manufacturer in Britain and Ireland to achieve that status. The company followed trends in the US for a baking soda toothpaste. A 'baking-soda' toothpaste was launched in 1994 which proved very popular. The company's success was based on these speciality toothpastes. Any attempt at expanding the product range meant that new equipment had to be bought, as new products required different materials, different tube variants, different methods of filling and mixing.

Due to the limited size of the domestic market, the export market became increasingly important to the long term strategy of the company. Exports consisted mainly of special brand orders and other own-brands for manufacturers. Own label export markets included France, the Czech republic, Poland and Finland, Britain, and the United Arab Emirates (UAR). The UK market was a very difficult market to break into because of its competitiveness. In time, a contract was won to produce own label for the Body Shop, a major chain store, and the Purity Loft in the UK. Most of their business was obtained through contacts and word-of-mouth advertising. The company won the AIB export award in 1993, showing the extent to which they had turned the company around. There was a change in philosophy on the part of the Irish Export Board, who began to see the necessity of targeting newly accessible markets, such as Eastern Europe. The fall of communism and the transition to a market-based economy brought with it great opportunities but also high levels of uncertainty and environmental turbulence. The Irish Trade Board was very supportive to the firm in recent years.

Fiacla signed a technology transfer arrangement with a UK company in 1994. The UK outfit bought into the company's expertise and gave Richard Brierley access to the bigger UK market for toothpaste. In 1994, the company obtained a product licence that classified them as a pharmaceutical company under the National Advisory Board.
The marketing manager remarked that the company has become more focused. Fiacla started to devise critical goals (i.e product development or expansion into Europe) and people worked towards achieving a few limited goals rather than several goals. He suggested that this focus was not present in the beginning:

> At the start you need 20 things to happen to make the business worthwhile. Whereas when you achieve those 20 items, you then start to pick and chose. You say: I'd really like to get into that market and you target that market...You can choose your goals once the business area is up and running. The company has become much more focused. What we do we like to do it well.

Company strategy after the crisis involved spreading risk, developing a range of value added products, focusing on small companies who value flexibility, maintaining its export ethos, building on its reputation for reliability and quality of service, and monitoring manufacturing and transportation costs. This strategy did not exist in the early years.

The entrepreneur's view of company strengths:

(1) High level of customer service.
(2) Flexibility.

The entrepreneur's view of company weaknesses:

(1) Its geographic location at the edge of Europe which makes it more difficult to compete with other companies on price and places pressure on company's profit margins. Brierley remarked that it will always be more expensive to distribute a toothpaste which is manufactured at source in Ireland.

(2) Maggie Gillespie saw lack of capital investment as the biggest obstacle to growth.

Company culture

Maggie Gillespie described the company culture as informal and remarked on the co-operative spirit that was present among all the workers. Their staff turnover was very low and most workers have been with the company for years. She said:

> I think, like a lot of small companies, we all pull together very closely. Communication is good between us all. This is a strength of the company.

According to Richard Brierley:

> We certainly don't have the rigidities that a lot of companies have, where it is all laid down in black and white, 'you do this, you do that'. We have that to a certain degree because we have got GMP (good manufacturing practise). We have to work together, we interact, nobody has any demarcation lines - they are all part of a small company and have to help others to make it work. We really don't have any major problems, everyone works for everyone else. It is not a 'them and us' situation. We are all here to do a job and keep each other in employment.

Presence of long term plans

After the crisis, the entrepreneur carried out long term planning to a certain degree, but most planning tended to be short-term in nature and revolved around production and financial planning. Richard Brierley maintained that keeping a control on costs was essential. Maggie Gillespie saw the lack purpose built premises as an obstacle to growth. She said:

> We sort of go in lurches and then plateau off. We climb, and then plateau off. But before we can go ahead, we have to get capital investment behind us. Richard Brierley is looking at ways of doing that at the moment...Future objectives centres on getting new premises, whereby we will be able to confidently invite buyers from European countries to come and see us...But the constraints will be the actual buildings. We just do not have enough room. The lack of purpose built premises certainly blocks the growth of the company.

According to Richard Brierley, £750,000 has been invested in the business over the period 1990 to 1994. This included a capital investment of £500,000 on equipment and refurbishment. The expansion was part of the strategy to double turnover by mid 1992 and hold 20% of the Irish market within the following two years. This was largely achieved without government grants. Recourse was made to the cheap government subsidized loan scheme launched in 1994 to assist business enterprise in acquiring capital equipment. The company hopes to obtain the ISO 9000 accreditation in the near future. Another aim of the company is to develop an international brand for the English language market in 1995, because Fiacla has limited international appeal. The company hopes to further develop the European market.

Case company 2: RTI

Introduction

RTI was founded in 1979. It is an indigenous Irish firm which trades within the electronic point of sale/service (EPOS) market. The company pioneered the use of PC technology at the point-of-sale. This enabled medium sized companies to use POS systems in a cost efficient way. The company's expertise lies in the area of 'peripheral handling' and 'application programme interfaces' (API), designed particularly for PC (personal computer) EPOS. In simple terms, these products enable peripherals such as printers, bar code scanners, customer displays, etc., to be connected to standard PCs for use as advanced cash registers. This is done through a series of Local Area Networking (LAN) and Wide Area Networking (WAN). The end product is eventually sold for use as advanced cash registers in book stores, petrol stations, supermarkets, cinemas, department stores, restaurants, franchise outlets, and so forth in the point of sale/service area of the industry. The company employees 13 people, and being such a small company, it had to fight hard to establish itself in a large, competitive and volatile market.

To date, because of its relatively small size, the group has relied on licensing as the primary route for commercially exploiting its technology. In 1996, the company made a significant break with the past by developing a new technology to be incorporated into its own range of products. It is presently negotiating a major financial package in order to bring the company to its next phase of development.

Start-up and the role of the entrepreneur:

Jim Barry, the founder of RTI, had a varied and interesting background. He went to sea with the Merchant Navy soon after leaving school. He entered the Atlantic College in Dublin for a year and a half and qualified as a radio officer. He worked for several years with Marconi and Phoenix Relays. He also worked for RTE from 1968 to 1972 but left to found his own company. In retrospect, he claimed that:

> Leaving RTE was a major move. It was a secure job. I could have gone places in RTE. The attraction, at the time, of doing things yourself, was really the motivation. I just wanted to get involved for myself. I wanted to see if I could achieve something, make things.

He became General Manager of Phoenix Relays, which subsequently became one of the largest and most successful independent TV cable company in Ireland. His involvement with the emerging cable TV industry was a profitable one. In 1977, the Commodore PET computer was launched on the market and the founder developed a network for these types of machines - the first of the 'client/server' type of technology. He took the basic Commodore PET, added a keyboard, printer and other peripherals and networked that into another Commodore. Today, all PCs are networked. At the time, the company failed to recognise the potential of networking and concentrated instead on the POS system. The Commodore PCs were quite primitive but Jim Barry claimed that at least they started learning about the technology and about market requirements:

> We were specialists in that area. We were in it pre- the personal computer. We were doing programmable device drivers for POS before anyone else.

Most of the company employees saw the organisation, its strategy and culture, as a reflection of the founding manager. According to one employee: 'it is very much Jim Barry's company. It is unique in that sense.'

The employees believed that the founder and his technical ingenuity was crucial in the development of the firm. As a result, Jim Barry had significant input into the product development activities of the firm. He said:

> The management style is democratic in a lot of ways, especially in relation to product development. Maybe it is autocratic in other ways. I would have a significant influence on what way we go as far as development is concerned.

All employees saw the founder as instrumental in the development of the company. According to the financial manager, he was 'a great lateral thinker, a great ideas man'. According to the international sales manager:

> He was instrumental in the development of the company. Without him, there would be no company. In fact, without him, there would be no product...He is always at least a year, if not more, ahead of the competition. He is an ideas man. A great lateral thinker... He is a brilliant entrepreneur...He is a significant player within the computer and retail industry.

The nature of the business in which the company found itself was very much driven by R&D. One product evolved into another. In the sales and marketing manager's view, if Jim Barry was not involved, they would have only one product. One of the strengths of the founding entrepreneur was his ability to anticipate change. Internationally, he was recognised as a leader in technology at point-of-sale.

Jim Barry sold his interest in the cable company in 1979, and became the founding director of RTI. He believed that opportunities existed in the computer area which impelled him to set up in business. He felt that a niche existed in the market for POS technology. At this stage, industry conditions were not favourable, particularly since the PC was not in vogue at that time. The company was ahead of its time and the experience they gained prior to the growth of PC EPOS market was invaluable. The company was set up to exploit the technology of EPOS, rather than to satisfy any predetermined market or consumer need. Their products were at the leading edge of technology. In 1982, there was a change over from Commodore PET technology to IBM PC technology which was an impetus to the EPOS industry. The owner manager's role in the company was in the area of product development. He was closely involved with customers, with establishing direct end contacts, planning the future product development activities of the firm, and anticipating market trends and requirements. Jim Barry defined entrepreneurship as follows:

> An enthusiasm. I can get very enthusiastic about something and bring people along with me, even customers. When I am in full flight even customers get excited about it as well. That's part of being an entrepreneur. You look at things from a positive side rather than a negative side. I always look for an opportunity first and work back from that...

Jim Barry saw a great difference between a manager and an entrepreneur:

> A manager has to be a very disciplined, analytical type of person, who can look at things and weigh them up very carefully. Managers are more careful people. An entrepreneur is not a careful person. Careful people write the history, they don't create it.

Jim Barry tried to instill into the people involved that they could be 'world beaters'. He believed that Irish people had the knowledge, the educational level and the brain power equal to, if not superior, to their American and Japanese counterparts. The company was driven by the customer, to seeking a solution to users' problems, rather than by the technology itself. The founder believed that it was this concern with customers that gave the firm its distinctive culture. The company had a clear strategic focus, was knowledgeable and confident about the niche market which they were addressing and pursued a consistent line of development aimed at serving the EPOS market. The founder claimed:

> We had a focus. We knew what we wanted to do. We were always reasonably realistic about what we could achieve. We had a business plan, projections, and we were usually able to meet them...We do not get overburdened with long term planning. What's a five year plan in this business? We look 18 months ahead, in a bit of detail. But that's as far out as we like to look.

In the early phase of its history, the firm was forced to establish a track record for the organisation in the short term, to build entire POS systems rather than I/O devices, which meant that Jim Barry was over-stretched. The day-to-day reality of the company was dominated by the need to generate revenue which placed great pressure on the founding entrepreneur. The company operated on low profit margins and their actions were dominated more by immediate issues rather than being guided by a long term strategy. The founder claimed there was distinct phases in the firms development, from where there were developing, producing and manufacturing products, to the licensing arrangement, to control of their own range of products.

The venture was a speculative, high risk one for the promoters. The vision of the founder was to become a major player in the I/O area. The founder secured capital from the banks and 'dug deep into his own pockets' to fund the growth of the business. A decision was made to sub-contract production due to the heavy capital investment such a project would necessitate. The founder had responsibility for prototype development and also for sales and support services. He was 'the ideas person.'

Jim Barry did not envisage the company as being a provider of total solutions, just a provider of peripheral handling devices. However, in order to establish credibility, they had to develop applications. It was crucial that 'the technology could move from the laboratory out onto the marketplace'. The company was credited with installing the first commercially successful PC point-of-sale system in the Pub trade in the UK and Ireland. In 1984, the company came to the attention of a Japanese company, TEC, which was a subsidiary of Toshiba. They started doing some contract work for them. In 1989, the company installed a large PC point of sale system in Arnotts of Henry Street. This was a major breakthrough for the firm. The company slowly built up a reputation and a track record.

Jim Barry was never completely comfortable with providing total solutions since it involved having a front line sales office. There was a lot of direct contact with the consumers. When the founder started the company, proprietary solutions was the norm in the marketplace. He attempted to convert people over to open systems architecture, where they could buy equipment from a variety of hardware vendors instead of being tied to a single vendor. Thus, a strategy that did not conform to industry norms was adopted. Jim Barry quickly realised that it was extremely difficult to sell direct in the POS area as the costs and risks involved were very high. He was forced to take a very 'hands-on' approach to everything and consequently was over committed to all aspects of the business.

Balance of skills

Although the company was dominated by a strong entrepreneurial figure, the firm was formed on partnership basis. Jim Barry readily admitted that he lacked a solid commercial ethos and his strength lay in developing new ideas; this could all too easily be dissipated by a lack of focus. He remarked that his partner, a financial controller, imposed discipline on the company. Both partners complemented each other; Jim Barry saw himself as an intuitive thinker while his partner was a more analytical thinker.

According to Jim Barry:

> I think I need to be harnessed at times. You need to harness what I am trying to do, to prioritise things and focus on particular products that can be successful, focus on where there is a market for them, rather than a shot gun approach with many targets. The technology business is changing so rapidly, there are so many growth sectors... Everyone feels they have to be in that area and doing something, with the result that the core competence of the business is not developed. I know that I can fall into that trap too, say have we anything that will bring us into this technology area. There are dangers. The great danger is feeling that you can grow the company into all these areas and the result is probably failure.

The sales and marketing manager echoed this by saying that:

> The personalities are totally different. Roger is a totally different being. I think it has helped a lot. If both were the same, there would be blow ups every day of the week. The Financial Controller would like to believe he is a stabilising influence on the founder. He is a frustrating influence, that's for sure. He is not always as free with cash as Jim would like him to be. That is good I suppose. You need control. He is a controlling influence certainly. That is his function.

Industry factors

There were major developments in the firm's sector which facilitated its development. The company possessed innovative ideas but as a small firm, it did not have the financial or manufacturing resources to 'go it alone'. The industry in which the company found itself was mainly controlled at the end user level by multi-nationals such as Epson, Omron, Weva Systems, ICL, and NCR. The Japanese players began to move towards alliances with smaller companies. At that time, the Japanese were moving away from proprietary systems and lacked knowledge of input/output devices. During this time, the price of hardware was falling and margins were being squeezed in the computer industry. The Japanese were experts in producing PCs (Personal Computers) but with the decline in the hardware industry they needed to look elsewhere for sales revenue. There were very few PC POS systems in sale in the 1980s. The EPOS industry was targeted as a growth area by the Japanese. RTI entered into a licensing agreement with a Japanese company in the mid 1980s. These various factors enabled the company to overcome the obstacle of being a small player in a market dominated by multi-nationals.

Early years of struggle

As a research and development companies, RTI consumed a great deal of capital. The time taken to develop a product was normally two or three years and the company had to survive in that time period without any customers. The insistence of the banks on personal guarantees for all forms of borrowings meant that the entrepreneur was personally exposed, and stood to lose a great deal if the business failed. The founder was deeply aware of the high failure rate in the business. He believed that 'the danger point is when a company achieves success, it then becomes over ambitious'. Employees discussed the difficulties in gaining a capital injection:

> When you are driving the development cycle, there is always financial crises, because everything is cost. It means cash flow problems. We have always been able to go the banks or an investment group to sort it out, at great personal risk to the founder and his family. He had to dig deep. If you are supporting an organisation like this out of your own pocket, the costs are mighty. Very high cost, high risk stuff...

Jim Barry's early experiences of struggle had ramifications for his attitudes towards business and future goals for the company. One key element in the company's strategy was the attitude of the founder towards size and expansion. He tended to equate freedom with the ability to do what he wanted to do, to develop his own ideas, which could be curtailed by expansion. There was a deliberate policy to limit the size of the company. A common theme running through the interviews was the desire of the founder to maintain the advantages of being small in one form or another. 'The great advantage in being small', according to Jim Barry, is that 'management is in control and knows everything that is going on.'

Jim Barry claimed that they could obtain IDA backing for a manufacturing plant in Ireland as an alternative to outsourcing, but they did not want to get involved in that type of situation. In retrospect, the founder says that:

> We don't want to get into that market. We could quite easily get into that market and have 150 people working here tomorrow and be losing IR £0.5 million...the market here is not big enough. You'd have to provide other products and all sorts of services.. sales...I don't know that business. I don't want to be in that business. As such we want to do the things that we feel most comfortable with. It is a bit of a personal thing I suppose. We are answerable to ourselves. We want to be in this business to make money...If we were to become a significant player and bring turnover up to 40 or 45 million, we would end up with so little of the company that it would not be worth doing.

He realised that in the US, venture capital was available, but RTI was not based in the US and was not prepared to re-locate. Jim Barry claimed that securing finance from the banks was a problem because of the high risk nature of software investment. These companies tried to extend and build growth in areas in which they did not have expertise, which contributed to failure. Jim Barry spoke of the struggle to establish a business:

> People in this business are not cheap. Unless growth does not continue, they cannot survive. Finance is just not available in Ireland for small companies....The IDA throw up the same success stories all the time - five or six companies. The history of these have broken the spirits of most of the people involved...A shortage of finance always blocks growth of companies. It is not a shortage of expertise or of commitment from the people involved, but they have always been 'hand to mouth' situations...It is such a struggle for the people involved, keeping the thing ticking over. It is hard work.

Jim Barry said that with regard to the government helping small firms in the start up stage, it was normally a case of 'too little too late.' He learned from experience that Ireland was a difficult country in which to carry out research and development. There was a lack of support systems to nurture innovative activity. Jim Barry remarked that there were no venture capitalists or developmental capital available for innovative Irish ventures. He believed that anyone interested in creative thinking and bringing products forward should consider doing so in the US.

Licensing arrangement

In 1988, a two year exclusive licensing deal was negotiated with one of the market leaders in the EPOS sector - Hugin Sweda - which changed the focus of the company. This was a large European/American conglomerate who were selling proprietary POS systems and wanted to develop their products into programmable open systems. The company switched from being a small, local Irish company to one with an international outlook. Hugin-Sweda experienced financial difficulties and was taken over by Omron, a leading Japanese company. A three year exclusive licensing arrangement was subsequently made with Omron since the firm had a unique expertise at what they do. Omron insisted on an exclusive arrangement since they wanted a period of time where they could establish some stability for the product without worrying about competitors selling the same product. They agreed to provide equity to fund product development and to bear the costs of development, manufacturing, marketing, sales and distribution.

At the time, the company saw licensing as an escape route from the struggle and crises encountered up until now. The company entered into the business relationship when it was in a vulnerable, not a strong, position. A very attractive deal was offered to the founder who accepted it with alacrity. Jim Barry described himself at this period as being a 'risk planner' not a 'risk taker'. The financial manager suggested that Jim Barry regretted that he did not continue on with the manufacture and sale of the systems instead of entering a licensing arrangement. The founder talked about the struggle to establish a high technology firm that had implications in terms of strategy:

> Those years were a real struggle. We were making everything ourselves; the software, all the support, trying to fund the thing. Because of the struggle, we were very receptive to the licensing arrangement with Hugin-Sweda. It lifted a huge weight. It stabilised the place financially.

It allowed RTI to focus on the development of products rather than on day-to-day fire fighting. Jim Barry believed that in most entrepreneurial companies, 'the struggle for survival cramps the opportunities to be innovative'. He said:

> 95% of all start ups fail because people do not have the resources to continue. People work and work and work, they really kill themselves in an effort to achieve it. When some one comes along with an offer that clears up all the mess that has been accumulated, when you get the mortgage off your house, you get a sense of relief. Then you want to have a go at the trough again...

The exclusive licensing deal ultimately proved unsuccessful, although the firm learned a great deal about project management, quality issues, Japanese methods of production, (tooling, plastics management, assembly) cost reduction. The company became more confident in their ability to deal directly with the customer. This relationship with Omron helped the company gain credibility with customers. They established a reputation as a quality supplier on a worldwide basis, largely derived from being known as the designers of the successful OMRON 7000 series of PC Terminals. However, the company lost control over its product development strategy and Jim Barry felt that their creativity was stifled by the licensing arrangement. Omron was interested in the existing product, not in further development. The company persisted with the exclusive licensing arrangement for several years until Jim Barry began to realise that the firm must either change, stagnate or fail. As an 'ideas man' he was quick to recognise opportunities in the industry that challenged him to respond. They also realised that the product had a limited life span. As time went on, many new players entered the POS marketplace. POS systems as supplied by the company were becoming more and more common and more price competitive. At the time of the divorce from Omron, the company had targeted a new area (card reader). A critical situation faced by the firm forced it reassess its strategy and prompted a change of thinking within the organisation.

Crisis

A crisis brought about the termination of the exclusive licensing arrangement. It rejuvenated efforts by the firm to take on board new shareholders and stimulated the development of a new range of products. The company had targeted a new area (the card reader) and hoped that Omron would support them financially, but were disappointed. In the negotiations, Omron used delaying tactics and ultimately the deal fell through. RTI decided to disassociate from the licensing arrangement. One manager remarked that at this period, opportunities had to be seized and changes made to prevent the company from stagnating:

> The ending of the Omron exclusive arrangement and the beginning of this development was critical. It was very much a 'touch and go' situation. If this project had not taken off, or took longer to develop than expected, then the company would have ceased to exist.

The financial manager claimed that it was a difficult break to make since it involved 'setting out into the abyss'. The directors put a great deal of their own resources into development which was a major risk.

Factors leading to the termination of the licensing deal:

The balance of power-dependency was a concern to the both parties, particularly the Japanese. Both parties came to the partnership with different perspectives. The Japanese had the hidden agenda of learning about, and then imitating the technology that the company possessed, in an attempt to de-skill the small firm. The Japanese believed it was in their best interests to develop this expertise in-house rather than sustain the relationship. One individual referred to the negative aspects of the licensing arrangement:

> There was perhaps some sort of hidden agenda there. The Japanese felt that if they removed support of the company, it would go under. They would be able to pick up the pieces by way of personnel, by way of product licences, whatever else...The Japanese have elements like that built into their thinking. They must be self sufficient. They look to other markets for ideas. Once they have those ideas, they think they can do it better themselves.

One employee spoke about the hidden agenda that Omron possessed which led to the break down of the relationship:

> On the marketing side, we felt that they were not going about it the right way in trying to sell to product. That resulted in us ending the arrangement with Omron. They brought out a very similar product to what we were producing for them. There was a court case, we got some payment in the end. With hindsight, the Omron deal was bad....We have learned from that. It has given us second thoughts about being involved with licensing. We would be very careful with the next deal.

Management found at the end of the three years that their technology did not advance the way they would have liked it to advance. They were stagnating. In an industry characterised by short product life cycles and constant change, this erosion of technical vitality was a serious weakness. Other deficiencies also needed to be addressed. An informal review revealed that the company was conservative and unwilling to spread into other market sectors. There was also a lack of synergy in terms of culture. Management felt frustrated by the slow decision making process within the multi-national. The company learned to be cautious when arranging partnerships and to keep control of the direction of the company themselves. The basic policy of the founder was to subcontract production, to become a supplier of software solutions and maintain full control of the product development activities. This represented a change in terms of strategy. In the early days, the company produced the applications themselves and sold a 'kit', whereas today they see themselves as a problem solver.

A new phase in the company's development:

The period following the crisis was marked by an increase in formality, improvements in the R&D process, a change in strategy and the possibility of a take-over was not ruled out. The sales and marketing manager claimed that the decision to enter the licensing arrangement was characterised by a 'gung-ho' attitude, which was in marked contrast to the position today. The company has since adopted a more planned and rational approach to business. They have become more formal in their business relationships, reflected in the adoption of ISO 900 procedures and importance given to confidentiality agreements. Jim Barry claimed:

> It is formal now. There are projections, goals on a monthly basis, cost reduction programmes, a three year plan, where we want to be, profitability plans, investment in new product strategies. That is in place.

The company developed a commitment to quality shown by the achievement of ISO 9000 certification in June 1995. This was an important milestone and was crucial for the firm in tendering for international business. The company improved its procedures for product development over the years. The 'idea generation' stage used regarding research in the firm became more comprehensive. All senior staff attended industry specific trade shows to see what was happening in the market. Management kept a close eye on developments in technology in the POS (point-of-sale) and I/O (input/output) area. They subscribed to all the magazines. The company attempted to integrate new technologies into their core technology when developing new products. Most ideas came from being aware of customer problems. If the initial 'gut feeling' for a new product was shared by the key stakeholders, then management drew up a simple prototype to show to key customers. RTI had the tools to simulate the final product. As the credibility of the company increased, management was able to persuade customers to pay for, or make a significant contribution towards production. Previously, they had to commit themselves to a heavy production expenditure in order to show the finished product to the customer. If commitment by clients was given to the product, the company moved on to the next stage of the development process. The emphasis both on quality and cost-effective production was a pre-eminent consideration from the outset.

The company showed a high degree of persistence in their strategy up until 1993, when the directors decided to produce the PAS keyboard. The change in strategy was both opportunistic and reactive. At the time of the break up with Omron, the founder became aware of the expanding market for customised keyboards (i.e. non QUERTY). The founder came across keys at a trade show and realised that he could develop them further. He knew that the technology of the PAS KEY keyboard was perfect for their market and would enable them to capitalise on their experience. This keyboard was interactive, was designed to speed up transactions at POS and eliminate long queues. The idea initially found acceptance in the hospitality area but had applications in financial services and computer telephony. The firm was confident that this technology would have great potential. WalMart in the U.S. asked the company to devise a software solution for them which constituted a major breakthrough for the firm. Since the firm was involved in business-to-business marketing, developing close customer relationships was very important. The project represented a significant break from the past, particularly since it was financed by the directors own funds (£3m), along with a bank overdraft. Previously all funds for product development came from the license partner. The company aims to seek further investment in order to commercialise the product. Additional funds are needed for marketing and sales.

The product, according to Jim Barry, was designed for the 'technophobic' users and the computer illiterate. All too often, products are designed to accommodate the perceived requirements of the computer professional, with the result that users feel intimidated by the PC. According to Jim Barry, the PAS KEY keyboard was the first meaningful development designed to cater for the needs of the user whose priorities were ease of use and quick results. It allowed the user to exercise a choice of menu options with a single key keystroke, rather than a combination of key strokes. Other keyboards in the hospitality industry tended to be large but still did not accommodate all the menu options or requirements that the customer has. By incorporating the latest technology, management has resolved these problems. The company spent two years developing the keyboard incorporating innovative LCD Key Switches.

This project could have been instigated by a new company. One of major assets of the company was its technical knowledge base, experience and contacts built up over the years in the complex EPOS market. This allowed them to commence development with a high level of confidence in the project. In the words of one manager:

> We are more aware of where things are available, how things are done. The contacts are already developed which has made some of the development easier. Today, we contract out a bit more. We are more receptive to buying pieces that are already proven.

Company culture

The company consisted of a small, highly creative, highly motivated team of people. The management structure within the company was flat and communication within the company was on a personal basis; no blind communication methods such as memos are used. Jim Barry believed that a good team spirit existed within the company. Most topics and new product concepts were discussed in meetings, which contributed to a very personal and open atmosphere within the company. The founder attributed the success of the company to the commitment of the people involved. He said:

> It is a bit like a family, the people are around a long time. The people here all came from Cable Television. We know each other very well. We know the strengths and weaknesses of everyone. Rewards are based on our success and everyone gets rewarded if we succeed.

He claimed that as a company they were aware of the strength of the competition. They possessed a great pride in their work. They tried to achieve a level of excellence. Jim Barry talked about the team spirit in the company which contributed to its success:

> It has just been hard graft... We do not have any demarcation between software and hardware. If there's problem, there's a problem and it doesn't matter whether it occurs in hardware or software. We all get in and solve it.

One manager saw the culture of the company as being unique since:

> Every one here multi-tasks. There are defined roles and everyone has a job specification. In the event of something happening, its a case of all hands to the pump.

He mentioned a time when a problem arose with a piece of the software. A major customer was implicated. Everyone in the organisation worked throughout the night to help solve the problem. He believed that such support would not exist in other companies:

> In this company if you get your holiday entitlement, you are doing very well. We put the customer first. Everyone accepts that as being part of the way things are.

He claimed that the company was flexible and sought to respond to the needs of the customers:

> You do not have a clear six month ahead schedule. But that is the nature of a small company. You have to be able to respond to the customer. If the customer comes along and says 'We want that, but can you do this as well', you do it. If you say no or postpone it, then we won't get the business.

Management's view of company strengths:

(1) Research and development

The most influential aspect of the company was their extensive research and development capabilities. The company has a particular skill for bringing products from 'concept' to 'market' within very short time frames. The RS7000 range of PC based EPOS systems, currently marketed world-wide by Omron, was designed and prototyped within six months.

(2) Customer orientation

Another strength was the company's policy of customer care. The design and production process was carried out with an end user in mind.

(3) Understanding of the market

There was a good understanding of the market at grass roots level. Two sales people were employed, one in Germany and the other in the United States, who possessed excellent technical knowledge as well as a sales background. They contributed a great deal to the new product development process.

(4) Strategic relationships

The strategic relationships were built on trust and mutual support.

(5) Flexibility

The company was flexible receptive to new ideas, so product development moved at a fast pace.

(6) Motivation

There was a high level of motivation in the company. The directors were involved in the formation of the company and all had large financial investments. The success of the company would determine their livelihood.

(7) Aggressive pricing and low cost structures

The company was consistently profitable with average annual profits after tax of IR£0.5m. The combination of aggressive pricing and low cost structures ensured its success in the marketplace.

Through an analysis of these strengths and weaknesses, the following factors emerged as the core competencies of the company:

* Quality of the product range and throughout the company
* Customer satisfaction
* Research and development capabilities

Management's view of company weaknesses:

(1) Overdependence

The weaknesses revolved around management in that the firm was dependent on a few key people and the loss of their skills would be a major threat to the company.

Case company 3: Quay Financial Software

Introduction

Quay financial software (QFS) was formed in 1985 as an adjunct to National City Brokers, (NCB) Dublin. QFS defines its business as the development of specialist software applications for the financial community worldwide (encompassing investment banks, stockbrokers, money brokers, life assurance companies, and corporate treasuries). Its core product is InVision which gives instant prices and calculations to traders in complicated financial areas such as foreign exchange and interest rate swaps. The market for this type of software is valued today at $450m, with London, Tokyo and new York accounting for over half of the market. It has over 90 clients in 24 countries worldwide. In February 1993, QFS was named 1993 AIB software exporter of the year in the under 100 employee category by the Irish Exporters Association. In 1993, the company had a turnover of £3 million, but by 1994 this figure had soared to 6.5 million. In 1994, it was ranked sixth by Irish Computer out of the top ten indigenous software companies in Ireland. It currently employs 80 people, of whom the majority are involved in software development. In 1995, it was bought by CSK Micronogosis for a price reckoned to be $30 or $40 million.

Start-up and role of founding strategists

The seeds of the company QFS were sown in 1983 when Dermot Desmond, the founder of National City Brokers (NCB) met Gerry Giblin and asked him to set up a financial software company.

Desmond was the majority shareholder with a 70% stake in the company. There was a substantial start up investment. In all, more than £10 million was invested by the shareholders in the company. In the mid 1980s, Desmond managed to raise three quarters of a million through the BES (Business Expansion Scheme) and Desmond's own private funds were initially invested in the company. In the pioneering and fast expanding software business of the early 1980s, the rewards for investing in an innovative new product could be enormous. Desmond, according to the Gerry Giblin:

> is a venture capitalist who is prepared to take a long term perspective. He does not look for immediate return on his investments and may be unsure of a return, but he is a long term player. He tends to make bets on people; his gift is on judging people, more so than analysing balance sheets; he provides the resources and then lets other people get on with it.

The product concept was relatively new and Desmond believed that the software would make stockbroking activities more efficient. Desmond was the majority shareholder in a number of computer companies, but his numerous interests acted as a severe drain on his resources. In 1986, 20% of Dealformatics (a holding company) had to be sold to Allied Combined Trust (ACT), the venture capital arm of A.I.B., in return for equity. This deal gave it the right to dis-invest after a certain date. Telerate was falling short of the marketing of 'Intuition' (another software product) which as a result, was not generating the income expected. Desmond put a proposal to Telerate to merge all companies into one entity and so continue on with the financial software development project. It was proposed to initially sell 20% to Telerate, giving them an option to buy out the remaining shares. It was hoped that this scheme would get the project off the ground. This deal was due in no small way to the strong negotiating skills of Desmond.

The functional background of both partners were quite different. Gerry Giblin was a software designer. He worked for Telerate in Ireland, assuming the position of Technical Project Leader and then Chief Technical Officer. He worked abroad for several years and developed many contacts within the industry which he subsequently used to generate sales.

Desmond, a financier, started his career in banking. The company was formed with a balance of complementary skills: Desmond provided much of the finance and the founder provided the software expertise. Gerry Giblin had worked in the US for several years and then decided to come back to Ireland. Working in an indigenous Irish owned company appealed to him, since there he believed that there was a commitment to the business. He does not see himself as an entrepreneur, probably because the original concept was thought up and funded by the venture capitalist. He saw himself more as a technologist who was attracted to the idea of working in an autonomous new business.

In contrast, employees described him as a charismatic individual and saw him as a typical entrepreneur. His name was well known throughout the industry and he became synonymous with the company. They saw him as a great leader of people. He was an 'optimistic risk taker' who relied on people to deliver on the promises he made to prospective clients at the negotiating table. Employees saw him as having the ability of a leader to stretch the capabilities of employees:

> The essence of entrepreneurship is that you do not sit back on your laurels. You are always leveraging what comes in...
> The art of the entrepreneur is to take a gamble; they have to deliver on that gamble. Gerry's strength was that he knew exactly how much we could step up to fulfil the promises he made. As the company gets larger, it is harder for him to put his finger on the pulse, to know just how much he can gamble. He does not take those types of decisions anymore...

The present financial manager described him as follows:

> I think he is well respected. He started up something new. He was involved with QFS from the beginning. He was the founder of the company. He came to it with a strong technical background. He came from Telerate and was the one behind the Invision product...His role was a very positive one. I think he has very good communication skills...

He added that:

> His strongest attributes would be in the technical and sales area...He had the vision and foresight to come up with an idea and base a product around that idea and start up a company. He is very strong, a good leader.

At this stage, the personal computer had been in existence for a very short period and the market for financial software was beginning to grow. In the words of the financial manager:

> Conditions were very good in the 1980s. It was the time of the big boom in financial services; it was just the right time.

Dermot Desmond played a crucial role in getting the venture off the ground. Although Desmond did not have a technical background, his reasons for getting involved in software development was based 'on instinct and a keen sense of opportunity'. In the course of NCB's (National City Brokers) development, Desmond realised that NCB could develop much more through the use of dealing room systems. Given the need for up to date information and rapid response to market conditions, the justification for installing computer systems and software seemed obvious. He quickly realised that the new product could, not only meet the specific needs of one customer (NCB) but also be marketed more widely. For a small company entering a growth market, this was a desirable position to be in. Gerry Giblin maintained that they understood the needs of the dealing room personnel. According to management, their experience with these real situations showed in the design and functionality provided by the InVision product.

According to Gerry Giblin, most indigenous Irish companies do not have enough money to get the product to market or even for product development. He believes that many software companies are underfunded from the start and fail to capitalize on early successes and are swallowed by overseas rivals. The hardest financial gap to fill is for seed or venture capital, this is the period of true risk exposure. Gerry Giblin realised that if the company was to grow it had to move from a garage-style operation at start up to a responsive, professionally managed, secure company. The whole thrust within QFS was to develop into a mature company in response to customer requirements.

From the outset, the founders of QFS had a clear goal, that of offering dealing room software to the financial services industry. One manager remarked that the company engaged in planning to a certain extent, since they put together a three year rolling business plan.

Crisis

QFS faced fundamental financial challenges. For various reasons the joint venture deal with Telerate failed. The company, in Desmond's view, came close to producing what would have been the best deal ever in terms of the Irish software industry. Its failure was an enormous setback. Desmond was faced with a situation where he had expanded all his companies in anticipation of a deal that did not materialise, and the cash burn rate was very high in all companies. It was clear that Dealformatics was kept afloat by Desmond. Not only that, but Desmond was burdened with the ongoing operating costs of all other companies. Desmond was faced with the prospect of sustaining all the companies with very little funds. After the failure of the deal with Telerate, it seemed unlikely that QFS would remain a viable, on-going concern.

A software project, started by the firm 'Dealformatics' (to become company QFS), was more than a year away from completion. Gerry Giblin was convinced that he had the product and that he needed to market it. Regrettably, additional investment was required to bring a product to the market, at a very time there would be severe cash shortfalls. By 1987, Dealformatics was employing close to 60 people and was losing money. Desmond was at a crossroads, financially speaking. He was faced with two options. One option was to sever his ties with software development. This, according to Desmond, would have been the rational solution. Desmond's second option was to fund the companies out of his own stretched resources and put another investment deal in place. The final decision taken by Desmond involved a combination of both scenarios. At a later stage, 5% of equity was sold to the IDA in return for funding, leaving Desmond with a 70% stake. The remaining 20% was held by employees. Gerry Giblin believed that the decision to continue funding the venture was based on a belief in the people involved:

> Desmond is not a technical person. The only thing he had to go on was the fact that Telerate had taken such an interest in the project, and had spent a long time, over a year, going over the project. But he did not really know whether it would be successful. He was going on instinct. As in most areas, he relied on his instinct for people...It was an act of faith in people and the belief in what they were doing would result in success.

Gerry Giblin believed that he had predicted with a great deal of accuracy how firstly, the financial markets were going to advance in the next four years, and secondly, how technology was going to evolve. Getting that right was, in his view, largely a matter of luck.

The formation of QFS came at a point of crisis and it was a period of thinking in terms of survival not growth. The initial intention to sell the company to Telerate did not materialise. Without the decision by Desmond to continue funding the business, it would not have survived. According to Gerry Giblin, they went back to what they were originally trying to do; they developed more focus - 'get some customers, some profits'.

Conflict featured during the pre-start-up period of the company. According to Gerry Giblin, the year 1987 was a tense period for everyone. It was a period of rationalization and consolidation which led to many internal disagreements and personality conflicts. Even though he was losing money, the venture capitalist decided to let two distinct companies work on the development of financial software. He hoped that this would generate the diversity required for success and bring the motivating effects of a 'technical chase' in-house. This approach culminated in one team winning and the other losing. Gerry Giblin set up on his own, employing three people. The new company was called company QFS.

The start-up period was associated with great upheaval and change and as a result, the product launch was delayed. By the following year, QFS had sold its first product to Irish Life based on the InVision concept. QFS reported a loss of £151,000 in 1989 on a turnover of 371,000 but recovered the following year with profits of £236,000 on a turnover of 716,000. Within two years, the company started to make a profit. Gerry Giblin suggested that his experiences of the start-up stage influenced his views; he decided to create a firm characterised by productivity, team work and commercial values, rather than one characterised by individualism and conflict. He referred to the early start-up phase:

> There was an opportunity for people to flourish, to put forward different points of view, stuff like that, but which was not necessarily a good thing. There was a lot of politics. We had to clear all of that out.

Development of the firm

One manager remarked that a great deal of planning was not carried out and that Gerry Giblin played a key part in the early development of the firm. His personality in terms of persuading local financial institutions to pay for, and take the product was a critical factor in the success of the company. Incorrect decisions were taken in the technology arena, yet the firm had the flexibility to re-adjust and adapt to new technological trends.

Employees believed this flexibility was a major factor in the success of the firm.

The major problem faced by QFS was the marketing of the product outside of Ireland. Growth depended on the penetration of foreign markets as well as the credibility of the company. For large customers, the size and stability of the supplier was an important buying criteria. It was recognised that the primary strategic issue was to search for a partner who would provide them with marketing channels and help them overcome any lack of credibility in the marketplace. An attempt was made to open an office on New York and London in 1990. This coincided with a slump in investment in 1991. Problems were resolved by a deal with Micronogosis, an information technology company in June 1991, who wished to enter the PC market. Under the agreement, Micronogosis would market QFS's products abroad for three years on an exclusive basis. The deal enabled QFS to grow from 20 people to just under 100, and from having a presence in 4 countries to 28. Micronogosis bought the company in 1995.

According to Gerry Giblin, the deal was successful, although it carried some drawbacks. The problem of two companies with different cultures being drawn together had to be resolved. QFS had to cede some control. They were reliant on one company to exclusively promote the products for them, which in hindsight may have been a mistake. In addition, internal conflict arose between the product lines which was not anticipated when the deal was first negotiated.

Company culture

Gerry Giblin learned the importance of commercial values from an early stage. He felt that they had developed 'a top class product' but good management was also important to company success. According to the marketing manager, Bryan Maybury, QFS succeeded where others failed because it was run by business people not technologists. He remarked that: 'they are business people who happen to be in software, rather than software people who happen to be in business'. QFS emerged when money was tight in the company, so profit fitted into the basic objectives and philosophy of the business. The early period of formation prevented a technological bias over commercial concerns.

The conditions under which the firm was born had major ramifications on its development. For instance, Gerry Giblin 'learned' the value of power and profit:

> It has made me a lot more commercial. Power is the big thing. Power to do what you want to do is dependent on a single issue - making profit - and if you are making profit then everything you do is right. If you are not making profit, then everything you do is wrong. We had that three year lesson without any product being turned out...A painful lesson was learned early on. But we had the time and money to learn them. If you had a small company, you would learn the lesson but you would also be out of business.

Gerry Giblin attempted to foster a situation with the informality and innovation of a Silicon Valley company, but also tried to incorporate Japanese-style values of hard work and productivity. He believed in stretching the capabilities of the company employees. His motto was that employees 'get out what they put in to the company.' He believed that the company possessed the necessary innovation and creativity, but it was embedded in a team structure. He firmly believed that it was important not to be too dependent on the skills and abilities of one, or a few individuals who could easily leave the company. In the early stages of new venture creation, this was unavoidable but over time the company had to become more process driven. A structure was put in place so software was produced on time, on budget, with reproducibility of effort.

As a small company, its culture was characterised by the absence of formal personnel policies. One employee claimed that:

> The individual is less catered for today than what happened in the past. Today the company is more careful about having personnel policies and rules that have to be applied, which is stifling.

Older employees now have a job title and a fixed salary range which has changed the atmosphere in the company. Employees have seen a change in thinking within the company. In the early days the company expanded on a cash flow basis. They could not draw on cash reserves. If sales declined, and overheads rose in a particular year, then that led to a fight for survival. Today, the organisation is more of 'an accounting driven organisation.' It operates on some estimate of current revenue; it is financially stable due to the take-over and the parent organisation has placed limitations on the risk-taking propensity of the founder.

Continuation of niche strategy

The company pursued the product strategy as laid out in their original placement document way back in 1984. Gerry Giblin remarked that the company did not undergo fundamental change in terms of strategy. It was quite specialised in terms of the technology used. Most employees worked on the development of new products to add on to the systems originally sold and installed. Gerry Giblin remarked that the early product/market decisions were crucial and that those decisions 'stood the test of time'.

One manager asserted that 'greater efforts could have been made to produce other products, to diversify at that point, rather than diversifying later on.' However, software development demanded a great deal of finance. This manager suggested that cash shortages and the early period of formation made the company conservative and QFS became risk averse as a result.

He spoke about the repercussions of early years of struggle and crises:

> It makes a firm conservative. Very much so. I suppose if you are used to managing on a very tight budget, you are used to planning ahead, how to pay next month's salaries, these issues were a feature of QFS back in the 1980s. Even though we were financed by Dermot Desmond, he did not have bottomless pockets, so we are used to justifying every piece of expenditure in great detail. It makes you conservative as regards pushing the boat out in the R&D side.

There was a gradual recognition that Invision had a limited life cycle and a decision was taken in 1994 to bring a new product on stream. The financial manager believed that a lack of research and development could render QFS vulnerable to newer and stronger competitors or to a rival technology. They faced competition from Reuters, Telerate and other small companies.

Changes in managerial style:

The company was set up by Gerry Giblin, an individual with a creative idea, immense drive and determination to succeed. His managerial style was informal. Gerry Giblin remarked:

> There was no formal board or board meetings - meeting someone in the hall and having a chat -that was effectively the control of the company.

The founder realised that if QFS was to become a large company then it had to become a professionally managed company, rather than one where employees react to 'the personal charisma' of one individual. Giblin spent a year looking for a general manager with strong leadership skills, but who would also possess the type of personality that would not alienate employees and cause them to leave. Gerry Giblin stressed the importance of finding the right person for the job; the consequences of getting the wrong person - 'someone who can just crack the whip' - would have been detrimental to the company.

Gerry Giblin claimed that it was difficult to make the transition from 'a people-driven to a more process driven organisation'. If QFS became too process driven, then as a consequence, it would become too bland and would lose all innovation. On the other hand, QFS would fail if the founder could not bear to cede control. Gerry Giblin remarked:

> You must be strong enough to move forward with a knowledge of the history without being a prisoner of the history......not being afraid to make changes in management, structure, to reflect the progress you have made...It is vital to allow the company to progress, not to try and hold everything together the way it was at the early stages.

He was faced with the challenge of combining the innovative drive of the entrepreneurial stage with the conventions of the mature stage. In the words of the Gerry Giblin:

> There has to be a balance between keeping the creative element where people are energised and have the freedom to innovate, and the opposing requirement of putting organisational structures in place.

According to Giblin, the ability of the company to absorb that change without losing the creativity that led to its success in the first place was crucial. Gerry Giblin remarked that this, 'sounds pretty trite, but its a very subtle and a very hard thing to do and a great deal of luck goes into it as well.' The financial manager claimed that the take-over brought 'new management skills that were not there in the past.' Employees also spoke of the transition to be made from a small firm with four people to a larger one with 100 employees. They have seen 'all sorts of structural and procedural changes'. Greater professionalism became a feature of QFS. In the early days the user manuals were written in-house but today a third party is responsible for it. Older employees had the stimulus of working for a small company knowing that if they worked hard they would be rewarded. Gerry Giblin realised that the company had to be managed in a different way to allow for the increase in size. Decisions were made on employees' productivity levels, time keeping, and so on, which was a painful process. Older employees did not need to have those procedures put in place but it was necessary process. The company has experienced major changes in terms of making a transition from a small start-up operation to a mature company.

A new role for the founder

Gerry Giblin's role within the company has changed. In the early days, he was involved in software development and project management, then once the product was developed, he moved into a sales position. He remarked that he has become 'more removed from day-to-day management'. He defined his current role as: 'talking to important customers, taking time to think about what they should be doing next, what products need to be developed'. He has become more involved on the lower level and spends his time talking with programmers in order to 'to inspire them to do exciting work'. He was be able to do that with the comfort of knowing that the day-to-day details were being taken care of by the general manager. Gerry Giblin sees his role as that of a facilitator - providing the right environment that people need in order to produce good software. This also means having trust in employees to do a good job.

The strategic alliance deal ended in June 1995 with the take-over of the firm. The founder realised that there had to be an exit mechanism and a way of realising one's investment but he disliked the loss of control that this step entailed. Gerry Giblin stated that it was difficult to change the ownership structure due to the psychological aspects.

He said:

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

The entrepreneur's view of the company's strengths:

(1) Technical expertise and the quality of the software product.

(2) Low staff turnover, stability and experience of working in teams.

(3) Shared experience

(4) A solid track record and credibility.

The entrepreneur's view of the company's weaknesses:

(1) The lack of control over marketing

Case company 4: McKeown Software

Introduction

McKeown is a one of the largest indigenous Irish software companies in Ireland. Established in 1976, the company now employs 120 staff across offices and has a turnover in excess of £7 million. The company has two main product lines, accounting and distribution. McKeown's software products are aimed at large users in the upper end of the market, such as Bank of Ireland, Aer Rianta and the ESB. Their clients demand high levels of functionality combined with high transactions rates. The clients are principally large commercial enterprises and public sector authorities. McKeown's turnover increased by 26% in 1994 to £7.4m in 1995 but its pre-tax profits were static at £634,250. In terms of fixed assets alone, it is worth an estimated £1.88m. It was named 'Computing Services Company of the Year' by ICSA (Irish Computer Services Association).

Milestones

1976 McKeown established
1980 First package offering on the market
1985 Opens Stevenage office in the UK
1990 CCS takes a 55% stake in McKeown
1990 Enters the UNIX market
1991 Opens Hong Kong office

The company sees future growth coming from export markets, particularly Hong Kong.

Start-up

The company was founded in 1976. Gerry McKeown qualified from university with a B.Sc degree, gained some experience in the software industry in Dublin and then worked in Canada for five years before returning to Ireland. His intention was to set up a software house. Another individual joined the venture and acquired a 20% stake in the company. Business revolved around a few key clients. Work was carried out on-site in clients' offices around the country. There was no formal, planned strategy in place; their attitude was simply: 'get enough cash to pay this months wages...we did anything for anybody.' They took the view that any job was worth doing and offered their services if a company wanted a particular system developed. Some of their first customers came from the Dairy Co-Operative industry, since Gerry McKeown had experience in that sector. They had a policy of developing be-spoke applications. This involved working closely with customers and developing original solutions, in effect tailoring the software to their specific needs. The customer thus paid for the initial development. As such it was a direct contrast to standard, packaged software that was aimed at the general market. The company is more product-led today although it started its life as a service company. In the early days, the company received approximately £419,500 in IDA grants and was also supported by the Northern Ireland Industrial Development Board.

In 1980, the founders decided to move from being a general software services company into dealing with accounting software. Unlike many indigenous Irish software companies, McKeown did not concentrate on a niche market. Accounting packages are horizontal type applications. Every industry and every company - be it a private or public sector organisation - needs an accounting function. In 1981 the first Digital vax machine was launched and McKeown worked on the now redundant Digital hardware. These were big, bulky machines and only clients in the top end of the market could afford to buy them. McKeown began to concentrate on developing software for the Digital VAX/VMS range of equipment. They had a franchise for the Digital hardware machines which were sold almost at cost to clients. During the 1980s, Digital became reasonably successful in Ireland and McKeown shared in their success. McKeown also devised an online bureau system whereby people could dial into their system via modem and use their software. These clients, who could not afford the huge capital outlay on machines, just possessed a screen and a keyboard, and could still avail of computing power. This was an innovative concept at the time and it made computers accessible to clients. In 1982, office space of 5,000 sq.ft. was acquired in Dollard House, Dublin. It was recognised that growth would be constrained by the limited Irish market, so the company made the decision to expand into the UK in 1984.

Industry environment

The computer and software industry was in its growth stage when the company was founded. Companies and clients were to benefit from revolutions in the computer environment. The first personal computer (PC) was launched in 1985. With the price of hardware falling and performance standards increasing, it was an exciting time to be in the computer software industry. McKeown was a little bit ahead of competitors and their bureau services created their market. When the bureau users eventually bought their own machines, they bought McKeown's software as well. The company was very successful from the early 1980s through the late 1980s.

Role of the entrepreneur

The financial manager saw Gerry McKeown as a major force in the success of the company:

> He is very dynamic. His ideas, his concepts of what clients will want are right. He is quite imaginative. He is marketing oriented. He has good technical knowledge. He is indispensable, totally.

The financial manager believed that a combination of technical, marketing and managerial expertise was crucial in the software business:

> From our point of view, it is no good knowing only one or two aspects. You need to know the market, the industry and have technical know-how. To manage a business like this, you have to have the ability to manage staff. And that is a talent. Communication is really important. He is a brilliant entrepreneur. He would be a very good manager. He can communicate well, he can communicate in R&D and in marketing.

Crisis

According to the financial manager, the company was successful up until the late 1980s. There were no problems; everything went well; it was a 'silver spoon' situation. Hugh Cosgrove, the general manager, echoed this view, saying that the company experienced a period of rapid growth. The Irish operation was self-sufficient and it generated cash surpluses. The early decisions on technology did not change all that much. In the late 1980s the industry underwent a major change and consequently McKeown had to change its technological base. UNIX emerged as a new operating system. The company decided to 'translate' all its products in order for them to run on UNIX. The transfer meant that McKeown's software could run on any hardware platform that supported UNIX, such as IBM, Digital, ICL, Hewlett-Packard. Open systems technology benefited clients in the sense that were not tied to a single hardware supplier. The transfer to UNIX from the proprietary Digital VAX/VMS environment was inevitable and a case of 'good timing' in the light of the Digital exit from Ireland. However, the project demanded a huge capital outlay. From 1983/84 onwards, the company spent at least a quarter of a million on R&D. The project was a costly and complicated one that took over 3 years to complete. The transfer had to be done correctly; the systems had to be properly 'bedded down', i.e. guaranteed to work when they were released.

Marketing costs were also quite high in gaining a foothold in export markets. Any cash surpluses in Ireland were drained by the UK operation. The company was depending on the depressed UK market where the bulk of its users are based. The year 1989/90 was a very difficult trading year for the company. In 1989/90, the company took over an operation in Northern Ireland in order to sell into the Scottish market. They also opened an office in Hong Kong, but incurred a bad debts which had to be written off at that stage. The systems did not live up to customer expectations and the client refused to accept them. The financial manager claimed that the company experienced problems with bespoke contracts. Normally when a specification came in from a potential client, the company responded to it as best they could. However, it was a cost that the company could not control. Various factors resulted in a shortfall in sales revenue and a loss for the financial year.

Management unanimously agreed that the following three factors created a large cash flow problem for the group:

(1) High R&D investment
(2) Stagnant sales
(3) High marketing costs.

Plans had to be devised in the short term to recover from an adverse situation. The company was forced to reduce staff and control costs. Hugh Cosgrove, the general manager in Dublin, saw the problem as one of rapid growth:

> The danger with software development is that expansion can be rapid until one day the bubble bursts. A company can become too big too quickly and get out of control.....We had a traumatic Christmas where 25 people were made redundant. That concentrated our minds.

The company was very successful for three years previous to the crisis.

They made the decision to adopt Unix technology and decided to concentrate on software packages. However, according to the general manager:

> You can't ever afford to take your eye off the ball and ignore management reporting and monitoring. We were cruising. We had two or three good years. In that particular year, we were heavily into marketing, and at the same time we had a fairly heavy investment in technology. I guess we did not review figures on a month to month basis. Suddenly, nine or ten months into the year we were faced with a real crisis situation.

The comments of the general manager suggested that the period of turbulence arose from a lack of planning. Cosgrove remarked that they should have concentrated resources on sales/marketing and formal reporting. Cosgrove suggested that growth should have been controlled better, but it was likely that the founder did not see the need to conserve resources. The financial manager saw the problem as a lack of reflection, of strategic thinking. He said that:

> The company was maybe mismanaged in some ways. The company is much more reflective internally today.

The financial manager remarked that although it was bad period for the company, positive aspects emerged. The company would not have grown to the position it is in today, with the potential it has, without having gone through that period.

Recovery from crisis

The company nearly went into receivership but its problems were addressed by outside investment. The financial manager said they had hoped that sales would sustain growth and that the company would remain self sufficient, but things did not work out that way. This period was to have significant repercussions in the future. A large Spanish software company CCS (Centro de Calculo de Sabadell) bought a 55% stake in the company. According to the general manager (Hugh Cosgrove) Gerry McKeown was comfortable with relinquishing control of day-to-day management. On a personal level, the transition to a formal board of management happened at the right time for him. A man in his fifties, he worked hard and had the opportunity to enjoy the rewards of business success. He became more directly involved in the R&D side and played a lesser role in the direction of the company. The comments of a few managers suggested that long term strategies were put in place:

> McKeown started off with a few employees, with his ideas, with what he wanted to sell, after that there was continual growth all the time to the mid 1980s. Then it was realised that it was a big company that had to be responsible for it's employment..a definite mark.. At that stage, business strategies would really have been kicked into place, in the long, long term. Up until then, it would have been in the growth stage, which is quite common in a lot of companies, you know who you are selling to, what you are selling, you take your product and sell around the hardware. Long term plans are not present in the initial stages.

According to the financial manager, the company became far more cost-oriented and budget conscious as a result of the crisis. R&D expenditure was planned a year in advance. They estimated the amount they would have to spend and areas that would generate cash. There was a two year development plan. The company aimed to anticipate future trends. The financial manager remarked that changes in strategy 'were planned reasonably well in advance'. The negative aspects of that period were redundancies and the effects it had on the customer base. The clients had large maintenance contracts with McKeown and concerns about company survival caused some to look at other options. They learned that the Irish marketplace was not a place in which to be pro-active. The Irish market was too small and they learned of the paramount importance of opening up new markets with a new product. Due to the cyclical nature of the product life cycle, planning for new product development was crucial. Whereas older clients would only look for enhancements, new customers would demand new products. The financial manager remarked that they can cope with the product life cycle much better today because they have a secure financial base. An aggressive development cycle, the lack of planning, the lack of proper budgeting and control procedures, all contributed to the crisis. Crisis seemed to caused by poor management.

In the aftermath of the crisis, it was critical to monitor expenditure and make the firm as cost effective as possible. The decision to shift from bespoke development to a product led strategy emerged in the late 1980s. There was a strong degree of consensus among manager regarding company strategy; most saw the crisis has having ramifications for the company's strategy. The financial manager claimed that as a result of the problems the company went through in the 1980s, they decided to move away from bespoke contracts. Hugh Cosgrove (General Manager) also believed that packaged software made more financial sense. For instance, the company produced a customized package for the health sector and that became part of the standard product. Rather than having different versions of the software, they had one product which had perimeter settings to suit the particular market requirements. The company concentrated on developing one system instead of maintaining many different versions of the same product. This led to significant savings.

According to management, the thinking of the company changed in the wake of the crisis situation. Programming staff had to change their work practices. In the past, there was a tendency to leave certain features out of a package unless the client specifically requested it. Today, programming staff have to think in terms of 'putting everything into the package'. The company is committed to developing standard software packages. The company therefore has become more of a R&D and sales unit. The company did not have the same requirement for programming staff as a result. As they deliberately reduced their involvement in large bespoke contracts, the consequent resources were retrained and diverted into the R&D and Product Development division. According to Hugh Cosgrove, the company emerged from this period in 1980s with:

(1) a commitment to product stability and
(2) an objective to restrict growth in terms of employee numbers.

Before the crisis, if a contract was obtained people were employed in the hope that more work would become available by time the contract was finished. That ethos has changed. The company became much more product-oriented. They concentrated their energies on developing the core product instead of devising new products. They did not intend to grow any bigger in terms of numbers employed. In the past the company grew without worrying too much about profitability. The financial manager remarked that:

> they have stepped back from that. If we have an overflow, we use third party contractors and some of the larger consultancies who assist us in implementation; this helps pick up the peaks and troughs.

Mr Hartley, the sales manager, claimed that the company has become much more focused because of the change in their core strategy. He remarked that in the past they:

> ...we tried to cover too much ground, we bid for nearly everything that moved, we would grab it. Now we are saying no. We have a core regime.

They made a decision to bid for contracts that fitted their customer profile not for contracts that required a great deal of bespoke enhancements. The marketing manager noted that the company as a whole learned valuable lessons along the way.

He suggested that the company has become more focused:

> We are going to stop buying market share. We adopt this 'live and let live' posture. You can take the bad business. We will chase the good business. We are more completely focused now on profit not on revenue.

Development of the company

The company targeted three main market segments:

(1) Commercial (38.4%)*

(2) Healthcare (30.9%)

(3) State (30.7)

* 1994 figures

The company quickly identified the commercial advantages of developing the public sector market. Malachy Hartley remarked that the company was strong in local or quasi-local government in Ireland, with clients such as SFADCO and Aer Rianta. Revenue was biased more towards the public sector than their traditional commercial sector. The recession in the 1980s stimulated McKeown to target the public sector. The company developed its product portfolio over the years and added a new system in 1994 aimed at the National Health Service (NHS) in the UK. Although the company penetrated the health service and used it as a reference site to build future sales, they did not ignore other industry sectors.

A technological orientation

The financial manager stressed that an R&D orientation emerged from the 1980s period. He remarked:

> The concept of being much more R&D oriented came into existence in the company in the late 1980s. Technology changed so fast that the company had to be R&D proactive.

According to him:

> You couldn't just keep on with 'bespoke, bespoke, bespoke'. It started to fall over eventually. The client became more aware of what was out there. The client became more aware of their own business as well. The more information technology they got, the more they wanted. So the systems would have continued to grow, like a bonsai tree...it came to the stage where it was too big in the garden. We wanted to get everything into the nut. It was not going to grow anymore. The package should have everything that the client wanted. All they needed should be within it.

Changes in the technological environment resulted in dramatic changes in the products, both in terms of functionality and the hardware systems they work on. According to the financial manager, McKeown was proactive and prone to taking calculated risks, however the company had a more secure financial base. McKeown and its parent group CCS agreed to exchange technology and to collaborate on future product development. A pan-European Co-operative Development Initiative was set up by the group. This was a product development alliance with firms in Spain, France, the Netherlands and Portugal. This project could not have been undertaken by the company on their own due to the huge investment required.

Management thinking changed after the crisis; the focus was on continuous development of their product and technology. The survival and expansion of the firm, according to the general manager, would depend on its ability to refine their product and absorb new technological trends. Company strategy centred around a fairly standard product aimed at the public sector and private sector organisations. This contrasted with their previous policy of adapting the basic product or technology for particular needs or customers. This strategy (i.e. a shift from bespoke development to products) resulted in changes in staffing, in work practices, in customer profiles and a new R&D orientation.

A customer orientation

The importance of customer service was evident throughout the company. Since the buyer-seller relationship was long term in nature the ability to communicate with and reassure the customer was crucial. Long term contracts, the high cost and nature of the purchase, meant that client contact was extremely important. The relationship between customers and a software company like McKeown was a paradigm of mutual trust. For instance, one manager remarked that the company provided extensive customer support:

> Our support services and structures are second to none. Having said that, it is being improved all the time. It is very good.

Their commitment to standards of customer service was indicated by the adoption of ISO 9000 practises in all their locations. This award was critical to the company's ability to tender for international business.

Mr. Hartley (Sales and Marketing Manager) saw the customer as a driving force behind the core strategy. The company had to draw a fine line between adjusting the product without changing its core structure. If they impinged on the stability of the product, it would preclude their existing customer base from moving with them. According to Mr. Hartley, their approach was one of caution, it was a 'softly, softly' approach. They worked on the basis that it would take time for the market to mature, to accept new technology. Selling software was a two way process, one of customer education. He stressed that consumers needed to be reassured that they would have a path to future technology.

The financial manager claimed that a customer awareness was present from the outset but the company realised that being proactive in R&D was also very important. The board of management developed a User Group and Special Interest Groups (SIGs) who were active in reviewing and recommending new areas of product development and enhancement.

Technological and competitive challenges

Keeping up to date with technology was a major challenge to be faced by the company. Hugh Cosgrove claimed that the company has seen major trends on the technical side. The company had to evaluate closely those trends that were likely to impact their market. The company did not position itself in the forefront of technology, but was a follower of technological trends. The company's objective was to incorporate new developments into the core product. Evolution not revolution was the attitude adopted by the company. According to the general manager:

> We have never sat down and said that we have a new piece of technology. Instead, we say, we have a set of core packages which we have spent a lot of time and energy on. In terms of providing stability, let's try and bring these packages forward, not scrub the investment and start from scratch...The company cannot afford to discard its customers. It has to bring them with the company when adopting new technologies.

The financial manager claimed that the company adopted 'a bold and aggressive posture' when an opportunity to make sales existed. That opportunistic posture drove the company since the late 1980s. Through their knowledge and their experience, they were in tune with customer needs. Their perception of risk was relatively low since the opportunities were very real to them. The financial manager remarked that: 'they can drive R&D as hard they want' but that is not inherently risky. R&D is the 'bread and butter' of the company. Devoting as much resources as possible to R&D was in line with the long term strategy of eliminating bespoke work. The only risk lay in the cash flow situation, but since the company was taken over it has become better managed.

According to one manager, the marketplace has become more sophisticated and more demanding in terms of new technology. The market has become much more educated in terms of what to expect and demand a high level of customer support. In the past five years, customers have started using consultants to advise them on their computer requirements. Customer specifications have become more detailed and more formal. In one sense this change has actually benefited McKeown since according to one manager: 'they have a clearer idea of what the customer wants right from the start'.

McKeown took the threat of competition very seriously. They gathered information on competitor activities. In an intensely competitive business, it was extremely difficult to compete against international competitors. The large players had worldwide exposure, guaranteed financial stability, hundreds of reference sites in many market sectors which was always an advantage. They were able to compete on 'junkets' (i.e. a day out playing golf) whereas McKeown had to rely on the products to sell rather than on ancillary things. McKeown was a medium sized company and that caused clients some concern. Yet, they compensated for these disadvantages by providing local support. Their main competitive advantage was the fact that they were the author of the software; they controlled the whole development, implementation, training and marketing processes. The company was a one-stop shop which was what clients wanted.

Future plans

The general manager spoke of their future plans:

> We'll see what technologies are emerging, keep monitoring the sales situation, keep reasonably tight as regards size, grow turnover by adopting a product oriented strategy.

The company may use agents to distribute their product. The financial manager sees future goals as continued growth in Ireland and the UK, and 'hopefully, a big operation in the Far East'.

Management's view of company's strengths

(1) A very good work force
(2) Centralized control
(3) Reference sites
(4) Full control over product development, training, implementation and local support services
(5) R&D expertise

Management's view of company's weaknesses

(1) Being tied to existing customers
(2) Lacking the international dimension, being a medium sized company competing against multi-nationals
(3) Difficulty in getting established in the UK

CHAPTER FIVE: MAJOR THEMES AND OUTCOMES FROM THE CASE STUDY FINDINGS

Introduction

This chapter draws on the empirical data to describe the strategy formation process as observed in nine small ventures in Ireland. Figure 5.1 presents, in overview, a model of the strategy formation process guiding this study, as developed earlier in chapter two. In this chapter, each of the three major influences on the process are analysed in turn. For instance, Figure 5.2 synthesises the main findings relating to the entrepreneur. The chapter then concludes with an examination of the patterns of process produced by the interaction of these influences over time. The chapter is organised under the following headings: (1) The Entrepreneur, (2) Context, (3) History and (4) Patterns in strategy formation.

Figure 5.1: A Model of the strategy formation process in SMEs

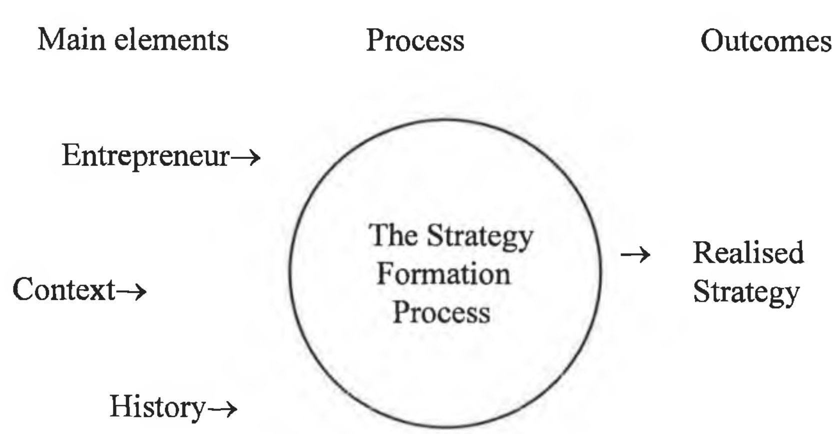
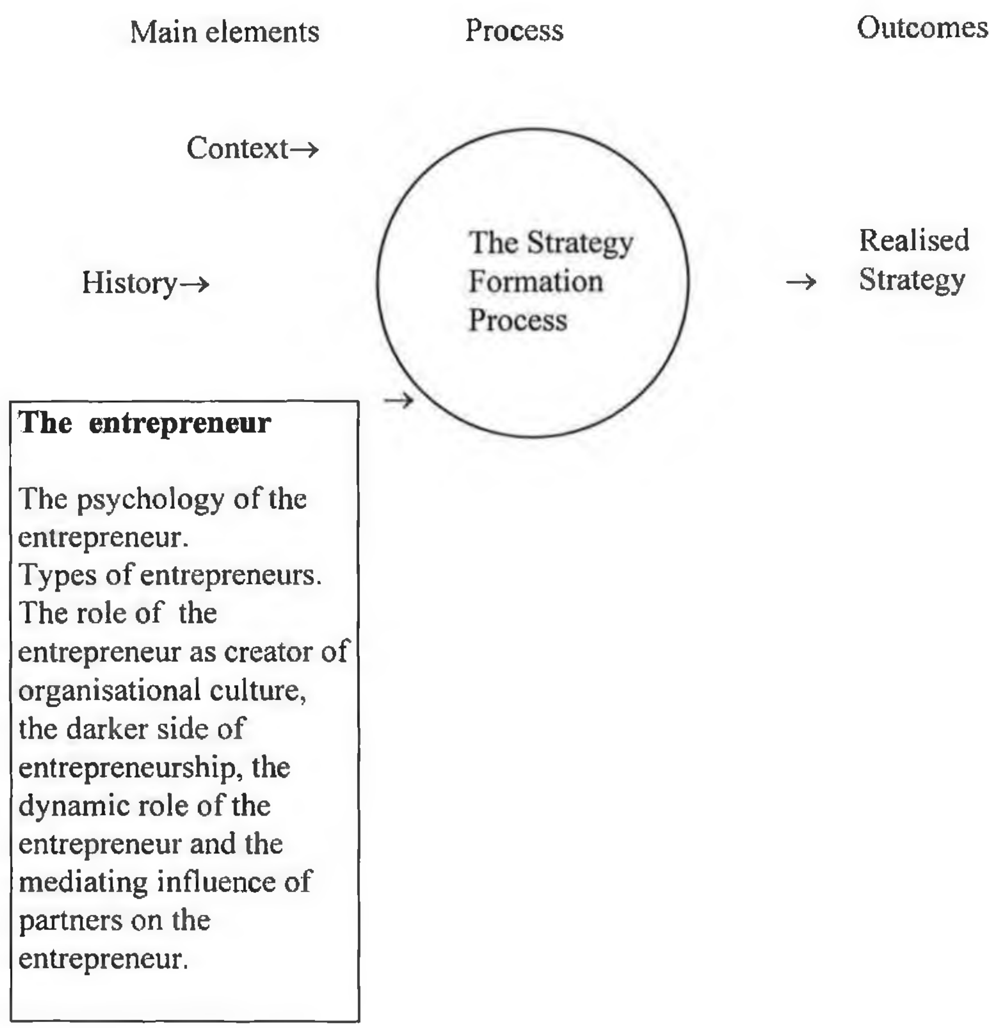


Figure 5.2: Entrepreneurship and the strategy formation process in SMEs



(1) The entrepreneur

Introduction

A key debate that emerged from the literature was whether or not the personal attributes of the entrepreneur had a significant impact on outcomes (see, for example, Cromie, 1994). Other studies suggested that the trait stream of literature adopted an overly voluntarist perspective on the role of the entrepreneur (Sandberg and Hofer, 1987). The case study data informed this debate by looking at a variety of entrepreneurs in context and over time. The case study findings are summarised in Figure 5.2. Firstly, the study examined whether the concept of the 'entrepreneurial hero' was based on reality or myth, and secondly, it assessed the role of the entrepreneur in the strategy formation process.

A key research question related to the role of the entrepreneur in the strategy formation process. This study found that the individual was, in most but not all cases, a crucial actor in the process of strategy formation. All founders had the ability to perceive and act on new market opportunities. Many exhibited qualities such as commitment, willpower, tenacity, persuasiveness, along with people skills. The vast majority (7 out of 9) of the companies were based on the exploitation of a previously untried and untested idea in the Irish marketplace. One firm (BFK Design) was a 'me too' company and had some difficulty in differentiating itself from competitors. Some entrepreneurs such as Richard Brierley (Fiacla), Jim Barry (RTI), Gerry Giblin (QFS) and Gerry McKeown (McKeown Software) did command a standing in their firms of almost homeric proportions, supporting the classical, romantic stereotype of the entrepreneur. What emerged from discussions with employees in these firms was the unique and valued contribution of the founder to the firm. The entrepreneurs left their mark on the firms by fostering a distinctive culture. The 'hero status' of the founder was very much in evidence. The accounts of stakeholders praised the entrepreneur, they had a strong predilection for the meteoric rise, the success story, the small firm holding its own with large companies. A question that arose in the case of RTI and Fiacla was whether the company could survive beyond the tenure of the founding entrepreneur, indicating the importance of the entrepreneur to the firm.

In contrast, the entrepreneurs in Caraplas, BFK Design, Kestrel and Braycot, did not seem to enjoy the same 'hero status', questioning the universality of the traditional romantic stereotype. There seemed to be variations in the personas and role played by the founders in the development of their firms. In addition, the role of the entrepreneur was not always a constructive one in the strategy formation process. The influential role played by the entrepreneur in the company's early development was often moderated in later stages. Learning and change was a feature of both the firm's and the entrepreneur's development over time, an insight that is often lost in the more traditional, static studies of the entrepreneurial personality.

The psychology of the entrepreneur: personal traits, motives and aims

A key research question centred on whether the personal attributes of the entrepreneur had an impact on the strategy formation process. By comparing and contrasting entrepreneurs in terms of their personal attributes two main archetypes of founders were revealed. These are shown in Table 5.1.

Table 5.1: Typology of entrepreneurs

Type 1	Type 2
The charismatic entrepreneurs	**The pragmatic entrepreneurs**
Richard Brierley (Fiacla) Jim Barry (RTI) Gerry Giblin (QFS) Gerry McKeown (McKeown Software)	Peggy Connolly (Irish Breeze). Kevin Barry & Partners (BFK Design). Gerard Crowley (Braycot). Pearse O' Kane (Caraplas). Joe McArdle (Kestrel).

These two types exhibited different attitudes towards risk, different attributes and had a different standing in the eyes of employees. Their approach to the formation of strategy was different: the charismatic entrepreneurs took risks in order to aggressively grow the company, whereas the pragmatic entrepreneurs sought to minimise risk in the strategy formation process. The charismatic entrepreneurs were able to infuse employees and customers with their vision for the company; their approach to the formation of strategy was emotion-rich and underpinned by humanistic as well as commercial values. The charismatic entrepreneurs possessed certain attributes that seemed to fit the stereotypical, romanticised 'larger-than-life' image of the entrepreneur. The pragmatic entrepreneurs were perceived in less charismatic terms and adopted a more down-to-earth, instrumental and calculated approach to strategy formation and business development. Although they did not seem to fit the stereotypical image of the entrepreneur, they were just as effective in most cases. The main attributes of each type are shown in Table 5.2.

Table 5.2: Dominant attributes of the charismatic and the pragmatic entrepreneurs

Type 1:	Type 2
The charismatic entrepreneur	**The pragmatic entrepreneur**
Dominant attributes	Dominant attributes
Approach to strategy formation: visionary, idealistic, romantic, intuitive. A 'bullish' attitude to the management of risk. Abiding commitment; obsessive, success against the odds; achievement of goals an 'end in itself'.	Approach to strategy formation: 'common-sense', down-to-earth, planned, rational. A 'bearish' attitude to the management of risk. 'Calculated' commitment; success obtainable: dream within reach; instrumental aims: achievement of goals a 'means to an end'.

Type 1: The charismatic entrepreneur

The charismatic entrepreneurs shared common characteristics: all were visionaries; they had an unshakeable, obsessive belief in their venture ideas and abiding loyalty to their companies; their vision was often based on intuition and experience rather than hard data, proven facts, forecasts or plans. They were prepared to assume risks in order to aggressively grow the company even when their ambitions exceeded company resources. Although they were small players competing in industries dominated by large, well established multi-nationals, their ambitions were not modest. Their sense of confidence in the venture, ability to inspire employees and persuade stakeholders to continue to support the venture in times of difficulty, were all important characteristics of the charismatic entrepreneurs. Their tenacity and persistence in the face of difficulties eventually led to success, often success against the odds. They were guided by idealistic as well as commercial goals: success and financial reward was important to them but they also had other aims such as: making computer power at the point-of-sale more accessible to the users; building a world-class reputation for Irish software, and proving that Irish produce is as good, if not better, than the import substitutes. They constituted a driving force in the development of their companies, but on the negative side, their role in developing the business and emotional attachment to it made them virtually indispensable to the firm. They were reluctant to cede control of the venture and take-over was eventually forced on the companies in two cases.

Approach to strategy formation: visionary, idealistic, romantic, intuitive.

The charismatic entrepreneurs were visionaries for their companies, they were oriented towards the future, towards exploiting new opportunities and new innovations. The start-up and early development of their companies was driven more by their instinct or 'gut feel' for the business rather than by a rational plan. They were driven by deep-rooted values rather than purely economic values which helped them tap into a niche market and respond to the needs of customers.

The founder of RTI, Jim Barry, set up a company to exploit the technology of EPOS (electronic point of sale). He went into the market pre- the P.C. (personal computer) era. Industry conditions were not favourable to the start-up of a new technologically based venture, and the Commodore PET computer which was launched in 1977 was 'quite primitive'. Jim Barry remarked that: 'the market wasn't right for it then, that's for sure' but claimed that the knowledge they gained about the technology and market needs was invaluable. He decided to leave his job which was a 'major move'. He was pulled into entrepreneurship by his strong desire to achieve, to 'build things' and by his belief that a market existed for POS (point-of-sale) technology. This belief seemed to be based more on his intuition and 'gut feel' for the project rather than on any in-depth market analysis. He remarked that he: 'just became interested in the technology around 1974' and that it was: 'all seat-of-the-pants stuff at the time.' He described himself as follows:

> ...I'm a gut feeling type of person as well. You get a gut feel for something. If you look around - where are the problems, the bottlenecks? Wherever there is a bottleneck there is an opportunity...

If Jim Barry's instinct for a new project was shared by the other directors, they then proceeded with the project. The comments of one employee suggested that forming a strategy in this way was risky since the founder's instinct for market needs may not always be correct:

> The current project is risky in the sense that the market research that justifies the need for the product is Jim Barry mainly, his hunches, his experiences of talking to people, his experience of using existing products himself which he reckons are hard to use. Hopefully there will be enough people out there in the same boat as him

Jim Barry believes that the entrepreneur is an individual who only sees opportunities not problems, and it is likely that this attribute caused him to persist with his vision for the company:

> You look at things from a positive side rather than a negative side. I always look for an opportunity first and work back from that...

As a visionary for the firm, he had a love of ideas, and had a significant impact on the new product development activities of the company. Jim Barry spoke about their latest project which challenged certain assumptions inherent in the industry:

> Recent studies in the US show a phobia about computers. The big players have all convinced everyone that all this stuff is very simple...It always ends up that the people who are operating the computers to input data, access data at the POS (point of sale and point of service) are the lowest paid people in the business, on minimum wages, a lot of them can't speak English...The big players don't see that as their market but we see that as our market, so we hope to get our share of that by addressing the low-end, the low level users.

His vision for the company was predicated on addressing the needs of the computer user who was marginalised by the industry:

> There is a huge uneducated market out there who will never have experience of the PC in their home. They seem to have been excluded from all the calculations people are doing. They are marginalised in the computer area, I suppose. We feel the technology we are involved in will make it easier for uneducated people to use the power of PC - so we are targeting our extension of the existing product - allowing menu options to be entered in a simple way through key-strokes...

His idealistic approach to strategy formation was also shown in his desire to produce high quality software products and achieve 'a level of excellence.' He had a great pride in the company and the skills of its employees, saying that the company was 'full of people with bright ideas' and that the Irish 'were the smartest people in the world'. However he lamented the lack of resources available to exploit these ideas. The charismatic status of this entrepreneur was reflected by the comments of employees who saw him as the creative force behind the venture:

> He was instrumental in the development of the company. Without him, there would be no company. In fact, without him, there would be no product.....He is always at least a year, if not more, ahead of the competition. He is an ideas man. A great lateral thinker. He is always thinking ahead...
> He is a brilliant entrepreneur...

Similarly, Gerry McKeown was perceived by employees as being a major force behind the success of his company, McKeown Software. Gerry McKeown founded the company in 1979 with the intention of offering bespoke applications for large businesses. The company was driven by the vision of the founder and long term plans were absent in the early years. Part of McKeown's vision was to make computing power accessible to clients, since computers were prohibitively expensive for small to medium sized companies. The computer systems were large and primitive by today's standards. McKeown came up with the idea of an on-line bureau system, where people could dial into their system and use their software. When the first PC was launched in 1985, many users bought their own hardware and availed of McKeown's software. Gerry McKeown changed from a proprietary to an open systems architecture in the late 1980s. This decision involved a high degree of uncertainty but was fortuitous in the light of Digital's market problems in the early 1990s. This entrepreneur demonstrated both managerial and technical expertise which was vital to the success of the technologically based venture. Like Jim Barry, he was creative, future-oriented, and a good communicator. In the words of the financial manager:

> He is very dynamic. His ideas, his concepts of what clients will want are right. He is quite imaginative...To manage a business like this, you have to have the ability to manage staff. And that is a talent. Communication is really important. He is a brilliant entrepreneur. He would be a very good manager. He can communicate well, he can communicate in R&D and in marketing.

Similarly, Richard Brierley of Fiacla possessed vision. He founded a company to produce the only Irish-made toothpaste on the marketplace; his vision was rooted in the desire to produce a product that was as good if not better than that produced by the multi-nationals. His distributor remarked that he was 'driven by this search for excellence' and 'always wanted the best'. Brierley decided to target the East European market which was an emerging market at this time. This was an imaginative response to the barriers to entry he faced in the FMCG (fast-moving-consumer-good) market at home. The Trade Board did not encourage Irish firms to enter this market since the fall of communism and the transition to a market-based economy brought high levels of uncertainty and turbulence. The export strategy adopted by Brierley was an unconventional one at the time and became the foundation stone in the success of the company. Richard Brierley was quick to adopt new trends and his company became the first to launch a baking soda toothpaste in the Irish marketplace. The distributor saw him as an individual with a great love of ideas:

> He always wants to do something. You can never talk to Dick without him having some idea floating around in his head. He would be a progenitor of most of these ideas. We would be the passive shareholders. He has a very active mind, chase this, chase that. We would be more or less responding to his suggestions and requests.

Gerry Giblin of Quay Financial Software (QFS) was perceived to have vision and foresight by employees. The company was headed by two individuals, two founding strategists. One was a venture capitalist (Dermot Desmond) with a flamboyant profile in the Irish business world. The other, Giblin, was a software programmer. Gerry Giblin claimed that he 'basically built the thing up.' Although this individual did not fund the venture, he did take a share of the profits and managed the firm with a considerable degree of autonomy. He had predicted with a great deal of accuracy how the technology and financial markets would evolve in the future. He provided the vision, the technical creativity and contacts that led to the firm's success. Growth in QFS was driven more by the vision of the founder that by a plan. One manager remarked that 'Gerry's vision would have been a key part' in the growth and success of QFS. Gerry Giblin was an opportunist who used his contacts in the software industry to put together the deal with Telerate.

This entrepreneur, like the others, was driven by deep values that underpinned the purely commercial values such as growth, success, financial reward, and so on. His aim was to be a 'world class software developer', to produce 'world class products', not just products for the domestic market. The company was named the AIB software exporter of the year in 1993. He was seen by employees as having a charismatic personality and having status in the software community:

> Gerry met Dermot Desmond in the States who asked him to come back and head up the company. You had the deep pockets of Desmond and the charismatic type of individual in Gerry who was able to do all the front work...A lot of new companies have that type of personality, particularly now since we are moving into risk management, the entrepreneur is normally a person you would identify with the company, not just the company name

As the company grew larger, Gerry Giblin, realised that there was need to bring in a professional manager instead of having a situation where employees reacted to 'the personal charisma, influence or style of any individual.' The role of Gerry Giblin was praised by the new managing director:

> I think he is well respected. He started up something new. He was involved with QFS from the beginning. He was the founder of the company. He came to it with a strong technical background. He came from Telerate and was the one behind the Invision product...He had the vision and foresight to come up with an idea and base a product around that idea and start up a company. He is very strong, a good leader.

It would be difficult to make sense of the culture of QFS without knowing the fraught circumstances of its birth. The founding strategists had ambitions well beyond the reach of current means, which was seen by the proposed deal to merge all companies into one entity and secure funding from Telerate even though some were in a weak and embryonic state. The aim was to become a major player in the industry. Large expectations were created. Part of the culture entailed taking risks in order to pursue an aggressive growth strategy. Since QFS was owned substantially by financier Dermot Desmond, Gerry Giblin said that they had the appropriate investment at start-up 'to think big as opposed to small'. However, this vision failed to materialise. Thus, the charismatic entrepreneur seemed capable of assuming risk in the pursuit of a vision which had implications for the strategy formation process.

A 'bullish' attitude to the management of risk

Another distinguishing characteristic of the charismatic entrepreneurs was their attitudes towards risk. Most were obsessive in orientation, they were driven by the strength of their convictions, and this confidence in the business enabled them to take risks in the pursuit of their vision. Although most entrepreneurs have to take risk or deal with uncertainty, the risks taken by the charismatic entrepreneurs were often perceived to be very high by external stakeholders. In the early days, Jim Barry of RTI developed, produced and manufactured products. He took a 'hands-on' approach to all aspects of business-start up. Although he was never completely comfortable with that level of risk, it was necessary in order to prove that the technology worked, and that it could 'come from the laboratory out into the real world'. After a few years, the company made a decision to use licensing as a route for commercialising its technology. The company made a significant break with the past in 1996 by launching a new range of innovative products. Management are presently seeking a quotation on the small firms security market in the United States. They will become one of a very small group of Irish companies to go public. One employee spoke about the high degree of risk borne by Jim Barry:

> When you are driving the development cycle, there are always financial crises, because everything is cost. It means cash flow problems. We have always been able to go to banks or an investment group to sort it out, at great personal risk to the founder and his family. He had to dig deep. If your are supporting an organisation like this out of your own pocket, the costs are mighty. Very high cost, high risk stuff...

In spite of the pressures and strains involved, this entrepreneur persisted with the venture. Jim Barry was totally committed to the new venture. He was 'pulled' into entrepreneurship by his high need for achievement. He needed an outlet for his creativity and was motivated primarily by the desire to 'build things' rather than the desire to build an organisation. The desire for achievement was a strong motivating factor:

> Leaving RTE was a major move. It was a secure job. I could have gone places in RTE. The attraction at the time of doing things yourself was really the motivation. I just wanted to get involved for myself. I wanted to see if I could achieve something, make things...

Jim Barry was prepared to leave what is colloquially referred to as the 'good job' and assume the social, psychological and financial risks entailed in new venture initiation. The founder of RTI believed that the entrepreneur has an unique outlook on life that differentiates him from the manager. The entrepreneur lacks the analytical skills of the manager but possess a risk-taking posture that is a primary requisite for enterprising behaviour. The manager's way of thinking is oriented towards control, risk avoidance and rational analysis while the entrepreneur's way of thinking is completely different.

Jim Barry remarked:

> A manager had to be a very disciplined, analytical type of person, who can look at things and weigh them up very carefully. Managers are more careful people. An entrepreneur is not a careful person. Careful people write the history, they do not create it. A manager is interested in control, in keeping things ticking over on a day-to-day basis. That is an area I am not particularly good at myself and do not get involved in

Similarly, Richard Brierley of Fiacla also showed an ability to assume risk and uncertainty. Unlike Peggy Connolly of Irish Breeze, he decided to manufacture his product rather then sub-contract production. He invested £500,000 in capital equipment for the business which represented the most fundamental decision he ever had to take. Richard Brierley described his own personal philosophy towards business, which centred on being proactive and able to assume risk without depending on external support:

> The one thing blocking the growth of companies is people sitting back and waiting for it to happen, instead of making it happen. A lot of people sit back and say we need support, we have got to have support to do this, but unless they get up and go and do it themselves, they are not going to achieve anything...

Even though he did not have the sales contracts in place, and was unable to obtain grant-aid, he knew that capital investment was needed to bring the firm to its next phase of development. The firm endured a financial crisis soon after, when its distributor collapsed and its entire market nearly disappeared. The quality control manager referred to the founder's tendency to take risks even though the firm was not equipped for them:

> This export opportunity came along and we seized it, without having the capacity to do it very well. We could not say no to it. In fact we had to take the risk. It was a chicken and egg situation. It was a way of increasing production.

The marketing manager perceived Brierley as an ambitious, impatient and driven individual who wanted total control. He suggested that Brierley's frame of thinking bordered on the unrealistic; in his view, Brierley's expectations of what he could achieve were too high. Brierley seemed to be an individual who would push the frontier of his capabilities and did not impose self-limiting barriers:

> I think when he went into the business, he knew exactly what he wanted. Whether the goals were attainable in his time frame, or ever, is debatable! I do believe he knew exactly what he wanted. The motivating factor was money at the end of the day. If he gets a slice of the Irish market it would make him a lot of money...

As a charismatic entrepreneur, Brierley was not interested in minimising risk or adopting a strategy of slow growth/slow build. The company survived the crisis of 1989 and went on to win the 1993 Small Business of the Year Award sponsored by the Sunday Business Post and ACC Bank. Brierley's perception of the risks of business start-up seemed to be low due to his distinct personality as well his lack of business experience. The Managing Director remarked:

> He seemed like a guy who knew what he was talking about. His background struck me as a bit strange, but sometimes they make the best entrepreneurs. They do not see problems only solutions. They do not realise the implications of things. We need a bull headed attitude, I think he went into the venture without realising the commercial risks involved. He had an idea and reckoned he could make it work...

Likewise, Gerry Giblin of QFS was also a risk-taker. One employee described him as an 'optimistic risk taker' and a 'typical entrepreneur' who relied on people to deliver on promises he made to clients during negotiations. In the early days, the company expanded on a cash flow basis and could not rely on reserves. If sales declined and overheads rose in a particular year, then that led to a fight for survival. This aspect of small business development called for an ability to assume risk, to promote the venture continuously and inspire employees to perform above and beyond their capabilities. One employee remarked:

> The art of the entrepreneur is to take a gamble; they have to deliver on that gamble...The essence of entrepreneurship is that you do not sit back on your laurels. You are always leveraging what comes in

The comments of this employee demonstrate that the charismatic entrepreneur was not overly concerned with circumscribing risk or with limiting his degree of risk exposure.

Abiding commitment; obsessive, 'success against the odds'; achievement of goals 'an end in itself'.

The deep-seated passions that drove the charismatic entrepreneurs helped them inspire employees and secure the assistance of key stakeholders. The entrepreneur's unshakeable belief in the product, which was sustained even in times of difficulty, and the ultimate success of the business, helped secure credibility for the entrepreneur. Their role in starting and developing a business, often against the odds, guaranteed them status. In the pantheon of Irish entrepreneurs, they were renowned for their achievements. The companies received recognition from the business community as a whole through awards. For instance, McKeown had a strong customer orientation and was named 'Computing Services Company of the Year' by the ICSA (Irish Computer Services Association) in 1994.

The distributor of Fiacla believed that Richard Brierley was virtually indispensable to the company and remarked that he was a 'driving force' in development of the firm. He said:

> It was his idea, his drive, his initiative that got it off the ground. We facilitated it but we did not start it up... I would not take that from him in an instant...

Richard Brierley was driven by the strength of his convictions. He overcame great odds and challenged conventional wisdom in order to establish the venture. He faced scepticism from the Irish Goods Council when he first approached them but was undeterred. He remarked:

> I can't remember the number of times they threw me out, saying I was crazy

However, his commitment and unrelenting desire to make the business a success allowed him to make his dream a reality. Once the IDA saw that he was serious and had actually sold some toothpaste, they lent him a second hand mixing machine. Many organisations such as the 'Young Ireland Movement' helped Brierley through free publicity. The marketing manager of Gillespie remarked that Brierley drove the business forward:

> We would have 100 products that we would sell. We would concentrate on the most important products. As well as that we would concentrate on where we would get the most pressure. Like every business, where you get the most pressure you react to it. It was Richard who had to drive the business from our point of view. He would keep on our backs

The managing director of a distribution firm saw Brierley as a highly committed individual who was determined to make a success of the business:

> He put all his eggs in one basket. It was a speculative venture.
> He had to make it work. I suspect he
> made a few bob in England. He had money to invest
> although he was not wealthy. It was a case of either all
> or nothing. It required a total degree of commitment.
> I do not know if I would have done it. He had
> family commitments...I think most founders are driven...

Richard Brierley of Fiacla was a civil engineer by profession who knew very little about the toothpaste industry. He did not have any solid business experience and seemed less equipped for venture start-up than the other founders. In spite of this obstacle, he built up an indigenous Irish toothpaste firm from scratch. He fitted the typical stereotype of the entrepreneur, being ambitious, a risk-taker, hard working and dedicated. According to the quality control manager:

> The company was very much a one-man company.
> He built it up from nothing

The founder of Fiacla suggested that entrepreneurship entails tenacity and a great self-belief; this helps sustain the entrepreneur through lean periods:

> I suppose an entrepreneur is someone who believes
> in what they do, believes in the product,
> is able to make it happen. There are many times when
> I lost faith, but not for long though, because I would
> have nothing to go on with; it's a matter of keeping it going,
> not losing faith in it but keeping it going. You have to
> make it work...It's sheer bloody-mindedness!

The early success of the firm and considerable media coverage it received as a 'David versus Goliath' firm may have added to the founder's standing in the business community. The willingness of Brierley to persist with the venture after the crisis episode of 1989 also helped build credibility for the entrepreneur. It enhanced the reputation, charisma or 'myth of the entrepreneurial hero' especially since the venture turned out to be successful. For instance, Maggie Gillespie (the quality control manager) remarked that he gave 'over 100% of himself' to the venture and she attributed the success of the venture to the founder's 'tenacity, his risk-taking, his entrepreneurial spirit.'

The other cases provided evidence of the founders' high degree of commitment to the venture along with their persistent nature which helped build credibility for them in the eyes of stakeholders. Jim Barry of RTI, Gerry Giblin of QFS and Gerry McKeown of McKeown Software were all considered to be vital to the success to their firms. A manager in RTI claimed that the business would not exist today were it not for the founding entrepreneur. One manager claimed that Gerry McKeown was 'indispensable, totally.' He possessed both the technical and marketing knowledge needed to build a successful software firm.

The passion of the charismatic entrepreneur is illustrated clearly by the comments of Jim Barry of RTI. He seemed to have a capacity to infuse customers with his enthusiasm purely as a result of his emotional attachment to the business. He remarked:

> Entrepreneurship is an enthusiasm. I can get very enthusiastic about something and bring people along with me, even customers. When I am in full flight even customers get excited about it as well. That's part of being an entrepreneur...

This ability can have its drawbacks, the main one being that the entrepreneur found it difficult to become dispassionate about the business and cede control. For instance, Richard Brierley's level of commitment to the venture meant that the take-over of the company represented the most difficult decision he ever faced. He indicated that he would take steps to regain his majority shareholding in the future, which suggests that his emotional ties with the venture had not weakened with the passage of time. In spite of the fact that he achieved what he set out to achieve, he wanted to regain full control of the venture. Being in business was an 'end in itself'. Similarly, Gerry Giblin found that ceding control was difficult because of his emotional attachment to the venture:

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

Belief in the venture and the ability to persuade others to accept or 'buy into' the entrepreneur's vision for the future was a key factor in the strategy formation process. A key orientation of the charismatic entrepreneur, one that set them stand apart from others, was their 'people skills'. The founder seemed to be a highly persuasive individual who was good at managing relationships with clients, customers, suppliers, distributors, financial backers and employees. Like the other entrepreneurs, Jim Barry emphasised his sales ability:

> Most certainly on the sales and product side, I would play a key role, at identifying the market's needs, listening to what people say, trying to address solutions to what they want

He managed to build a strong reputation for himself and his company. One manager described his standing in the business world:

> He is a significant player within the computer
> and retail industry...Internationally, he is recognised
> as being a leader in technology at point-of-sale.
> He knows what the market requires. He has always
> been able to fill a niche. He is so well known in
> the industry. We talk to all the major players: Omron,
> Riva Systems, NCR, Epson, all of them at some stage have
> been reliant on us for this technology. He is synonymous
> with computers at point-of-sale

He was described by an employee in the following way:

> One of his main attributes is that he is a people person.
> He gets on well with people...

Jim Barry of RTI was fully committed to the business. He claimed that success was due to 'just hard graft' and that tenacity along with sacrifices, hard work and commitment was necessary in order to achieve success:

> People work and work and work, they really
> kill themselves in an effort to achieve success.

Jim Barry was deeply aware of the high failure rate in the software sector and suggested that most software firms succeed against the odds:

> People in this business are not cheap. Unless growth
> continues, they cannot survive. Finance is just not available in
> Ireland for small companies....The IDA throw up the same success
> stories all the time - five or six companies. The history of these
> have broken the spirits of most of the people involved...A shortage
> of finance always blocks growth of companies. It is not a shortage
> of expertise or of commitment from the people involved, but they
> have always been 'hand to mouth' situations...It is such a struggle
> for the people involved, keeping the thing ticking over.
> It is hard work.

Likewise, Gerry Giblin played a key role in the start-up and development of his company and had to overcome obstacles in order to succeed. One manager talked about his sales ability:

> His role was a very positive one. I think
> he has very good communication skills...
> His strongest attributes would be in the technical
> and sales area...

Gerry Giblin had the ability to stretch the capabilities of employees beyond their perceived limits. One employee remarked that they sometimes feared that they would not be able to deliver on the promises made by the founder at the negotiating table. Gerry Giblin was able to put together a wide base of support and gain acceptance from resource allocators. He had a history in the financial services community, he was well known throughout the software industry and as a result had good contacts. One employee referred to his commitment to the venture that helped him secure sales contracts:

> He has put a lot of enthusiasm into the company. He is keen
> on pushing it forward, he has developed it over the years.
> He has many contacts with the industry in Ireland and abroad.
> He has used those to generate sales

Gerry Giblin of QFS negotiated a deal with Telerate in the early days. It was expected that they would become involved in the marketing of the proposed software product but this deal fell through. This was a huge set back to all concerned. One employee remarked:

> The Telerate experience was a disappointing one.
> It set people back on their heels. What future was there?
> It was a big disappointment for Gerry Giblin

Giblin was convinced that he had the product but regrettably, additional investment was required to bring it to the market, at the very time when there was severe cash shortfalls. The venture capitalist, Dermot Desmond, was faced with a fundamental decision of whether he should continue to fund the software project or disengage from the venture. The rational decision would have been the latter, but he decided to fund the company out of his own stretched resources and also sold shares to the directors. Without that decision, the company would not have survived. His decision was influenced by Gerry Giblin. As a venture capitalist, he tended to make an assessment of the people involved and was convinced by Gerry Giblin to continue funding the venture. Gerry Giblin remarked:

> This was an act of faith in the people and the belief
> in what they were doing would result in success

The fact that Telerate took such interest in the software project also helped persuade Dermot Desmond to continue to fund the venture.

In summary, the strategy formation process was characterised by the idealism and romanticism of the charismatic entrepreneurs, which allowed them to respond to the needs of customers. Their high involvement with their companies allowed them to achieve the seemingly impossible. The strategy formation process was driven by the deep commitment of the charismatic entrepreneur, along with his intuition, risk-taking behaviour and personal vision. The charismatic entrepreneur enjoyed high regard from both within the organisation and outside of it. Part of this charisma was derived from the undoubted talents of the entrepreneur, but also from the fact that the risks they assumed resulted in success, often success against the odds. These individuals seemed to be adept at cultivating a certain image. The charismatic entrepreneurs were willing to grasp opportunities even if current resources did not exist; they were proactive and attempted to control events rather than let events control them. The charismatic entrepreneurs were readily prepared to sacrifice their job security and invest significant amounts of time, effort or money into the venture. The charismatic entrepreneurs were prepared to be totally committed to the venture. Certain attitudes and values distinguished the entrepreneur from others: these included vision, a sense of hope, of optimism, of all things being possible, the creation of high expectations, an obsessive commitment to the venture, together with an ability to take risks and secure the support of employees and stakeholders.

Type 2: the pragmatic entrepreneur

Approach to strategy formation: 'common-sense', down-to-earth, rational.

In contrast to the charismatic entrepreneurs, the approach of the pragmatic entrepreneurs to strategy formation was underpinned by a 'common-sense', more down-to-earth and rational approach. The founders of these companies were not driven by a grand ambition or compelling vision, or by an intuitive 'gut feel' for the market, nor were they driven by the desire to achieve the seemingly impossible. Instead, strategy formation was characterised by more conservative thinking, by mainly economic concerns and strategies were formed primarily on the basis of planning, skill and knowledge.

Peggy Connolly of Irish Breeze (like Richard Brierley of Fiacla) founded an import substitution business in the late 1980s. However, she adopted a very different approach to the strategy formation process, one that was more planned, more rational and risk-averse. With the help of the IDA, she undertook a feasibility study in order to assess the viability of her business idea. This took a year and a half to complete and showed quite clearly that a gap in the market existed for an Irish made soap product. She carried out market research by targeting supermarket buyers and assessing their receptiveness to an Irish-made product. She also approached a distributor and asked them for assistance with the product concept and with selling it into supermarkets in the first year of operation. They offered advice in terms of packaging, colour, fragrance and brand name. This contrasts with the more intuitive, 'seats-of-the-pants' approach of Richard Brierley.

Similarly, Pearse O' Kane of Caraplas undertook a two year feasibility study and obtained grant aid from the IDA who took an equity stake in the company. In the cae of Joe McArdle and Kestrel the company was founded with the aid of a business plan that helped them obtain a grant from the IDA as an EDP (Enterprise Development Program) company in 1987. In the business plan, there was a need to identify a market need or niche in the market for the product. The company was guided by a broad plan although they did not 'stick rigidly' to the plan. Likewise, the start-up of BFK Design was characterised by a 'common-sense', down-to-earth and rational approach. The firm was set up by two individuals (Kevin Barry and Howard Kent) who had considerable experience in the design and print industry. Business start-up allowed them to use their skills in design. They had many contacts in the industry which they felt they could use to good effect. Likewise, they prepared a business plan which took 'months to prepare'. They asked another business colleague to act as consultant for the venture. He took on the role of the 'grey haired individual', since he had considerable experience in design and with start-ups.

A 'bearish' attitude to the management of risk

The pragmatic entrepreneurs adopted a cautious approach to the strategy formation process and they sought to contain, rather than court, risk.

Peggy Connolly sought to minimise her exposure to financial risk and took steps to reduce the potential for business failure. As a result of the feasibility study, she found that it was not feasible to set up a soap production facility in Ireland due to the large capital outlay entailed in the project. In any case, she had absolutely no experience of manufacturing. Therefore, she used sub-contracting as a way of breaching the entry barriers into the soap industry. Brierley, on the other hand, was a risk-taker. For him, the venture was 'a speculative one'; he was an individual who 'did not realise the implications of things' and adopted a 'bull-headed attitude'.

Similarly, the founders of Caraplas were cautious in their approach to strategy formation. Pearse O' Kane was not readily prepared to leave his job and assume the risks of business start-up. He attempted to 'sell' his ideas internally to a large multi-national, but they refused to back the idea. Feeling that he had no choice, the individual left the firm. The founders of BFK Design also sought to minimise risk. The company was set up by a team of individuals and a consultant was brought on board to advice them on strategy. In another attempt to minimise risk, they modelled the company on two main competitors: Dimension and Marketing Image. The former no longer retains its original core directors and the latter has been shut down. The managers of BFK Design had a long held ambition of becoming one the most respected design companies in Ireland, but they were well aware of the risks and constraints on their ability to expand further. Companies like Marketing Image, among others, made the mistake of attempting to diversify into other areas too quickly, a mistake that the founders of BFK Design were keen to avoid. According to the founders, the main obstacles to growth were industry factors such as any decline in demand for graphic design services, as well as potential disagreements among the directors over future policy. These founders were interested in growth, but would not expand unless they believed that they would break even, even in the worst case scenario. The founders did not fit the classical stereotype of the 'bold risk-taker' entrepreneur. Minimizing risk and safeguarding what they had already achieved, was more important than rapid expansion.

According to Kevin Barry:

> We were very, very cautious and still are. We are not a company to make rash decisions. Everything is calculated. We go through decisions, like employing a single person, very, very carefully.

The chairman said that:

> ...staying small in terms of people, not committing yourself...The policy has been to stick to our knitting until we have achieved a much firmer foundation

Jim McArdle of Kestrel also seemed to fit into the category of the risk minimising, pragmatic entrepreneur. The company was taken over after the experience of a financial crisis. A management buy-out took place some time after and as a result the firm was undercapitalised. Many factors such the company's history, personality of promoters, under-capitalization and experience of crisis led to conservatism in decision making. People within the company were aware of the need to become more proactive:

> I still believe that we are a bit too cautious, still a little too slow. Someone else may say that we need to be cautious because we have to recuperate a costly R&D program. I would advocate that we be a little bit quicker in making decisions, that we be a bit bolder

This manager believed that the company today is at a crossroads, it has to make changes and seek a strategic partner in order to lead the firm to the next stage of its development. Joe McArdle, an accountant by profession, believed that the company was reactive rather than proactive.

'Calculated' commitment; success obtainable: 'dream within reach'; instrumental aims: achievement of goals 'a means to an end'.

The pragmatic entrepreneurs had a tendency to offset risk which meant that they were not prepared to readily sacrifice resources to the venture. A calculated commitment was made to the business; resources were only committed if the prospect of a reasonable return existed. The pragmatic entrepreneurs were committed to making the business a success but were not prepared to invest themselves on a deep personal level. This manifested itself in a concern with narrowly economic rather than idealistic values, a reluctance to sacrifice job security and an unwillingness to invest significant amounts of time, energy or money into the venture. Some clearly viewed business success in instrumental terms: the development of the business increased its value and it could be sold at a profit. Since they set up the companies as a 'means to an end' rather than as a vehicle to realise a cherished dream, they were not as wedded to the business as the charismatic entrepreneurs. Their vision for the firm was based on straightforward commercial values rather than the more emotion-rich, idealistic values espoused by the charismatic entrepreneurs. As a result, ceding control of the venture was not overly difficult for them.

The distinguishing characteristics of the pragmatic entrepreneur was best illustrated by looking more closely at Peggy Connolly of Irish Breeze and Richard Brierley of Fiacla who both founded companies in the FMCG (fast-moving-consumer-good) area. What distinguishes Connolly from the founder of Fiacla was her more pragmatic approach to business. She was not prepared to risk substantial amounts of her own funds in the venture. She invested £10,000 from the proceeds of the sale of her Montessori School at start-up and obtained grant aid from the IDA. She re-invested company profits in order to grow. The company was managed from her home. Brierley, on the other hand, was fully committed to the business since he invested £500,000 in capital equipment over the years. Connolly's distributor felt her business was a marginal one:

> Her approach was very different to Fiacla. One person got involved in manufacturing, the other sub-contracted. I do not think that soap is particularly difficult to manufacture. My own view is that the capital equipment needed to manufacture soap cannot be that different from that needed to make toothpaste. There was no real financial involvement in the company. One person was committed to a production run, bought equipment, invested substantially in the business. I think Dick saw it as his livelihood, whereas Peggy did not. Her husband had a very good job. She was doing this as an outside interest

Peggy Connolly realised that if Irish Breeze was to succeed, it would depend on her ability to generate funding, exploit publicity and persuade intermediaries to stock the product. She appreciated what sales and marketing could do for the venture. She approached Gillespies and asked them for assistance with the concept and with selling it into supermarkets in the first year of operation. Connolly knew that her strengths lay in public relations and used it to great effect in establishing a name for the business. Peggy Connolly became synonymous with the soap firm she founded and later won a prestigious 'Women in Enterprise' award in 1988. She, along with her distributors, observed the success of Fiacla which capitalised on its appeal as a guaranteed Irish import-substitute product. She seemed to realise that with hard work her dream was within reach:

> She was a lady with a lot of drive. She was not afraid of knocking on as many doors as possible. She did a lot of the promotion herself on the ground level. She spent hours and hours on promotion and the company was built up over the years to give her the turnover she was happy with. She was a very ambitious lady...We find with an Irish product, there is an awful lot of pressure on the person who produced it to promote it because there is never enough money left to promote it. They invest so much in manufacturing it and getting it onto the market, that they do not have any money left to advertise it. They need to do a lot of ground work at store level

A major injection of capital was needed if Irish Breeze was to capture a higher percentage of the home market and to gain access to the export market. Peggy Connolly was confident of her ability to mobilise financial resources to overcome obstacles. However, her company became a take-over target by her distributor. She felt that the take-over price offered by her distributors was too low and refused it. Shortly afterwards, a more attractive take-over price was offered to her by another interested party and she accepted it. The take-over company was interested in using the brand name to sell cotton wool. In spite of her interest in growing the company, various issues influenced her decision to sell: the difficulties of entering the US market, conflict between her family and work roles, the heavy financial investment needed to expand and disagreements with her distributors over policy. Unlike Richard Brierley or Gerry Giblin, ceding control of the venture was not a difficult personal decision for her. She was aware of the constraints upon her ambitions to expand and viewed business success in instrumental terms.

Gerard Crowley, the owner of Braycot, also made a calculated commitment to the venture. He was aware that the firm was a niche business and had limited growth potential. His ambition was to run it as a family business rather than build a large organisation. He described his aims as follows:

> This is my first foray into a manufacturing firm. I see it as a great personal challenge. To take something that was not making money and turning it into something that deserves to make money. I see that as a great personal challenge. As to the long term, I am really not sure. I want to make it a success. My sons can continue it. It will be something to pass on... My own feeling is that if it is very successful a predator might make an offer that is very difficult to refuse. Having said that, that's not what I am looking for

Maintaining a good lifestyle was a central concern for this type of founder. This individual was not prepared to risk his own financial resources to any great degree in the business. He bought the firm because it was offered to him at an attractive price. He had other sources of income (a consultancy firm in Cork) and was not solely dependent on Braycot for income. He managed the firm on a part-time basis. His role was to turn a loss-making company into a successful one. He sought to achieve this objective by cutting losses, rationalising the product range and introducing world class manufacturing principles. His intention was to seek grant aid and avail of state services. He was aware that the firm was a niche firm competing in the healthy end of the market, which was minute in comparison to the overall industry. Gerard Crowley spoke about his ambitions:

> I would never wish to become huge. We will always remain relatively small in a niche market if we are to succeed, and keep on succeeding, in other words making a quality biscuit product for the niche market

The pragmatic entrepreneurs made a calculated decision to enter business. They realised that there was a demand for the product and that with a good product, hard work, access to state support and luck, the company could be successful. The success of BFK Design depended on their knowledge of the industry and the network of contacts they had built up through work. The sales and marketing manager of BFK Design claimed that personal contacts played a significant role in the early success of the business:

> Without luck and a good network of people prepared to refer the name of the company to others, there would have been major problems in getting the business established

The directors of BFK Design believed that if they were prepared to go 'knocking on doors' for sales, go directly to clients and offer suggestions on how to improve their design strategy, they had a good chance of succeeding. This strategy did not seem to be common practice in the design industry.

Braycot was founded under favourable conditions. The founders identified a gap in the market for a wholefood biscuit product. The early era of Braycot was a very proactive one, with the Hunters prepared to go out and actively sell the company. They were very successful in terms of securing sales. The founder of Caraplas (unlike Richard Brierley) went ahead with business start-up only after he succeeded in gaining support for his ideas; he managed to raise £2 million in equity for the development of a revolutionary new product. Most had success with state agencies and availed of grant aid, unlike the charismatic entrepreneurs like Richard Brierley and Gerry McKeown.

The pragmatic entrepreneur did not have the all-consuming passion and commitment of the charismatic entrepreneur. The pragmatist was only willing to grasp opportunities if current resources existed. Connolly of Irish Breeze and Crowley of Braycot were not readily prepared to sacrifice their job security or invest significant amounts of money into the venture. As pragmatic individuals, they worked from home and on a part-time basis, they had other sources of income which minimised the risks involved.

The role of the entrepreneur as a creator of organisational culture

One of the themes that emerged from the data is how the founding entrepreneurs helped create culture. It was evident from the interviews how much the founder was an agent for cultural transmission within the SME. The founder played a key role in establishing founding values be that responsiveness to customer needs, quality of service, high standards in production, the fostering of a team spirit and the development of a sense of pride in employees. The values and personal preferences of the founders helped shape the firm and became an integral part of its early development. For instance, Jim Barry of RTI fostered a culture based on a team spirit.

Jim Barry had a love of ideas and was not interested in building a large organisation. As a small R&D unit with a team approach, it allowed Jim Barry to exercise control over the product development strategy. On the other hand, Gerry Giblin of QFS had different ambitions. He realised that the company would have to grow and become a professionally managed organisation in order to ensure its continuation. A strong culture was created by the charismatic entrepreneurs and it played a key role in the success of RTI, QFS, McKeown and Fiacla. The cultural values of the founders became their legacy to the firms. In this way, the founding entrepreneurs had an indirect influence on the strategy formation process well into the future. Four distinct typologies of cultures were discerned from the case study data and these are illustrated in Table 5.3.

Table 5.3: Dominant cultural values espoused by entrepreneurs

Dominant cultural values	**Company**
Quality driven	Fiacla, Braycot, Irish Breeze, Kestrel.
Team based	RTI.
Nationalistic	QFS.
Customer-oriented	McKeown, BFK Design.

The quality-driven culture

In the case of Fiacla, the defining theme was that of excellence in production. The distributor pointed out the founder's values:

> He always wants the best of everything. If there is a piece of equipment there worth £100,000 and worth £50,000, he will want the £100,000. He is driven by this search for excellence.

The founder changed very quickly from an 'import substitute philosophy' where the product was simply sold and marketed on an Irish platform to one where a top quality, competitively priced product was produced. The founder was at pains to point out that the product was as good as the Colgate product. The company adopted G.M.P. (good manufacturing principles). There was some indication that this importance given to quality was not always present, due to a combination of financial constraints and a lack of expertise in the early days. The company started out with some very basic, second-hand equipment. Aluminium tubes rather than plastic were used which caused the design to wear off the tubes and the firm experienced customer complaints. The distributor referred to firm's humble beginnings:

> It was almost out of the bath, a bucket and shovel operation. It has undergone major change. Its degree of sophistication has gone up and its in-house product testing has improved.

The focus on quality helped the company gain contracts and enhanced its credibility in the eyes of clients. The quality control manager said:

> For people like the Body Shop to take us on shows that we have a certain standing in the industry.

Braycot aimed to produce a top quality product using only the finest ingredients. Management believed that their expertise in biscuit making helped them win contracts.

A team-based culture

RTI stressed the unique strengths of the small firm, where employees and managers all worked together, often beyond working hours. Financial rewards were based on company success and this aspect of the small firm culture secured the commitment of organisational members. In RTI, the team spirit was very much in evidence. The company consisted of a small, highly creative, highly motivated team of people. According to the founder:

> It is a bit like a family, the people are around for a long time. The people here all came from Cable Television. We know each other very well. We know the strengths and weaknesses of everyone. Rewards are based on our success and everyone gets rewarded if we succeed.

The sales manager claimed that 'everyone here multi-tasks. There are defined roles and everyone has a job specification, but in the event of something happening, its a case of all hands to the pump.' He gave an example of where a problem arose with a piece of software and everyone worked through the night to help solve the problem. He believed that such support would not exist in other companies.

The nationalistic spirit or 'economic patriot' motive

In QFS, a nationalistic spirit, or pride in things Irish, was the cornerstone of Gerry Giblin's business philosophy. He saw his role as helping people see that they could be 'world class' beaters and he had the idea that a 'distinctly Irish' culture should be promoted:

> The local Irish situation appealed to me the most... First of all, I wanted to have an Irish software company. I want to have a culture here which is distinctly Irish and put that ethos up against a more external one.

The founder described the distinctly Irish culture as follows:

> The Irish culture does not really support a 'prima donna' type approach - where there is a great reliance on individuals who tend to take ownership of an idea, who do not provide a good team environment. I think we have the innovation and creativity in a team structure rather than in a purely people related situation. So if one guy goes, we still have all the software skills so other people can do it

Gerry Giblin went on to say that many people who have worked for them have worked abroad and were keen to work for a company that was Irish owned and controlled. In the take-over negotiations, Gerry Giblin worked to ensure that operations would be retained in Dublin. For Gerry Giblin the ability to produce world-class, Irish-made software was important. He remarked:

> Our objectives were to be a world class software developer, to produce world class products... From the beginning, the barrier that we were trying to get over was to be a world class software developer. We would probably define ourselves, at core, in a technical sense. Are we writing better products, as good as our competitors, as good as anyone else worldwide in our sector?

The company obtained ISO9000 certification which illustrates that they have a good track record in producing software on time and on budget. Customers look for this certification as evidence of strong project management skills and reproducibility of effort.

A customer-oriented culture:

The values of Gerry McKeown were important in shaping a particular culture that tended to endure. McKeown Software was formed as a general software services company. They started by developing be-spoke applications, whereby the software package is tailored to meet the specific needs of the customer. The customer has an input into the product development process and they 'drive the R&D work.' They worked on site and the customer paid for the initial development costs. The company was involved in business-to-business marketing which was characterised by close, long term customer relationships. The mantra of McKeown was a customer orientation, which was a feature of the firm's culture from the outset and helped it succeed. It was named 'Computer Services Company of The Year' by a computer body. According to one manager:

> We are an independent solutions provider...
> Some organisations say, 'you are here now, you must move to that'. That is not what we do. We look at what the clients need and want, as opposed to what we think they need and want

Gerry McKeown worked in Canada before he started up a software house in Ireland. According to one manager, he developed his software and marketing concepts there and knew what would be required in the Irish market. Once the company changed its strategy in the late 1980s and became more product led, other values such as a research and development orientation came into being which complemented the original founding values.

The other cases also provided evidence of the infusion of cultural values by the founders into their companies, although the cultures were not as strong as those formed by the charismatic entrepreneurs. In Kestrel, reputation and quality of product were important goals. In Braycot, it was suggested that the founding values of the company were based on a quality consciousness that lingered long after the Hunters bowed out from the company. The founders aimed to produce a natural wholefood product aimed at a niche market. In BFK Design, a strong customer awareness was cultivated by the founders:

> Our attitude is - we are in the service business. If a client wants something, then we have to go and do it, no matter what it takes to do it. That has always been and still is our priority. It is one of the reasons why we are still here. I do not think that you can be arrogant or aggressive

It was evident from the cases that one of the major roles played by the founder in strategy formation was the creation of strong cultural values that continued to influence the process well beyond the founding period.

The darker side of the entrepreneur: excesses of power and control

The entrepreneur's role in the strategy formation process was not always a constructive one. The data indicates that, paradoxically, the founder's driving conviction to succeed which was influential in stimulating the start-up and early development of the venture, can become a problem in later stages. The tenacious side of the founder led him or her to form a strong allegiance to a particular goal, vision or strategy. However, the strengths of the entrepreneur sometimes became weaknesses. The data indicates that three entrepreneurs seemed to fit the traditional stereotype of the 'power hungry' leader.

Richard Brierley of Fiacla established a venture in spite of strong obstacles and he became accustomed to scepticism, to the lack of support for his views, to working on his own. The isolation of his position as a lone entrepreneur came across from the interviews. There was evidence that Brierley's wide ambit of control over all aspects of the business was not in the long term interests of the firm. His style of leadership was predicated upon individualism rather than team work. It seemed that Richard Brierley was perceived to have the vision, commitment, expertise, information and so on, to deal with all aspects of business start-up and development. However, these characteristics eventually contributed to the company crisis of 1989. The problem was due primarily to a lack of commercial awareness. The picture that emerged was of a driven, ambitious individual who took control of all aspects of the business despite his inexperience. One manager referred to the controlling aspect of the founder's personality that influenced the strategy adopted:

> It was the way he wanted to go.
> He wanted total control...

The firm had just increased its capacity in order to fulfil an order when the distributor collapsed. It was the characteristics of the founder that led the firm into crisis. According to the distributor:

> He was hell bent on keeping the order book full,
> but that must be done on a rational, commercial basis

The marketing manager suggested that the founder was inclined to make decisions on the basis of instinct and hunch instead of on the basis of factual information and a rational analysis of the environment. He believed that the founder could 'bring the firm to the brink' but this was prevented by the relationship that the firm had with its distributors. The distributors now own 55% of the firm and handle the strategic development of the firm. The sale by the founder of more than half his stock was a last resort to ensure survival of the firm. Brierley was highly motivated to succeed. He was fairly hostile to the concept of take-over or sale of company shares. Issues of autonomy and control had to be resolved by him. The decision to disengage from the firm or change ownership structure represented a very difficult personal decision for Brierley although he recognised that this barrier had to be breached. He outlined the reasons for the take-over:

> Selling was a matter of safeguarding what we had achieved and trying to make sure that it would survive into the future, which it has done. Any financial decisions after that were to help the company grow. Additional support in the management structure was the main reason for selling out.

In the case of McKeown, the founding entrepreneur had sole control of the company for 13 years. McKeown software entered a period of rapid growth due mainly to the vision of its founder. Initially very successful, the company made major changes in its strategy in the 1980s. In 1983, the company had to adapt to new technological trends which demanded high outlays over the following four year period (£250,000 a year). The company opened up an office in Belfast and in Hong Kong and this represented a major investment in marketing. The company also incurred a major bad debt when a software system did not live up to customer expectations. The customer refused to accept the system. Three factors: high R&D investment, stagnant sales and high marketing costs created cash flow problems for the organisation. The company nearly went into receivership and was taken over. The financial controller said:

> We had hoped that sales would sustain growth and that the company would remain self-sufficient, but things did not work out this way

Gerry McKeown was proactive and willing to take risks, but the data indicates that the founder's desire for full control led the firm into crisis. This desire for control led him to eschew badly needed equity investment at this point in time. What emerged from this case study was that strong leadership with too much control inhibited company development.

Peggy Connolly of Irish Breeze was very committed to making the business successful. The tenacious side to the founder led her to form a strong allegiance to a particular strategy, that of selling Irish Breeze into the US market. In the words of the marketing manager:

> She had a small bit of success in the States where she sold some products. I believe she really wanted to sell her products into the States rather than anywhere else. She was a bit more involved in the States because she got the idea while she was over there. The idea of Peggy selling her product in the US was a lot more attractive than Peggy selling it to Hungary.

It seems that because these entrepreneurs were accustomed to building support for their views, to overriding resistance or scepticism, to overcoming obstacles, they were unlikely to be open to suggestion or to yield easily to different ideas or inputs. Peggy Connolly persisted in the belief that she was right even in the face of ambivalent evidence. Disagreements over marketing policy arose between her and her distributors which led to the founder ending her relationship with her distributors. They described the background to this disagreement:

> We have not broken into the US market. We have not tried. We have stuck closer to home...
> Whereas we look at it the opposite way, America is just too big. We will go into Hungary, Poland, the Czech Republic where markets are growing. We look to the basics. In ten years time, we will have a nice business in those countries. It will be established.

Another comment was:

> She believed that an 80% share of the Irish market could be obtained overnight. That does not happen. The FMCG sector is a very difficult, very tough market. The distribution was there but the product was not as competitively priced as Fiacla's

Thus the picture that emerged was of a strong willed individual who wanted to dominate all aspects of marketing strategy in her organisation.

The potential of the company was never fully realised and the founder's vision of eventually manufacturing the soap herself and targeting the US market never came to fruition. She signed a new agreement with another distributor and eventually sold the company to them. The distributors of the soap firm's products claimed that 'things got a bit acrimonious in the end.'

Not all entrepreneurs were unwilling to compromise or listen to other people. Jim Barry said that his management style was:

> ...democratic in a lot of ways especially in relation to product development, maybe autocratic in other ways. I would have a significant influence what way we go as far as development is concerned.

He realised that unrestrained control by the entrepreneur over the firm could lead to difficulties. The role of his partner was crucial in mitigating his weaknesses. The risk profile of the entrepreneur and his enthusiasm for new ideas could cause the core competence of the firm to become diluted. In the words of Jim Barry:

> I think I need to be harnassed at times. You need to harness what I am trying to do, to prioritise things and focus on particular products that can be successful, focus on where there is a market for them, rather than a shot gun approach with many targets. The technology business is changing so rapidly, there are so many growth areas... The great danger is feeling that you can grow the company into all these areas and the result is probably failure.

Employees felt free to express their views:

> It is down to the people around him be honest with him. If they feel that what he is doing is not in the interests of the company, they can talk to him.

This study found that leaders driven by the strength of their convictions were not open to different views and sometimes failed to recognise the need for change. They seemed to possess an inflexible outlook which manifested itself in an unwillingness to compromise, to cede control of the firm, to change ownership structure or rethink their visions for the firms.

Dangers of overdependence

Charismatic individuals such as Richard Brierley, Gerry Giblin, Jim Barry and Gerry McKeown were perceived to be virtually indispensable to their firms by organisational members. They founded and helped sustain their companies. Stakeholders in these companies seemed to value the lone entrepreneur, the star performer whose genius created good ideas almost out of the blue. The unique talents of the founder constituted a firm-specific competitive advantage. However, the data shows that the ability of the firm to retain and develop its capacity for enterprise beyond the tenure of the founding entrepreneur could become a problem in the future. For instance, the distributor of Fiacla remarked that Richard Brierley had great commitment, unique skills in developing new export markets and new product ideas, and he had also developed his manufacturing expertise over time. As a result, his retirement or loss would be a severe blow to the company. The main strength that the distributor brought to the company after its take-over was a financial management strength which was not rare or exceptional in any way. The distributor remarked:

> The business would survive without us, since another company with the same skills could do the same for Fiacla. Richard is very much a force of the ground and indispensable to the operation

The main weaknesses of RTI revolved around management in that the firm was dependent on one key person - Jim Barry - and his loss would be a major threat to the company. The financial manager believed that Jim

Barry was a great lateral thinker and that there was 'always that potential for over reliance on the inventor.' He added, however, that the technology was customer driven and customers could suggest ideas. Gerry McKeown was seen as the driving force behind the company. According to the general manager:

> He is marketing oriented. He has good technical knowledge. He is indispensable, totally. From our point of view, it is no good knowing only one or two aspects. You need to know the market, the industry and have technical know-how.

Although these entrepreneurs constituted a driving force in the development of their enterprises, their companies were heavily dependent on their skills and abilities.

The dynamic nature of the entrepreneurship: learning and change

A research question that emerged from the literature review was what happens to entrepreneurs over time? How much do they change and why? Most of the entrepreneurs in this study were conscious that the process of strategy formation was a learning process which developed their personalities and enhanced their skills. In retrospect, Richard Brierley (Fiacla) claimed that there were a lot of things he should have done differently. His individualistic style of management was not always in the long term interests of the firm:

> For one thing, I would have researched the idea a lot better than I did, and I would not have tried to do everything myself. Ideally, having a small team of people together means that you have a little think tank to come up with solutions, and share the worries. My biggest mistake was not having enough finance and expertise in the early days. Having both of these would have helped us get on a lot further a lot quicker.

The experience of a crisis played an important role in the development of the individual. The crisis had both positive and negative aspects and forced attention to information that was previously ignored. For instance, the distributor of Fiacla's products spoke about the learning effects of crisis on the entrepreneur:

> He has far more of a commercial awareness that he had in the early years. He can read a Balance Sheet now, which I suspect he could not do 10 years ago. He understands the commercial realities, cause and effect. If I buy a piece of equipment, what do I have to do to pay it back?

The founder of Fiacla learned the paramount importance of cash and credit control to a small business as a result of the company crisis. It was probable that the risk-taking propensity of the entrepreneur together with his sense of optimism led him to neglect this crucial aspect of business management. Richard Brierley claimed:

> You have got to keep a very close control on costs. Our product and company reputation that we have built up over the years is a very important part of the business but none of that works unless your efficiencies are there, and that is the most important thing, keeping control on the finances.

The distributor believes he has gained valuable skills in the area of marketing and finance:

> From a financial point of view, he is far more aware. He knows that you have to generate a million before you spend it. From a marketing point of view, we handle that, he knows the benefits of promotional activity. He is a far more rounded businessman today than he was before. He is an engineer by profession not a businessman. He is a businessman now.

The quality control manager suggested that the company progressed up the learning curve:

> We have learned as we have gone along. We are much more professional now. We have credibility. Richard came into the business knowing nothing about toothpaste. For people like the Body Shop to take us on shows that we have a certain standing in the industry. It has been a learning process. Hopefully, we have learned by our mistakes and we are now taken seriously. There has been major changes in that respect

Similarly, Gerry Giblin of QFS claimed that valuable lessons were learned as a result of the 'cash crunch' situation. He recognised that control over project development, both in a creative and financial sense, was important. He believed that the company would not have survived but for the intervention of the venture capitalist. He learned about the detrimental effect of politics:

> We had that three year lesson without any product being turned out. There was an opportunity for people to flourish, to put forward different points of view, stuff like that, but which was not necessarily a good thing. There was a lot of politics. We had to clear all of that out. A painful lesson was learned early on. But we had the time and money to learn them. If you had a small company, you would learn the lesson but you would also be out of business

Likewise, Jim Barry of RTI learned valuable lessons. The firm's entry into a licensing arrangement was a valuable learning experience. Protecting the intellectual nature of the product and gaining ownership over the technology was an issue that concerned management. One employee said:

> They won't give the technology away as freely as they did in the past...We have confidentiality agreements. Both parties have to sign them.

As was the case in Fiacla, Gerry McKeown of McKeown Software learned about the importance of financial planning. The general manager claimed:

> You can't ever afford to take your eye off the ball and ignore management reporting and monitoring. We were cruising. We had two or three good years. In that particular year, we were heavily into marketing, and at the same time we had a fairly heavy investment in technology. I guess we did not review figures on a month to month basis. Suddenly, nine or ten months into the year we were faced with a real crisis situation

Gerry McKeown withdrew from day-to-day management which then became the responsibility of a board of managers. The transition was not an overly difficult one for him due to his stage of life; as a man nearing retirement it allowed him to enjoy the rewards of success.

Other cases suggested that financial planning was neglected in the early phases of company development. The general manager in Braycot learned from his experience of crisis that arose during the early era:

> Management must know the market, anticipate market trends and know where the company is headed. A company has to start off small and stabilise the market before they try to expand...The marketing plan has to be very good. A company could be very busy but be in a position where they are losing money

The general manager believed that financial control, marketing and production were three key management issues:

> The most important functions in the company are cash flow or credit control, marketing and production.

A partner in BFK Design, talked about how his personal outlook on life had changed. He has become more self-confident and more opportunistic as a result of developing his own business:

> My own attitude, personality and outlook has changed dramatically. People have a respect for you. It makes you a better person, a responsible person. I have a totally different outlook in life. You look at things and say, is there an opportunity for me there, anything we can do better, can we gain something out of it. That might be selfish...

The partner in BFK Design saw the process of business start-up and development as a learning process:

> You learn a lot. You learn to adapt. You learn to deal with different attitudes, to make decisions. People come looking to you for guidance. Suddenly you realise that you are no longer an employee, but an employer and a director. You learn to be responsible...The ability to set a company on your own and grow and grow it is a part of a great learning curve.

The manager in BFK Design claimed that crisis made them more vigilant. He remarked that it, 'took any complacency we might have had before out of us. We are constantly aware. We try to second guess what is happening.' Crisis, in most cases, was the result of poor management. The crisis signalled renewed attempts to bring about organisational change and renewal.

The role and influence of the founder on the performance of the firm varied across cases. In six out of nine cases, the original founder was still associated with the firm. As regards the other three, one founder sold the firm, another firm underwent a financial crisis and was taken over, and the last went into liquidation. The latter failed due to mismanagement and lack of finance. Considering the high failure rate of new firms, the long survival period and continued association of the original founder with the other firms was a testament to the quality of management within the firms. Most realised that they had to assess their management skills and adapt in the light of crises.

Change in management style

The data suggests that the entrepreneurs had to change their management style over time. This is illustrated clearly by the experience of the founder of QFS, Gerry Giblin.

QFS started off as an informal, garage-type operation, with few bureaucratic constraints, where a small team of fanatics got together with seed capital, during the early stages of the innovation process. They managed to develop an innovative software product. Gerry Giblin suggested that company failure was linked to the founder's inability to cede control. He realised that his management style and approach had to change over time:

> You must be strong enough to move forward with a knowledge of the history without being a prisoner of the history...not being afraid to make changes in management, structure, to reflect the progress you have made...It is vital to allow the company to progress, not to try and hold everything together the way it was at the early stages

Gerry Giblin of QFS conceded that it was difficult to change the ownership structure and managerial style due to various psychological aspects of 'letting go and letting others take the driving seat', but realised that the ability to change management style was a primary requisite for the growing firm. He was aware from the outset of the need to bring in a professional manager who would take responsibility for the day-to-day running of the company. Establishing a more formal structure of ownership was important as it would lend credibility and stability to the firm. He remarked that the presence of a board of directors sent a signal to the shareholders that the company would survive in the long term. Gerry Giblin contended that many companies fail to make the transition from a 'people-driven' to a more 'process-driven' organisation. The challenge facing this firm entails combining the innovative drive of the entrepreneurial stage with the conventions of the mature stage:

> There has to be a balance between keeping the creative element where people are energised and have the freedom to innovate, and the opposing requirement of putting organisational structures in place...It sounds pretty trite, but it's a very subtle and a very hard thing to do and a great deal of luck goes into it as well

One of the founders of BFK, also talked about the changes in management style that occurred over the years:

> A few years ago, we tended to hand-hold everything, every piece of communication was looked after. We tended to worry about everything. Now we have to stand back a little. We have 16 wonderful people, all of whom work on their own initiative. Once a job goes through, it goes through on its own

Changes in management style need not always be for the better. The managers in this company realised that they were becoming somewhat isolated from, and inaccessible to, employees due to their position at the apex of the organisation. They realised this and took steps to remedy it. An 'open door' policy was recently adopted by management. The general manager of Braycot also talked about the need to delegate:

> I have always been in the driving seat. I have tried to manage everything. I have tried to hold onto all the 'tentacles' as it were but one day I had to let go. If I give someone a job, I do not interfere

Most of the entrepreneurs stressed the need to delegate and change their management style as the company grew in size.

Change in personal life cycles

The case studies suggested that the founder moved from one stage of life to another which had an impact on their goals for the business. For example, the older entrepreneur with family obligations was more likely to cede control or sell the firm than the younger entrepreneur with few family obligations.

McKeown Software made a transition to a professionally managed organisation. This firm experienced a crisis on account of three factors: high R&D investment, high marketing costs and stagnant sales. The founder hoped that sales would sustain growth and that the firm would remain self-sufficient but this did not happen. One manager believed that the founding entrepreneur was comfortable with relinquishing control of day-to-day management issues:

> I would say that on a personal level, the transition to a formal board of management happened at the right time for him. He is in his fifties and now he is able to sit back and enjoy the rewards.

Another entrepreneur explicitly stated that stage of life had an impact on business goals. He believed that anyone interested in creative thinking and bringing products to the market should consider doing so in the US. He realised that greater opportunities existed in the United States for software development but was not interested in re-locating. Future plans centred on becoming a small R&D unit in Ireland under the umbrella of a large corporation.

> Most certainly, in the US, venture capital is available, but we are not based in the US. I have got too old for that. My family are all here in Ireland....We feel if you go to the banks, the banks do not like software companies..it's bad in this country because a lot of them have failed.....

An interesting issue that emerged from the data was the significance of personal life cycles, as illustrated most strongly in the case of RTI and McKeown. While recognising the dangers of generalising, there is an indication that the founder's stage of life affected their goals for the business.

The creation, maintenance and abatement of credibility over time

The individualistic style of leadership, although vital in the early stages of business development, created problems in a few firms, resulting in crisis. However, Gerry Giblin of QFS was keenly aware of the problem of overdependence on one person's key skills and sought to create a team structure as the company moved beyond the start-up stage. The role of the entrepreneur was not always a constructive one in the development of the enterprise. Entrepreneurs lost some credibility during periods of crisis; however employees never lost their admiration or respect for the founder and always acknowledged his role in building the enterprise. Due to the sensitive nature of the issue, that of the entrepreneur's diminished stature, employees and managers were circumspect in their responses. When a crisis occurred and if the entrepreneur was perceived as being a contributory factor to it, then the founder's heroic status was diminished. A crisis clearly signalled that something was amiss. In a business world that valued success and outer appearances, a confidence crisis was one that most business owners wished to avoid.

The individualistic style of Richard Brierley was clearly evident in Fiacla. The founder was very committed to making the business successful. The data suggested that the firm had to struggle to become established in the early years with the risk of the founder being over-extended. Brierley said in retrospect: '...I would not have tried to do everything myself'. The overwhelming need for sales means that Brierley lost sight of rational business objectives in the Polish debacle. Brierley's lack of commercial awareness and management training was exposed by the experience of a financial crisis. The managing director believed that sales contracts were not negotiated on a rational, commercial basis. He said:

> I think it was a bad idea to extend so much credit, far in excess of normal credit terms. It was very imprudent. Cash and credit control is critical to the well being of a company at that stage...Since then we have insisted that credit controls be taken. So if someone does not pay up, at least we are assured that he has assets...It was not the most glorious moment the company's history, but we did not fall out over it.

In order to survive, the founder was forced to put his workers on a three-day week. He fought aggressively for contracts and ploughed any profits into the company. The company reviewed their contracts more carefully, looked for letters of credit and became more cautious on the financial front. The company did not grow as sufficiently as the founder hoped. He attributed this to bad debts and customers going bankrupt.

In Quay Financial Software (QFS), the founding strategists had great ambitions for growth. It was hoped to merge all software interests into one entity and involve Telerate in the marketing side. The aim was to become a major player in the industry. Part of the company culture was based on taking risks in order to pursue an aggressive growth strategy. The deal with Telerate subsequently fell through which was a major setback to all concerned. If negotiations with Telerate had proved successful, it would have represented the most important software deal ever carried out in Ireland. A 'cash crunch' occurred. Gerry Giblin faced serious questions regarding the future of his embryonic software firm. This led to a questioning of the entry strategy and a reconstruction of events seemed to take place. In retrospect, Gerry Giblin claimed:

> There is no point in trying to be IBM when you are in the garage-style mode of operation

McKeown nearly went into liquidation as a result of cash flow problems. The fact that the financial manager or other employees failed to anticipate the crisis suggests that an uncritical, non-judgemental acceptance may have developed among individuals of the founding entrepreneur. This period in the firm's history exposed the founding entrepreneur's weaknesses. Although the charismatic stature of the founder was very much in evidence, employees became aware of his weaknesses. The informality and lack of planning and control that was characteristic of the early stage led the company into crisis in the growth phase. The general manager, Hugh Cosgrove, traced the problem back to mismanagement. Rapid growth exposed problem areas:

> The danger with software development is that expansion can be rapid until one day the bubble bursts. A company can become too big too quickly and get out of control...We had a traumatic Christmas where 25 people were made redundant. That concentrated our minds... The company was very successful for three years previous to that, we had made the decision to adopt Unix technology and had decided to slim down by concentrating on packages...

The company's early history was described as a 'silver spoon' situation. Since the company was young and successful, it tended to ignore planning as it did not feel the need to conserve resources. An element of complacency crept into management thinking. The financial manager suggested that problems arose due to a lack of planning and reflection. He claimed that:

> The company was maybe mismanaged in some ways. The company is much more reflective internally today

The early era of Braycot was very successful. The company grew rapidly, achieving a growth rate of 45% per annum from 1983 to 1986. In 1987 domestic sales peaked at £750,000. The year 1989 was a year of major upheaval for Braycot Foods which resulted in the take-over of the firm. However, the Hunters received praise for their handling of many aspects of the business. The Hunters played a vital role in the company's success; they capitalised on the trend towards healthy eating; built up a name for the company as a quality biscuit producer; they were active in the new product development area; developed markets at home and abroad and marketed the product very well. However, they did not possess all the skills needed to protect that success. The comments of the general manager suggested a subtle shift in their status after the crisis experience. Problems in Braycot can be traced back to a combination of mismanagement and the faltering of a long term perspective:

> Unfortunately, they did not sit back and think about things. If they had organised it differently, they would have achieved more...A company can be in a situation of being very busy but losing a lot of money.

The general manager suggested that rapid growth and the Hunters' inability to protect that growth contributed to the firm's problems. The new owner was unable to comment on the original owners but made efforts to address the firm's weaknesses. These included the targeting of the own label market, improvement of the firm's cost base, the introduction of world class manufacturing principles, the elimination of loss making products and the introduction of a new sports line bar aimed at the sports conscious.

The mediating influence of partners on entrepreneurs

Five companies (RTI, QFS, BFK Design, Kestrel and Caraplas) were set up on a team basis and the owners stressed the benefits of teaming up. In RTI, the role of the financial partner and other employees in counteracting the founder's maverick tendencies was well recognised throughout the organisation. It seemed that restraint was anathema to Jim Barry's sense of inventiveness. The company was formed with a balance of complementary skills, the creative skills of the Jim Barry and the analytical and financial skills of Roger Bannon. The personalities were also different, the flamboyant, risk-taking style of Jim Barry contrasted with the more understated style of his partner. According to the sales and marketing manager:

> The personalities are totally different. Roger is a totally different being. I think it has helped a lot. If both were the same, there would be blow ups every day of the week... The financial controller is a frustrating influence, that's for sure. He is not always as free with cash as Jim would like him to be. That is good I suppose. You need control. He is a controlling influence certainly. That is his function

Jim Barry suggested that business success in the long term depended on a combination of intuitive and analytical thinking. He saw himself as an intuitive thinker and his partner as a more rational and analytical thinker. He commented on the complementary strengths of his partner:

> I have a partner who is very focused on the figures side, the commerciality of what we are doing. There is a balance there. He is an accountant. Although he is very much aware of innovation, your feet would be on the ground. There has to be a commercial result. You have to see what segment of the market you are going to get into, what percentage of the market will be captured with the product...

A central paradox is that of earlier strength turning to weakness. Jim Barry felt that risk-taking, his enthusiasm, his zeal for new ideas, could cause difficulties in later stages. Jim Barry was aware that his desire to diversify would not be in the long term interests of the company. He said:

> ...I know that I can fall into that trap too, say have we anything that will bring us into this technology area. There are dangers. The great danger is feeling that you can grow the company into all these areas and the result is probably failure

One employee also referred to the creative side of the entrepreneur that was not always be grounded in commercial realities:

> He is very enthusiastic... He is also an ideas person...
> If you have got one idea that is being developed, you must commit to that. If you are thinking of the next and the next idea, not giving enough resources to the one you are currently working on, it might not succeed.

When Jim Barry first floated the idea of a new product to the directors, they were reluctant to go down that route. There were uncertainties regarding the technical feasibility and commercial potential of the project. The idea was rejected but Jim Barry 'went off quietly and developed it with the help of a hardware manufacturer and showed them what he had done.' He had to gain some credibility for his ideas before they were acted upon. His partner had a mediating influence on him.

In the case of QFS, the founding strategists were Dermot Desmond (a venture capitalist) and Gerry Giblin. Dermot Desmond financed the start-up of QFS and enabled it to survive the early crisis situation. He did not play an active role in the management of the firm. Gerry Giblin, the charismatic entrepreneur, was able to put together a wider base of support for the development of the venture. He had a background in the software industry and provided the technical and entrepreneurial skills. He remarked that the high costs involved in software development meant that the project would never have got off the ground without access to venture capital. He was aware that most software firms have difficulty in obtaining seed capital, despite the higher than average growth rates. This is mainly due to the fact that a software company's assets are mainly intangibles, comprising of the skills of its people and its products.

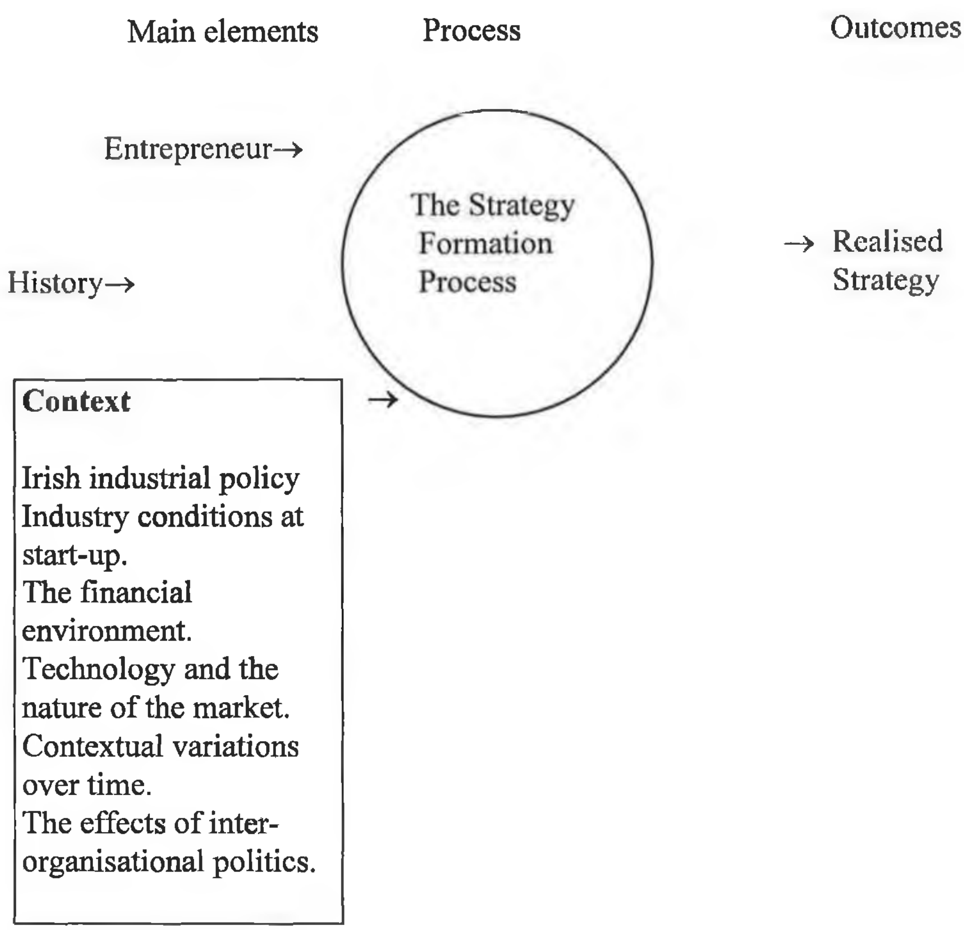
Three other companies were formed on a team basis. There was the suggestion that a team structure brought more cautiousness into the decision making process. In BFK Design, the company was well structured to cover all functional areas which was unusual for a design company. A mentor was available to advise the founders on the start-up and development of the business. He advised the founders to consolidate existing business before diversifying. The sharing of psychological and financial risks was seen as a benefit by the founder of Kestrel who was involved in a partnership. He referred to the potential for conflict in the relationship, where one partner may push for growth and greater risk taking, whereas the other may prefer to retain the status quo. Caraplas was formed on a team basis when two work colleagues came together to share the risk of company formation.

To summarise, the data showed that the entrepreneur played a pivotal role in the strategy formation process. The above section described two main types of entrepreneurs, the charismatic and pragmatic entrepreneurs, who were differentiated primarily by their attitudes to risk. The entrepreneurs played an important role in the strategy formation process by creating strong cultural values that tended to endure. This section also highlighted the darker side of entrepreneurship by outlining the excessive influence and control of the founding entrepreneur. By tracking the development of the companies over time and the corresponding change in the entrepreneur's role, this study highlighted the dynamic nature of entrepreneurship. Entrepreneurs experienced considerable learning over time, they acquired new skills, adapted their management styles, and changed their goals in the light of their changing stage-of-life. By looking at leadership as a process rather than a property, the study showed how the entrepreneurs' credibility was built up, maintained and ultimately diminished in the wake of crises.

(2) Context

The conceptual framework developed in chapter two saw strategy formation in SMEs as the product of the interaction of three variables, entrepreneurs, context and history. In the early part of this chapter, the first variable - the entrepreneur - was examined in some detail. In this section, the second variable - context - is given attention. A key research question centred around the impact of contextual forces on the scope for entrepreneurial action and the impact of external factors on the strategy formation process. The case findings showed that the strategy formation process was affected by the following elements in the firms' context: Irish industrial policy, industry conditions at start-up, the financial environment, technology and the nature of the market, contextual variations over time, and the effects of inter-organisational politics. This is illustrated in Figure 5.3. Although these contextual features had a bearing on the potency of leadership, leadership choices were still crucial.

Figure 5.3: Contextual factors and the strategy formation process



Irish Industrial Policy

One salient aspect of context that had impact on the strategy formation process in the SMEs was Irish industrial policy. It was found to have a particularly strong influence on strategy formation in the case of companies founded in the FMCG sector, in contrast to the other companies where its influence seemed muted.

The legacy was a promising one, in many respects, for the founders of import substitution businesses initiated in the 1980s. The start-up process in Irish Breeze and Fiacla was loosely linked to the industrial policy of the Irish government. Various reports highlighted the weak nature of indigenous industry and the need to promote opportunities in the import substitution area. The IDA paid Peggy Connolly 50% of the cost of a feasibility study into the cost of manufacturing soap in Ireland. The Irish Goods Council helped Richard Brierley secure second hand equipment once they saw that he was serious about marketing an Irish-made toothpaste. The 1980s was characterised by recession and as Peggy Connolly remarked a 'fount of goodwill' existed towards Irish-made products. Many parents saw a link between buying Irish products and the maintenance of employment for their children in the future. Organisations such as 'Young Ireland' helped promote Irish made products and both Irish Breeze and Fiacla benefited from free publicity. As the marketing manager of Fiacla remarked:

> When Fiacla started out, the 'Irishness' of the product was extremely important. The only unique part of Fiacla was that it was Irish...10 or 15 years ago they were screaming out for Irish products. It was slightly easier to get in on the publicity side. You needed a lot of luck as well, being at the right place at the right time, a lot of hard graft, knocking on doors...

Braycot did not promote the 'Irishness' of their product at start-up, instead they targeted a small, health-conscious niche market and promoted the product as a natural, wholefood one. However, the company benefited from the export expertise of An Bord Bia (The Irish Trade Board). Unlike the firms in the FMCG sector, the other firms did not seem to enjoy the effects of policy intervention in industrial development. For instance, the service companies were ineligible for full state support. The founders of BFK Design lamented the lack of support available for service firms. They pointed out that there was a general reluctance in Irish industry to use Irish designers, and even state-owned companies preferred to go outside of Ireland for design expertise. Although some of the high-tech companies availed of grant-aid and BES (Business Expansion Scheme) funding, this did not alleviate their problems. Joe McArdle of Kestrel lamented the lack of developmental capital available in Ireland for expansion. Likewise, a manager in QFS pointed out the lack of venture capital in Ireland, but recognised that growth and the financing of growth was a complex issue. Gerry Giblin noted that most indigenous Irish software companies were underfunded. Jim Barry set up RTI without recourse to state grant-aid and stressed that it was a huge struggle to get the business established. He remarked that with regard to the government helping small firms, it was a case of 'too little too late'. He suggested that there was a lack of support systems available in Ireland to nurture innovative activity. In his view, there was no venture or developmental capital available in Ireland for innovative ventures, unlike the situation in the US.

Certain developments in the policy arena facilitated the start-up process and enabled the founders of companies in the FMCG area to overcome obstacles. While the demand for 'Irish' products undoubtedly facilitated entrepreneurial behaviour in the case of Fiacla and Irish Breeze, both entrepreneurs responded to the opportunity presented by their contexts in different ways. This will be outlined in the next section.

Industry conditions at start-up

There was evidence that industry conditions at start-up had a major bearing on the strategy formation process for firms in the high-technology sector, much more so than for firms in the FMCG area. The following section therefore compares and contrasts the experiences of founders in the FMCG area with those in the high technology sector.

The salient features of the industry environment include the financial environment, and technology and the nature of the market, both of which constrained the high-technology entrepreneurs scope for action.
They had to contend with more variables. The market was complex, it required technical knowledge by users, the market and technology was in a constant stage of change, markets were global, product life cycles were short, a high priority was placed on R&D and competition was robust (Garavan, O' Cinneide and Flemming, 1997). This complex environment served to frustrate the intentions of the founders at certain stages. The founders of these firms faced similar strategic challenges and responded to the challenges in similar ways. These challenges include the issues of finance and technology, which are discussed below.

In contrast to these high technology firms, the firms in the FMCG did not face the same degree of constraint. The founders of Fiacla and Irish Breeze, for instance, experienced greater scope for entrepreneurial action. Their firms were similar in several ways. They were located in the FMCG (fast-moving, consumer good) area, which was generally seen to be a highly competitive arena. Both produced personal hygiene products, basic commodity-type products, and founded their import-substitute firms in the late 1980s. The barriers to entry were high; the founders faced competition from multi-national companies who benefited from economies of scale, large advertising budgets and brand name equity. The multi-nationals were industry leaders and had significant resources at their disposal for new product development initiatives. Little or no encouragement was received from state agencies when the founders initially approached them for assistance, since they were perceived to be vulnerable to the activities of the multi-nationals. However, the entrepreneurs managed to overcome the scepticism of state agencies and obtained support.

Conventional wisdom suggests that a highly specialised strategy would have been appropriate for these firms, yet neither adopted a niche strategy. The products were aimed at the national market. After a period of research, Peggy Connolly decided that sub-contracting was the only feasible entry strategy. Brierley decided to manufacture the product himself, despite the large capital investment required. He targeted the emerging East European market, while Connolly concentrated on building up the domestic market. She eventually hoped to capture a large ethnic market segment in the US. He produced both a branded and own label product while Connolly adopted a policy of branded products only. Both founders expanded the product range as new opportunities arose. The case findings showed that considerable scope for action existed in spite of the constraints faced by the founders. The strategy formation process was a direct result of the personal preferences, imaginative leadership and entrepreneurial spirit of the founders.

The financial environment

There were variations in the strategic challenges faced by the firms. The founders of the high technology firms faced fundamental financial challenges, that were not a strong feature in the case of the FMCG companies. A manager in QFS saw finance as a barrier to growth:

> There is no shortage of good people or good ideas,
> but financial backing is really key.

Irish high technology firms have difficulty in obtaining long term finance, despite experiencing higher than average growth rates and relatively low failure rates. This is mainly due to the fact that a high technology company's assets are mainly intangibles, and comprise of its products and the skills of its people. High-tech companies require finance at the start-up stage in order to fund research and development. This is the time of greatest risk exposure. Gerry Giblin spoke about the unique financial challenges faced by software firms:

> The capital issue was, and I think, still remains the biggest issue. Local indigenous Irish companies are underfunded and they do not usually have enough money to wait long enough to get the product developed and out to the market. So they compromise by doing consultancy or once-off jobs of which there's plenty but that tends to take the focus away, and even if they get enough money to get the product developed, they still have to go out and do all the sales and marketing of it.

Jim Barry of RTI also talked about the problem of funding and argued that finance was not available in Ireland for small companies.

The nature of the market affected the strategy formation process in several ways. Firstly, both RTI and QFS adopted a niche strategy. Although both founders were charismatic types, and the strategy formation process was driven primarily by their vision, intuition and 'gut feel' for the market, they realised that their freedom of manoeuvre was limited and both had a clear product/market focus from the outset. Gerry Giblin suggested that a vertical strategy was the only viable option for a software firm:

> If you look at what product/market strategy means to a software company, you have two choices: you can go vertical or work at the horizontal level. The vertical market tends to be tied to a particular business area, where there's a great requirement for business knowledge as well as for technical knowledge, which in our context, was the financial sector. This was the appropriate one...

He suggested that the financial constraints limited the strategic options available to entrepreneurs in the software arena:

> I don't think it makes sense for a start-up company to go into the horizontal market. There has never been an Irish company which was successful doing that, primarily because the issue there is access to the market - where the requirement is to have a big sales department, a big marketing capability and unfortunately in Ireland we don't have a track record of marketing and selling information technology products in the horizontal sector. So we shouldn't try to compete with Microsoft or Lotus or any of those people who sell word processing, things that are available to everyone. A couple of people have tried but no-one has ever broken through, and again I think that's a funding issue. It's funding because you really need a big marketing budget.

Connolly and Brierley, in contrast, were not constrained by the barriers to entry in the FMCG (fast-moving, consumer good) area.

Crisis and the limited funds available for R&D led to a similar response in both RTI and QFS. It led to a conservative ethos in QFS and RTI (at least for a certain period of time) and may have eroded the technical vitality of the companies. Both companies had a great need for cash during the product development phase, particularly since no revenue would be earned during the R&D period. As a result, QFS depended on a single product (Invision) and only began to diversify towards the end of its product life cycle. One manager believed that this decision should have taken earlier.

The entire strategy of Kestrel was circumscribed by the need to generate cash. Kestrel had to target the installations area in order to generate cash which took the focus away from the core competence of the firm. Capital was thus a critical factor for the company founders and hampered the growth of the company. Management in Kestrel saw lack of finance as the single, biggest barrier to growth. One manager remarked:

> Growth has been quite slow really...
> We are now looking at niche markets, taking away small, profitable business from large companies. We are steering away from anything large. We just could not afford it or be able to finance it...We have not been able to maintain a presence on the ground that would certainly have benefited us.

McKeown started out as a software services house, so it did not face the same challenge in attracting the huge resources needed to develop a software package from scratch.

Technology and the nature of the market

The nature of the strategy formation process seemed to vary according to technology and the nature of the market. The founders of RTI and QFS seemed to adopt a more focused approach than the other firms. These high technology entrepreneurs had a tendency to adhere to their early decisions regarding products, markets and technology.

Jim Barry, of RTI, suggested that this focus on the market was forced on him. Although he was interested in new ideas and new technological developments, he realised the dangers of diversification. Jim Barry claimed that: 'we had a focus, we knew what we wanted to do. We were reasonably realistic about what we could achieve.' He went on to say that a continued focus was vital and suggested that he was restrained by the nature of the market:

> The technology business is changing so rapidly, there are so many growth sectors... Everyone feels they have to be in that area and doing something, with the result that the core competence of the business is not developed. I know that I can fall into that trap too, say have we anything that will bring us into this technology area. There are dangers. The great danger is feeling that you can grow the company into all these areas and the result is probably failure.

In contrast, Brierley of Fiacla did not have a focused product/market strategy from the outset. His main aim was to start up a business - any business - in the import substitution area. He changed from producing own-label to a branded product, from sub-contracting to manufacturing, all within the first year of operation.

Gerry Giblin suggested that a software product firm that developed a product without due regard to the market was probably doomed to failure. Unlike firms in the non-technical sector, the less focused 'learn as you go along' approach was just not feasible. The more focused nature of the strategy formation process may have been due to critical elements in the market. The high cost of research and development allowed little room for mistakes. Giblin said:

> We started out with a pretty focused mission and I think if you look at the original placement document...way back in 1984 - what we laid out there as our product strategy - we continued to pursue...

He went on to say that the relationship with their first customer (NCB), was crucial. The programmers 'benefited from a close association' with NCB and it:

> ...enabled them to get close to the customers very early on, so that their product, in a very real sense, was driven by what those people said they could use in a dealing room desk.

The high technology founders realised that due to the nature of the technological environment, strategic alliances would be a feature of the strategy formation process. Gerry Giblin realised that the marketing and distribution issues were too great for a company such as QFS to have a realistic chance in 'going it alone'. As a result, Gerry Giblin saw strategic alliances as the only viable option if the firm was to grow. He suggested that this was due to the pace of technological change, as well as the global nature of the industry:

> By 1990, we had offices in London and New York, very small, very modest. But even at accelerated investment and growth rates, where we were opening an office every six months, it was going to take us ten years to get to all the financial sectors, and in ten years time our products wouldn't have any relevance. So, more than anything else, time to market means that it was appropriate (and I suspect for a lot of software companies) to find a partner who actually had sales channels in place but did not have the particular product.

Likewise, Jim Barry realised that alliances and co-operation rather than competition, featured in the development of a small indigenous Irish software firm. Jim Barry of RTI faced constraints arising from the technical nature of the product. He had to build total systems in the early days in order to prove that the technology worked. He was responsible for product development, sales, end-user support and so on. He remarked that he was never completely comfortable with that and after a few years the company decided to use licensing as a route for commercialising its technology. The EPOS (electronic point of sale) industry was controlled at the end user level by multi-national companies based in Japan and the US. These companies were able to provide total solutions (hardware and software) at the lowest cost possible. RTI entered into licensing agreements at an early stage in order to overcome the problems of being a small player in a market dominated by multi-nationals. Although Jim Barry claimed that it might have been possible to build a manufacturing plant in Ireland with the help of the IDA, this strategy would not have worked:

> We could quite easily get into that market and have 150 people working here tomorrow and be losing half a million...the market here is not big enough. You would have to provide other products and all sorts of services, sales, I don't know that business. I don't want to be in that business...

Plans were made in 1996 for a capital injection and possible changes in ownership structure. The capacity to resolve issues of autonomy and control seemed particularly important for firms in the software sector. The sales manager in RTI remarked:

> It looks like this company will become part of a much bigger group. By definition, the bigger company will build in all the protection needed to keep it going....I think Jim Barry would be quite happy with that....

In a similar way, Gerry McKeown of McKeown Software entered into a product development alliance with a pan-European group. They gradually shifted from a service to a more product-oriented strategy. This necessitated a greater focus on R&D. The project could not have been undertaken by the company on their own due to the high level of investment required. For these hi-tech firms, collaboration with competitors seemed to be a common pattern in the strategy formation process. Likewise, the founder of Kestrel remarked that obtaining a strategic partner featured strongly in the company's future plans.

As small players in the software industry, McKeown, RTI and QFS were forced to anticipate and respond to technological developments that were outside of their control. The financial manager of McKeown described the company environment as being subject to moderate to rapid change. The general manager claimed that keeping up to date with technological change was 'the biggest single problem' faced by the company. Company personnel had to undergo training in order to cope with new trends. Individuals in RTI also spoke about the nature of the product life cycle that made new product development a priority for them. QFS experienced changes in the technological environment (such as DOS, Windows, Work Stations and object-oriented programming). Not surprisingly, Gerry Giblin miscalculated at times in his attempts to keep pace with technological change but the company was flexible enough to absorb changes.

On the other hand, industry conditions were not always constraining. There was scope for imaginative leadership. When QFS and McKeown were founded in the late 1980s, the industry was in the growth stage; little competition existed, consumer demand for software and an awareness of its possibilities existed. This benign environment gave rise to new opportunities for enterprising individuals prepared to take risks in the Irish software climate. The two software firms showed the highest turnover rates of all firms (£6.5m and £7.4m respectively) in the study. QFS was founded under favourable conditions. According to one manager:

> Industry conditions were very good. The '80s were the time of the big boom in financial services. It was just the right time.

However, the vision of the founder in predicting how market and technological trends would evolve contributed in no small way to the success of the venture. According to Gerry Giblin:

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

There was also the suggestion that the unsophisticated nature of customer demand assisted the start-up process. The old attitude of customers, according to Gerry Giblin was: 'we must have it no matter what it costs, because everyone is doing it'. The entrepreneurs seemed capable of capitalising on favourable industry trends. Gerry Giblin had a product concept and a well defined market from the outset that made the new venture easy to justify financially.

RTI was founded by Jim Barry in 1979 because he believed that opportunities existed in the EPOS area. The company was set up to exploit the technology of EPOS rather than to satisfy any predetermined market or consumer need. It was a speculative venture. As such, industry conditions were not favourable. As well, Jim Barry decided to convert buyers over to open systems architecture (where equipment is bought from a variety of hardware vendors rather than being tied to just one vendor) at time when proprietary solutions were the norm. The company adopted an unconventional strategy that did not conform to industry norms. Yet, the founder gained valuable knowledge of an emerging market which stood to him over time. He was always a year if not more ahead of the competition. According to Jim Barry:

> We were specialists in that area. We were in it pre the PC. We were doing programmable device drivers for POS before anyone else.

The cases seemed to indicate that market selection and industry conditions played an important role in the strategy formation process but management expertise was required to protect and build on early success. The initial product/market choices were driven by the vision and ingenuity of the founding entrepreneur.

In summary, finance, technology and the nature of the market had a potent effect on the strategy formation process in the software firms. While the import substitute firms seemed to experience more scope for entrepreneurial action, the hi-tech firms faced a more constraining environment.

Contextual variations over time

A number of different contextual features were noted in the case histories and it is shown in the following section how these propelled, constrained or even frustrated the aspirations of the founder.

McKeown Software concentrated on developing software for the Digital VAX/VMS range of equipment and did very well on the back of Digital. Gerry McKeown was always a bit ahead of competitors and created an on-line bureau system whereby users could dial into their systems. The first PC (personal computer) was launched in 1985 which signalled the fall in hardware prices and the increase in performance standards. When users eventually bought their own hardware, they bought McKeown software as well. McKeown obtained an important sales contract with a health authority in the UK which gave them an important reference site. In this way, the ingenuity and vision of McKeown allowed him to capitalise on favourable trends. According to one manager:

> Gerry McKeown is very dynamic. His ideas, his concepts of what clients will want are right. He is quite imaginative. He is marketing oriented. He has good technical knowledge.

On the one hand, adverse conditions affected the strategy formation process. On the other hand, fortuitous events also had an impact on the strategy formation process. A manager in Kestrel claimed that they 'stumbled onto the access control area', which offered them the potential for high margins. RTI discovered a new opportunity through a random visit to a trade show. Jim Barry saw a product that could be adapted through the use of his company's technology.

The firms in the fast moving consumer good (FMCG) area had to contend with the challenges of a changing environment, which affected the strategy formation process. Adverse conditions such as changes in consumer behaviour, downturn in demand, bad debts, currency pressures, the intensity of competition and recessionary pressures posed threats for most firms and contributed to crises.

The history of Braycot reflected the vicissitudes of the biscuit industry as a whole. Industry conditions at start-up facilitated entry for Braycot. Its initial success can be partly attributed to the high growth rate in the wholefood sector of the biscuit industry. Consumer concerns for improved diet and health opened up new opportunities in the biscuit industry. However, management was unable to protect its early success. The natural wholefood sector was one of the fastest growing segments in the industry and the company achieved a market share of 1% in the overall biscuit market by 1987. The positioning of Braycot as a niche, wholefood product meant that exporting would be vital to the success of the company. However, France was its only strong export market and the company's international distribution arrangements were haphazard. In 1989, sales suddenly started to drop due to changes in the industry. The stratification of the market into the premium, top end of the market and the economy end meant that Braycot's sales were squeezed. Braycot found it extremely difficult to gain distribution in the UK since retailers wanted the product for 'next to nothing.' It was difficult to cut costs since the price of raw materials was high for a premium, high quality product like Braycot. According to the general manager:

> Sales levelled off in 1987, not because of lack of expansion or the failure to bring new products on stream, but because conditions in the industry had changed...the company was very proactive in terms of new product development but new products simply took up the loss on products that went down.

Changes in consumer behaviour, a more competitive environment and errors of management led to Braycot's demise. It was clear that changes would have to be made to arrest Braycot's decline. Under new ownership, changes in strategy were made. New ownership targeted the own label market and produced a chocolate-coated product to extend the product into more mainstream markets and utilise capacity. It also pursued new export opportunities, aimed to stress the 'Irishness' of the product as a reason for purchase. It also got rid of loss making products and adopted world class manufacturing principles in order to tackle the firm's cost inefficiencies.

The comments of the new owner suggest that past errors of management had to be tackled:

> We have deliberately changed methods of operations and attitudes and that had a major impact on how we are now performing...We have done very deliberate things.

Braycot Foods Ltd. succeeded in obtaining a contract from a company called Diana's California Cookies. This company contacted An Bord Bia (The Irish Trade Board) for sales leads. The manager in Braycot spoke about the element of luck needed in business. One manager suggested that Braycot could have experienced similar problems under new ownership but for the fact that enquiries were followed up and contracts gained.

Fiacla also operated in the FMCG area but performed better. This may be accounted for by more favourable industry conditions, but mainly due to the vision and enterprise of the founder. Both Fiacla and Irish Breeze were successful in exploiting networks of contacts. They were introduced to Gillespie, a well established Irish distribution company, which helped them gain access to the Irish market. Brierley built up a strong foundation in the East European markets when they were considered unstable markets. He maintained a reasonable share of the Irish market. The company won the AIB export award in 1993 and won a small business of the year award in 1993 also. Brierley capitalised on the 'Irishness' of the product at start-up, targeted the own label market and ensured that the product was competitively priced. He targeted the national market rather than a niche market which also helped boost sales. His distributor spoke about his role in the success of the firm:

...he has done extremely well...
Equally he has an undoubted ability to source new business...We have taken the burden of distribution off him which has left him free to go off and develop his export business where he has been very successful. In the Irish market, he has been extremely successful between own label and the branded product.

Changes in the industry meant that speciality toothpastes, like sensitive toothpastes, commanded higher margins. According to the quality control manager, the toothpaste industry has become much more market led than it was when Fiacla was founded. Toothpaste was no longer seen as a commodity product that simply cleans teeth but was sold for its various attributes, such as gum protection, breadth freshness, whitening properties, and so on. Fiacla, according to the quality control manager 'aggressively pursued opportunities.' The company broadened its product/market base as new opportunities and threats arose.

Irish Breeze was successful in the home market, capturing 10% of the Irish soap market in 1991. At start-up, all other soaps were imported and encouragement was given to Irish producers to enter this market where there was a high level of import penetration. The product was not as competitively priced as Fiacla, probably due to the fact that manufacturing was sub-contracted. In addition, the large multi-nationals had a cost advantage and could 'dump' soap on the Irish market. Yet the company never fully developed its potential. Connolly's intention of eventually targeting the ethnic market in the US was never realised due to a change in her personal goals.

Some firms in the FMCG area performed better than others due to the ability of the entrepreneur to make decisions which ensured continued survival and growth. In summary, there were major developments within the firms' sector which affected the strategy formation process. All firms were faced with both opportunities and threats.

The effects of inter-organisational politics on the process:

Political forces are generally perceived to be less relevant to the smaller as opposed to the larger organisation, however, organisational politics were found to be important in at least two of the cases in this study, particularly when inter-organisational relationships were present.

RTI entered into a licensing arrangement with a Japanese multi-national. Both parties came to the partnership with different perspectives. The sales manager spoke about the political dimension:

> You just do not licence your technology to any one company because that company can kill you. They can starve you of seed capital, prevent you from making any products, keep you so busy working for them on nonsensical projects that you just do not make any advance. I think a conscious decision had been taken by the board that they won't go into exclusive arrangements with anyone.

The Japanese had the hidden agenda of learning about, and then imitating the technology that the company possessed. One employee claimed:

> They brought out a very similar product to what we were producing for them. There was a court case, we got some payment in the end. With hindsight, the Omron deal was bad... We have learned from that. It has given us second thoughts about being involved with licensing. We would be very careful with the next deal.

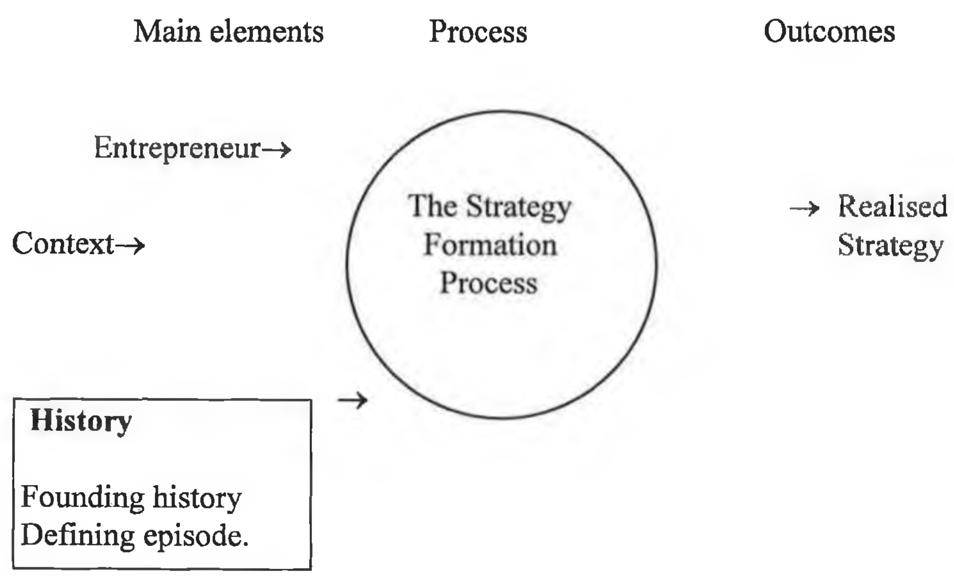
One individual remarked that their alliance partner had a 'hidden agenda' and probably felt that if financial support was removed from the company, it would fail. Their partners would then be able to 'pick up the pieces by way of personnel, by way of product licences, whatever else.' Management found at the end of the three years that they were stagnating. In an industry characterised by short product life cycles and constant change, this erosion of technical vitality was a serious weakness. The company has learned to be cautious when arranging partnerships and to keep control of the direction of the company themselves. The marketing and sales manager asserted that the divorce from Omron was probably a good thing, mainly because it focused everybody's mind on looking at some alternative product. In the light of his experiences, the basic policy of the founder was to maintain full control of product development activities and restrict company size, which contrasts with his earlier policy of producing entire systems through the use of sub-contracting.

In the case of Irish Breeze, disagreements arose between the entrepreneur and her distributors over marketing strategy. She had ambitions to take Irish Breeze to the United States but needed an injection of capital. They believed that the Eastern European markets were a safer option. These plans were in the pipe line when her distributors made a take-over bid for the firm. The entrepreneur was faced with an unsatisfactory take-over bid from her prospective purchaser. The case showed the danger of politics particularly where there were potential conflicts of interest. The manufacturer-distributor relationship tends to be a delicate one, and in the case of Irish Breeze it may have been in the interests of the distributors to restrict company growth since they intended making a bid for the company. Connolly eventually sold the company to another bidder.

(3) History

The third element in the conceptual framework was the variable of history. A key research question centred on the influence of history on the strategy formation process, and the impact of history on the scope for entrepreneurial action over time. Figure 5.4 illustrates the main themes to emerge from the data under the 'history' variable.

Figure 5.4: History and the strategy formation process in SMEs



Founding History

The literature highlighted the potential constraints to change that arise from the early period of company formation. One research question centred on the impact of founding history on the strategy formation process and the scope for future action.

As mentioned earlier, the founder played a key role in creating cultural norms that tended to endure. By creating cultural parameters, be that a quality-driven, team-based, or customer-oriented culture, the founder restricted the number of strategic choices open to the company in the future. Perhaps the most significant role played by the entrepreneur was in providing the initial idea or product/market vision for the company. The founder helped build consensus for a certain strategic option that restricted the company's freedom of manoeuvre in the future. For instance, the vision of Gerry Giblin of QFS was predicated on providing high quality dealing room software to a well defined niche market, the financial services community. He remarked that it did not make sense to diversify out of this market. The build up of a customer base over time also constrained entrepreneurial scope for action. For instance, managers in McKeown Software remarked that their product was sold to knowledgable buyers who entered into a long term relationship with the company. The customer therefore became 'locked into' a relationship with the seller. On the one hand this benefited McKeown since it gave the company a certain degree of financial security. On the other hand, the company was precluded from radically changing the core product since it would take time for its existing customers to mature and to accept new technology.

The history of the company was intricately linked with the founder, his or her personal values, preferences and vision for the company. The founders, in interaction with context over time, left a historical legacy behind them.

Defining episodes

One of the most striking themes to emerge from the case study data was the presence of crisis or 'defining episodes' in the early histories of the companies under study. These crises had important ramifications for the strategy formation and change processes. Crisis was prevalent and occurred across a variety of contexts. The term 'defining episode' is used here to describe a period of transition. In most cases it was characterised by financial crisis and in some cases it was characterised by a change in ownership, but in all cases it signified a significant break from the past. During this stage, it was incumbent on the firm to react to the crisis and make changes in the organisation. A great deal was learned and lessons were drawn for the future. Wide ranging alterations in strategy, ownership structure, people, systems and ideologies took place during the development of the firm. The defining episode was of vital long term significance for the organisation.

<u>Source of crises:</u>

(a) Crisis that is internally generated (arising primarily from the actions of the founder in his drive for growth)

(b) Crisis that is externally generated (arising primarily from environmental shocks)

(a) Internal crisis

Crises which mainly arose from forces inside the firm showed themselves most vividly and dramatically in growing firms, such as QFS, McKeown and Fiacla. These firms were led by charismatic entrepreneurs. In an attempt to expand, to target new markets, to bring new products or technology on stream, the founder tended to neglect financial planning and did not allow for contingencies. The pressures towards growth and expansion seemed very strong in some cases. It was the entrepreneur's actions and initiative that precipitated the crisis. Although the firms seemed caught up by inexorable forces, it was the characteristics of the entrepreneur that led the firm into crisis. They freely choose the growth option and the attendant risks this strategy entailed. Unfortunately, unanticipated jolts from the environment exposed the weaknesses in the entrepreneur's plans. The repercussions of crisis were particularly acute for the small firm. Although the nature of the crisis and its causes varied with particular historical circumstances, the overall effect of these defining episodes on the strategy formation process was quite similar as the following analysis will show.

The crisis in QFS arose mainly from the risk-taking that underpinned an ambitious growth strategy pursued by the founding strategists. It occurred during the start-up stage. The venture capitalist of QFS adopted a strategy that was proactive, innovative and risk prone. The venture capitalist was a majority shareholder in a number of computer companies but these interests acted as a severe drain on his resources. Gerry Giblin put a proposal to a well known corporation, Telerate (a data vendor) to merge all the companies into one entity. It was initially proposed to sell 20% to Telerate giving them an option to buy out the remaining shares. The proposed deal was highly unusual given that a software project was in the process of development in QFS but a product did not exist. For various reasons, the deal with Telerate fell through. This was a major setback to all concerned. Gerry Giblin and Dermot Desmond had come close to closing a deal that would have been highly acclaimed in the Irish software industry. The venture capitalist faced a difficult decision of whether to continue funding the software project. Gerry Giblin remarked:

> Desmond is not a technical person. The only thing he had to go on was the fact that Telerate had taken such an interest in the project and had spent a long time, over a year, going over the project. But he did not really know whether it would be successful. He was going on instinct. As in most areas, he relied on his instinct for people.

The venture capitalist was faced with two options: sever his connection with software development or continue to fund it. The former would have seemed like the most rational choice but the financial backer sold shares of 20% to employees, 5% to the IDA, and continued to fund development. The start-up of QFS was fraught with tension, with cost cutting and pressure to bring a product to the market. This critical period had a marked effect on future decisions and the culture of the firm.

Likewise, McKeown grew rapidly during the 1980s largely due to the vision of its founding entrepreneur, Gerry McKeown. The crisis in McKeown arose several years after start-up when it was well established. It stemmed mainly from internal forces such as the lack of planning for growth. By the mid 1980s the company realised that it would have to compete in an open systems environment and would also have to shift from a service to a product focus. The entrepreneur found the change in strategy generated overheads, particularly in R&D and marketing, which was difficult to cover in the subsequent downturn in demand. A major bad debt placed a strain on the organisation. A crisis arose due to the fact that far reaching changes were made in the organisation without a solid financial base. Gerry McKeown was proactive, he introduced strategic changes in anticipation of industry change and tried to influence the environment. The founder played a vital role in early company success, but did not have the skills to protect that success. The problems in McKeown stemmed from mismanagement and internal inefficiencies.

Likewise, the crisis in Fiacla arose from the pursuit of a high-risk growth strategy. It too arose several years after start-up, when the company was intent on expanding into export markets. Richard Brierley of Fiacla realised that the limited size of the Irish marketplace made exporting and the opening up of new markets a key priority. However, Fiacla was ill equipped in terms of production facilities and decided to invest heavily in new equipment in order to grasp an opportunity to supply the Polish market. In the toothpaste business, there were conventions as to what was a respectable size necessary to woo customers; capital investment was necessary to gain contracts. The founder was aware of the risks he took when investing in capital equipment. He seemed to describe his posture as one of obedience to the categorical imperatives of survival. The comments of employees suggested that the founder was a mere creature or even prisoner of such pressures: 'We had to put in this investment simply to carry on', or 'Without that decision, we would not be here today' and 'We could not say no to it (orders from the Polish market). In this respect, the risk was perceived to unavoidable. The sense of crisis was heightened by the feeling that the survival of the firm was at stake. Brierley introduced capital equipment in order to grow. However, the lack of proper cash and credit control procedures led the firm into crisis. The distributor collapsed and the problem of recovering cash arose. The company went from a position of under capacity to over capacity and Brierley almost saw his entire business disappear. The founding entrepreneur played a vital role in company success, but he did not have the skills to protect that success and see the company grow. Part of the problem stemmed from the personal attributes of the entrepreneur: his risk-taking and optimism.

In RTI, the crisis arose primarily as a result of internal organisational politics. It too arose several years after the company was established. Management had ideas for a new product and negotiated a financial deal with Omron who later backed out of the deal. A crisis brought about the termination of the exclusive licensing arrangement. The licensee believed it was in their best interests to develop the expertise offered by RTI in-house and attempted to undermine the firm. Due to various difficulties in the relationship, RTI decided to disassociate itself from the licensing arrangement. Jim Barry recognised that the product had a limited life cycle and the company had to constantly innovate in order to survive. One manager remarked that at this stage opportunities had to be seized and changes made to prevent the company from stagnating:

> The ending of the Omron exclusive arrangement and the beginning of this development was critical. It was very much a 'touch and go' situation. If this project had not taken off, or took longer to develop than expected, then the company would have ceased to exist

The financial manager claimed that it was a difficult break to make since it involved 'setting out into the abyss'. The directors put a great deal of their own resources into project development which was a risky undertaking. The basic policy of the founder was to maintain full control of product development activities. Jim Barry remarked that the great advantage of being small was the fact that management was in control and knew everything that was going on.

To summarise, several companies experienced crisis primarily as a result of forces internal to the firm. The founders neglected the importance of planning for growth, experienced the detrimental effects of politics, ignored proper cash and credit control procedures, took risky decisions and crisis focused attention on areas of weakness within the firm.

(b) External Crisis

The second type of crisis was caused primarily by factors that were external to the firm, such as difficult trading conditions, changes in interest rates, currency crises, recessionary pressures, customer rejection of product and slowdown in the industry growth rate. The entrepreneurs tended to react to external events and crisis usually forced a change in strategy or ownership structure. The entrepreneurs in these cases were also guilty of mismanagement, poor control, and lack of contingency planning.

The crisis in Kestrel was precipitated by the currency crisis of 1992 and occurred a few years after start-up. Kestrel was set up to design electronic security products. It was very difficult to survive the first five years since the company was undercapitalized. Management underestimated the amount of time it would take to bring the product to the market. According to one manager:

> You cannot afford to make mistakes and developing products is all about making mistakes

Since the development process took longer than anticipated, the founders were forced to focus on installations in order to improve the cash flow of the business. This strategy diverted attention away from the core business and more importantly, the company was competing with potential future customers in this area. By 1988, the company was faced with severe problems. It was undercapitalised, it had neglected its core business, its product range was restricted and it possessed large overheads. These problems led to its take over and an injection of capital in 1989. This take over was unsuccessful for various reasons. A management buy-out occurred in 1991. About a year afterwards, the company endured another major crisis. Kestrel was still over-geared and the unexpected currency crisis of 1992 was disastrous to a firm that relied heavily on the UK market. This crisis had a marked effect on management, on a personal level, and it also restricted the strategic options open to them:

> It has been a hard slog. We have "been down in the dirt" to coin a phrase. We have struggled and have got over it. We are very sharpened now as to the effort needed. We are not taking anything for granted anymore. We are constantly aware, we try to second guess what is happening. All in all it has taken any complacency we might have had out of us.

The crisis resulted in cautiousness in decision making because the company was highly geared and management had to recuperate a costly R&D program. The firm's main advantages were its product design capability and its flexibility. The company was adept at adding on features to a product that was specifically designed to suit the needs of the customer. Its weaknesses included the lack of resources available for R&D, its weaknesses in manufacturing, cost inefficiencies and tendency to bring a product to the market too early. Management became aware of the need to look for a strategic alliance partner, the need to take more risk and to obtain financial strength. A strategic partner who could contribute to the marketing side would give them the start that they need.

The crisis in Braycot was caused primarily by changes in industry conditions. It entered a period of rapid growth for four years with virtually no advertising support. The natural wholefood sector was one of the fastest growing sectors of the biscuit market. Management was very proactive in the early days in terms of securing new products and new markets. Yet, it failed to plan. Crisis occurred when the company was well established. According to the new owner:

> Finance is always a major problem. The whole issue of growth, how it is planned and controlled can bury a company. A company has to be very careful in its expansion plans. Managing cash flow, how much money is spent, how much is got back in, seeing that credit terms are adhered to, are all crucial.

Sales suddenly started to drop in 1989 due to changes in the industry. The history of the company reflected the vicissitudes of the food industry of the 1980s - a period of intense price competition at the lower end of the market and product innovation at the luxury end. Problems in Braycot came to a head when their sole distributor in the UK suddenly collapsed without warning. The company found itself in a crisis situation with few orders for its products. The loss of export sales in the UK, compounded with problems in the home market, a more competitive environment and pressure on its cost base, resulted in it falling under the control of a major food group. The crisis resulted from the founders being immersed in the day-to-day management of the business, not managing the growth period properly, failing to think strategically and anticipate problems. According to the general manager:

> Unfortunately, they did not sit back and think about things. If they had organised it differently, they would have achieved more.

The crisis in BFK design stemmed mainly from recessionary pressures, from forces that were external to the firm. It arose in the second year of company formation. The company was launched in a growth period but the recession adversely affected the firm two years later in 1990. One of the founders alluded to the financial weaknesses of the firm a start-up:

> We were a bit shakey on the financial side. It was a little bit fingers crossed as well.

The company had difficulty in controlling its expenses when sales deteriorated sharply due to the recession. The firm also suffered a major bad debt. The company over-extended itself, employed too many people, failed to pull in customers during the recession and found itself in crisis. Competition also became more intense. The industry consisted of numerous small designers - where the aim of the designer was simply to make a living - along with a few medium sized firms. The smaller designers were able to undercut their competitors and were willing to do speculative work. This type of climate made it increasingly difficult for the medium sized firms to earn money. A greater price consciousness on the part of consumers emerged as a consequence of the recession. These external forces over which the firm had no control constituted obstacles to growth. This firm had to adapt to an external environment, it was reactive rather than proactive. Similar to other companies such as Braycot, McKeown and Fiacla, the crisis alerted management of the urgent need for more stringent accounting controls.

The loss of several key customers precipitated the crisis in Caraplas. Crisis arose shortly after its start-up. The company made a major technological breakthrough in the plastics industry when it became the first company in the world to produce thick, durable sheets of transparent plastic (PET). There was an ingrained conservatism in the industry that prevented customers from adopting a superior product with a significant price advantage. Management miscalculated by not fully researching the technical limitations of the product. Instead management learned through a process of trial-and-error. The product was used in some applications and failed. Had they been more cautious and chosen the initial applications more carefully, subsequent problems would not have arisen. In addition, their raw material supplier was using cheap sub-standard raw materials without their knowledge which caused the plastic product to become contaminated. The company's customers rejected the product. In an industry where 'bad news travels fast', the company never recovered from this period. The assets of the company were bought out in 1995 by a giant chemical corporation.

To summarise, crisis was found to be a common pattern in small-medium sized firms. It was associated with a variety of events, and was caused by both internal and external factors. These included:

* Organisational politics
* Under-capitalization
* Loss of internal control (people, finance, technological systems)
* Inadequate planning (being late to the market with a product, unanticipated extra costs in product development)
* Overdependence on a single product, customer or market.
* Decline in customer demand, customer rejection of product.
* Intensity of competition
* Collapse of distributor
* Bad debts

* Recessionary pressures

Although crisis took place in most companies, the exception was the case of Irish Breeze. It is tentatively proposed that since Peggy Connolly subcontracted production this minimised financial risk and the potential for crisis. However further research is needed to clarify why crisis occurs in one company and not in another.

The data revealed that the defining episodes were characterised by learning and change, ideological shifts and strategic persistence. These factors will be discussed as follows:

Learning and change

The case study observations suggested that the 'defining episode' had a deep influence on the strategy formation process. The defining episode was a period where considerable learning and change took place. It led to the emergence of a more planned approach, a clearer sense of the company's direction and the emergence of more realistic expectations. In two cases, it led the founders to restrict the size of the company. The crisis exposed areas of weakness within the company and stimulated management to rectify past mistakes. Although learning and change was a feature of most companies' development, the following analysis centres on the experiences of four companies: McKeown, Fiacla, QFS and RTI. Due to time and resource constraints, these companies were selected for more intensive analysis in the research process.

The financial manager in McKeown remarked that the company experienced changes in its strategy and its way of thinking as a result of the crisis. McKeown started out as a software services firm. The early decisions taken regarding products, markets and technology remained stable and did not change that much. In the 1980s, the industry underwent a major change in terms of technology. As a result, the company had to change its technological base and adopt a new operating system. A combination of factors led the firm into crisis and this crisis give the impetus to changes in strategy. The seeds of a new culture and a new strategy were born out of the early turbulent period of the company's history. In the aftermath of the crisis, a greater commitment was given to a product-led strategy. The company became more of an R&D and sales unit. A product focus and technological orientation came into being in the 1980s but was not there from the outset. The company deliberately reduced their involvement in large bespoke contracts (a service where software was tailored to suit customer needs) and resources were diverted into the R&D and Product Development division. According to the financial manager:

> a customer awareness was present from the outset but the company now realises that being R&D proactive is very important also. The clients have an input into the product development process and it is they who drive the R&D work. If the client makes a worthwhile suggestion, then the release of the new package will have that extra functionality, but the client does not have to pay for the bespoke element. It will be available to everyone. The company is much more technologically and R&D oriented for the purpose of being customer oriented

After the crisis, a deliberate decision was taken to remain a certain size:

> ...but now we have become much more product oriented and want to concentrate our energies on developing our core product rather than devising new ones, without growing any bigger in terms of numbers employed...

A more planned approach to strategy was adopted:

> Even though it was a bad period for the company, positive aspects emerged...the company has become far more contemplative, it has become prudent about how money is spent. R&D expenditure is now planned a year in advance...We learned that because of the cyclical nature of the product life cycle, we have to open up new markets all the time. In new markets, we need to enter with new products at the start of the product life cycle. Now we can ride it out much better because a secure financial base is there.

Fiacla's strategy in the aftermath of the crisis involved spreading risk, developing new, safer export markets, improving credit control procedures, and monitoring costs as well as developing a range of value-added products. Like McKeown, Fiacla adopted a more cautious and rational approach to strategy formation:

> There were some very positive aspects to going through that period, from everyone's point of view. Credit limits were placed on all accounts. Credit insurance was sought. Richard realised that sales are one thing, getting payment is another. I think he learned an awful lot from that. It was a tremendous learning curve. It could have been a very expensive one.

The collapse of the Polish market in the case of Fiacla sparked a search for new and safer contracts. According to one manager:

> I think after the initial shock we reacted positively. We had to pull ourselves up again, look for new markets, maybe safer markets...We were certainly more cautious for a time. Its a risk business. But we do not put all our eggs in one basket anymore. We are spread. We are exporting to Russia a lot now. We have been doing a lot of work for UK companies, some of the blue chip ones, the safer ones...We reviewed our contracts more carefully, looked for letters of credit and so on.

Weaknesses in planning and control were exposed in McKeown and Fiacla and this led to more rigorous systems being put in place. Crisis contributed to both 'unlearning' and to new organisational learning. It brought benefits, by exposing the founder's area of weakness and led to the construction of new systems and new competencies.

QFS developed a clearer focus and more realistic expectations after the crisis. Gerry Giblin and the venture capitalist had an ambitious growth strategy; they proposed to merge the hardware and software companies into one entity and involve Telerate in the marketing side. After the crisis, Gerry Giblin claimed that: 'there was no point in trying to be IBM when you are in the garage-style mode of operation.' The crisis heightened the sense that the survival of the company was at stake; they resolved to 'get some customers, some profits.' Similar to the founders in Fiacla and McKeown, Gerry Giblin developed a greater commercial awareness. He knew that in the early stages, people 'had the opportunity to flourish, to put forward different points of view' but that it was not in the long term interests of the firm. He learned that business was all about making profit.

Both McKeown and RTI took a deliberate decision to restrict the size of the company after the experiences of crises. Jim Barry of RTI was keenly aware of the disadvantages pertaining to large size. These included loss of control, a decline in job satisfaction and possible decline in profits. His propensity to restrict growth was due in part to his early experiences of being responsible for all aspects of the business. Jim Barry said:

> As such we want to do the things that we feel most comfortable with. It is a bit of a personal thing I suppose. We are answerable to ourselves. We want to be in this business to make money...If we were to become a significant player and bring turnover up to £40m or £45m, we would end up with so little of the company that it would not be worth doing.

He realised that growth in terms of size would not always be equated with increased financial reward and spoke of the disadvantages of growth:

> We don't want to get into that market. We could quite easily get into that market and have 150 people working here tomorrow and be losing IR £0.5m...the market here is not big enough. You'd have to provide other products and all sorts of services...sales...I don't know that business. I don't want to be in that business...

This founder tended to equate freedom with the ability to do the type of work he liked. There was a deliberate policy to limit the size of the company in order to retain full control of R&D and product development, an activity at which the founder excelled. The founder experienced the detrimental effects of politics when the company was involved in the strategic alliance with a Japanese company. Their alliance partner had a hidden agenda of appropriating RTI's technology and taking the company over. RTI learned to be cautious when arranging partnerships and to keep control of the direction of the company themselves:

> I think a conscious decision has been taken by the board that they won't go into exclusive arrangements with anyone.

This company, like many others, realised that a more planned approach to new product development had to be taken in order to prevent crises in the future. Jim Barry remarked that one of the lessons they learned along the way was to 'allow more scope for errors and changes.'

A common pattern in financial recovery for the firms in the study was take-over or a change in management structure. The imposition of professional management brought both advantages and disadvantages. It led to increased formality, greater planning, an improved infrastructure, and shared decision-making, but the disadvantages included the erosion of the small firm culture and slower decision-making processes.

In the case of Fiacla and McKeown, investment of shares by an outside group was the impetus for introducing new modern systems of accounting and control and the introduction of professional managers versed in their use. The distributors of Fiacla's products believed that new ownership countered the risk tendencies of the entrepreneur. The role of outsiders was important in this case in moderating the potentially negative influence of the entrepreneur. The implementation of a group-wide R&D program in McKeown was an unmitigated good. In the case of QFS, the growth of the firm and its take-over by CSK Micronogosis led to more formal personnel policies and a more 'accounting driven organisation.' The other cases showed that absorption into a larger group resulted in over-control, loss of identity, and a loss of entrepreneurial energy and freedom. Braycot was stifled when it was acquired by an international food group. When Kestrel fell under the control of a parent group, it was forced to lose a number of staff and meet various profit and performance targets. It lost its team spirit and fell prey to a culture of management-by-objectives. Employee morale was poor and the take-over sent conflicting messages to employees. In these firms, there was considerable volatility in ownership forms. Both firms regained their independence in the 1990s.

To summarise, the case findings indicated that a great deal was learned over time and the founder matured along with the organisation. Most of the entrepreneurs remarked that business development was a 'learning process', the phrase: 'learning curve' was often used and many claimed that they had 'learned from their mistakes'. This learning manifested itself in greater planning and control, a more commercial awareness, controlled growth, a new awareness of company weaknesses and need for new skills and competencies.

Ideological shifts

The case findings suggested that the 'defining episode' had a deep influence on the strategy formation process and it gave rise to ideological shifts.

There seemed to be a change in the mind-set of the entrepreneur over time. By looking at what happens to the founders and their firms over time, it was found that the founder's perception of risk changed. A characteristic of the strategy formation process over time was the emergence of a more realistic and more objective assessment of risk. There was a change in the ideology of the firm due to the mediating influence of partners, early years of struggle and crisis, personal learning and experience of the founder, increase in company size and new ownership. The following analysis is based primarily on the experience of the charismatic entrepreneurs.

The start-up stage was characterised by an ideology of risk taking (why not?); it was characterised by a founder with a business idea, great ambitions, optimism and belief in the venture (Imagination); however, formal planning was absent (unproven ideas); the company was managed opportunistically and intuitively (what is desirable?); the stage was characterised by learning-by-doing (experimentation); learning by mistakes was a feature of this stage since getting the business off the ground involved many uncertainties and unknown variables.

In the later stages, a new risk-averse, more conservative ideology tended to take root (Why?); greater planning was evident (proven ideas); decisions had to be justified (What is feasible?) and were based on rationality not just intuition (Rationality); the company had several years of experience and learning to draw upon and a clearer focus in terms of strategy was discernible (Experience).

The case histories suggested that a marked shift in ideology occurred over time in Fiacla, McKeown, QFS and RTI. Braycot and Kestrel also exhibited a greater degree of cautiousness in the light of their experience with crises and near demise of the companies.

In Fiacla, there was a shift from a risk-prone to a more conservative ideology which manifested itself in greater planning for growth, a strategy of controlled growth, the targeting of new safer markets, and the adoption of stringent cash and credit control procedures. Crisis and new ownership played an important part in this ideological shift. Fiacla was founded by Richard Brierley and it was a speculative venture for the founder. He saved capital when he worked as an engineer in England and re-located to Ireland. He decided to look at the possibility of producing toothpaste. One manager said that he: 'had an idea and reckoned he could make it work'. In the words of one manager, he 'had to make it work' since he 'put all his eggs in one basket.' In retrospect, Brierley suggested that he should: 'have researched the idea a lot better than I did.' Reacting quickly to opportunities, responding flexibly to the demand of customers, taking risks in order to seize new business opportunities, constituted the original strength of the firm. The founding ideology in Fiacla was an ideology based on opportunism and risk-taking. One manager remarked that Brierley 'went into the venture without realising the commercial risks involved.' The founder of Fiacla desired rapid growth. For instance, one manager remarked that: 'whether his goals were obtainable in his time frame, or ever, is debatable!'. His aim was to capture a large share of the home market within a certain time frame. For this reason, the firm prospered at start-up. According to the quality control manager:

> The survival of the company is due to Richard Brierley, his risk taking, his entrepreneurial spirit. Risks can work for or against the company. On the whole, they worked for us.

When the fateful business opportunity arose in Poland, the entrepreneur pursued it with the confidence that the necessary resources would follow. The decision was taken regardless of current resources. The entrepreneur was proactive, he took the initiative, and attempted to control events rather than be controlled by the vicissitudes of the marketplace:

The export opportunity came along and we seized it,
without having the capacity to do it very well.
We could not say no to it.

However, the founding ideology created serious internal organisational problems. It led to a neglect of proper credit control procedures and an informal, ad-hoc approach to business management existed. The collapse of the distributor in Poland and the subsequent experience of crisis compelled the founder to confront his lack of management skills. The company was taken over by the distributors. According to the quality control manager:

> They were a sort of controlling factor on our risk taking. They were a distribution company so they came to it with a rather different view.

The distributor suggested that a certain level of restraint had to placed on the founder due to his propensity to take risks:

> Dick sees the dynamic picture up front whereas I would put a certain amount of restraint on him. That is not to say that he has done extremely well. I have tried to bring my commercial skills to bear on the company. Equally, he has an undoubted ability to source new business. We have achieved a fine balance between his skills and mine, two and two makes five. It allowed people with different skills and competencies to integrate into the firm.

New ownership added accounting and management skills to the undeniable strengths of the founder. According to the new managing director:

> We have financed the company for him. Finance is not his forte. We have four to five accountants here, we are employing professionals. Dick is quite happy to let us deal with certain issues. We have taken the burden of distribution off him which has left him free to go off and develop his export business...

Crisis, early years of struggle or new ownership challenged the founder's ideology. In the aftermath of a crisis, the founder had to reassess his goals for growth and he sought to minimise risk through the adoption of credit and cost control procedures. This critical phase in the company's history left him with the intention of 'expanding prudently.' The founder remarked that: 'keeping control on the finances' was crucial. One manger remarked that he developed 'more of a commercial awareness than he had in the early years.' The marketing manager suggested that the company became more careful in its decision-making. He remarked: 'when we decide to launch a product, it has to work!'

Difficult decisions and choices had to be made. Changes in the management structure were made in order to safeguard the organisation. The comments of the marketing manager suggested that a cultural change had taken place within the organisation due to new ownership. Brierley's vision for the future was now shared rather than internalised, and new owners brought competing views to bear on the organisation:

> Dick probably feels that we should have allowed him to grow quicker, faster. We are more prudent. As we move from one stage to another, there is a sound financial basis behind it. Looking to the future, there is a more strategic based approach to it, as opposed to say an instinctive based approach. So there is a dichotomy there. It is that Dick would be much more hell bent, lets go for that, lets try to run a 100 yards in 10 seconds as opposed to 15 seconds which will take longer...

In McKeown Software, the new ideology centred around a new more conservative orientation, as well as the development of a long-term orientation, the desire to restrict company size and protect the key resources of the organisation. Part of the founder's initial vision was to set up a 'big software house'. As time went on, Gerry McKeown began to realise that he was responsible for the security of employees' jobs. The altruistic side of the entrepreneur seemed to emerge in McKeown. The financial crisis was a traumatic period since employees were made redundant:

> ...then it was realised that it was
> a big company that had to be responsible for its
> employment, a definite mark. At that stage business strategies
> would really have been kicked into place, in the long long term.

Gerry McKeown began to see the organisation in terms of an entity that had to survive into the future rather than simply as a vehicle to implement his ideas. This may have had an impact of the entrepreneur's perception of risk; he became more aware of how his actions would impinge on the business. In the early days, the company took people on with the expectation that more work would become available by the time the contract was finished. In the past the company grew 'without worrying too much about profitability.' After the crisis, they deliberately reduced their involvement in large be-spoke contacts which meant that they did not have the same need for programming staff. The company does not intend to grow large in terms of employee numbers. One manager remarked that: 'we have become far more contemplative about we ran the business.' In the aftermath of the crisis, they had to be 'more prudent' as regards expenditure.

The ideological shift that took place in QFS was predicated on the development of a conservative, risk-averse orientation along with a new awareness of the detrimental effects of politics. In the aftermath of the failed deal with Telerate, the company was faced with the prospect of severe cash shortages. Its future was in jeopardy. Gerry Giblin of QFS learned the paramount importance of profit:

> It has made me a lot more commercial. Power is the big thing. Power to do what you what to do is dependent on a single issue - making profit - and if you are making profit, then everything you do is right. If you are not making profit, then everything you do is wrong.

QFS emerged with a keen awareness of commercial issues and a more realistic view of what was feasible. Prior to the crisis, technology was the driving force, ambitious growth was a major goal, as seen by the proposed deal with Telerate; after the crisis, commercial issues defined and orientated the firm. In QFS, the period of foundation had a marked effect on future decisions and the culture of the embryonic firm. The firm clung to its initial product/market strategy as laid down in its original business plan. Giblin was described as an 'optimistic risk-taker'. Yet, one manager remarked that crisis 'makes a firm conservative as regards pushing the boat out in the R&D side.' The company was very slow in developing its product range which was perceived by the new financial manager to be a weakness. The start-up stage was based on an ambitious, growth- and risk-oriented ideology that was undermined after the crisis.

Likewise, RTI experienced an ideological shift that was characterised by conservatism in decision-making and the desire to restrict company size. RTI was set up to exploit the general technology of EPOS rather than fulfil any pre-determined market need. In spite of the fact that industry conditions were not favourable, Jim Barry left a secure job in RTE which was a major move. One manager remarked that the product development cycle was 'very high cost, high-risk stuff!'. The company went through a cycle of change, initially characterised by optimism and a strong belief in the viability of the organisation, to a more risk-averse period where licensing was used to exploit the firm's technology and back again to a more risk taking posture. Jim Barry stressed the struggle and hard work entailed in getting a business established. In RTI, the desire for stability supplanted the desire for growth due to the early experiences of struggle and crises. The firm seized the opportunity to enter into a licensing arrangement with a major multi-national. The founder's perception of risk changed with the passage of time. Jim Barry described himself at this point in the company's history as a 'risk planner' rather than a risk taker, although this was to change at a later stage. The early years of struggle meant that the entrepreneur's hope, optimism and ability to assume risk were undermined over the years. Jim Barry remarked:

> People say it is crisis that makes things happen - having to get resources, having to make things work. When there is a goal and a tight deadline, the buzz is up, the adrenalin is working. Everyone works way beyond their normal capacities. But after a while, that struggle to keep the bank manager happy grinds you down a bit...

The experience of Jim Barry illustrates clearly how ideological shifts and change in the founder's perception of risk are linked to crisis and context. Most software firms, according to Jim Barry, have experienced traumatic periods. Although crisis can stimulate above average performance among people, learning through crisis is likely to be achieved at considerable cost to the individual and to the organisation. Jim Barry, in particular, learned that the market was a harsh taskmaster, and that failure rather than success was the norm in the software industry in spite of the hard work, commitment and talent of entrepreneurial people. The comments of Jim Barry suggested that disillusionment and disappointment was all part of the process:

> The IDA throw up the same success stories all the time, five or six companies. The history of these have broken the spirits of most of the people involved...It is not a shortage of expertise or of commitment from the people involved, but they have always been 'hand to mouth' situations...It is such a struggle for the people involved, keeping the thing ticking over. It is hard work.

Likewise, the founder of Kestrel also talked about the sense of disillusionment that he experienced that has made him more cautious in his approach to business. This case provided evidence of the lessons of experience from working in a volatile sector. Joe McArdle remarked:

> Finance is a real barrier.
> If you want to go down a certain direction and take risk, then the risk becomes a lot greater. On the one hand you have someone who wants to play it safe and stick to the status quo, another person measures risk by growth... I am a total optimist but that has been battered out of me...

A more conservative ideology took root in Braycot in the aftermath of the crisis. It made management more cautious in their decision making. This contrasted with the early period of the firm's development which was characterised by a more proactive ethos. The general manager suggested that his mind-set had changed as a result of crisis. The company adopted a more planned approach to strategy seen by the importance given to market surveys:

> We are prepared to take a risk if the opportunity comes up. It is a conservative risk. The negative aspects of going through a critical period is that you hesitate to bring in new products unless you are 100% sure. You need market surveys which is expensive.

To summarise, ideological shifts took place over time in McKeown, Fiacla, RTI, QFS, Kestrel and Braycot. It resulted in conservatism in decision-making, at least for a certain period of time, and it also led to a more planned approach being adopted by management. The key objective was to protect and stabilise the success of the organisation. Although the emergence of a new ideology was constructive in many ways, it also carried with it the potential drawback of leading to over-cautiousness in decision-making.

Strategic persistence

An interesting characteristic of the defining episode period was that it led to 'strategic persistence', albeit this phenomenon was evident in only two cases. The term used to describe how organisational behaviour was constrained over time was 'strategic persistence.' There was the danger that the entrepreneurs would persist with a strategy beyond the point where it served the interests of the firm. In QFS, one manager talked about the negative effects of crisis on strategy:

> It makes a firm conservative, very much so. I suppose if you are used to managing on a very tight budget, you are used to planning ahead, how to pay next month's salaries, these issues were a feature of QFS back in the 1980s. Even though we were financed by Dermot Desmond, he did not have bottomless pockets, so we were used to justifying every piece of expenditure in great detail. It makes you conservative as regards pushing the boat out in the R&D side

QFS emerged at a time when money was in short supply, so profit fitted into the basic objectives and philosophy of the company. There was a suggestion that the early period of formation made the company conservative. Maintaining the economic health of the firm was a priority for Giblin. In retrospect, the new manager believed that greater attempts should have been to diversify on account of the nature of the product life cycle for software:

> I would say, looking back - Invision was a great product - but more effort should have been made to produce other products, to diversify at that point, rather than diversify at a later point, rather than depending on one product. That happened subsequently - maybe it would have been better if the company had started that earlier.

Jim Barry of RTI remarked that the early years of struggle made them receptive to a licensing arrangement with a Japanese company which may not have been in the best interests of the firm. At the time, Jim Barry saw licensing as an escape route from the years of struggle encountered up until then. The company entered into the business relationship when it was in a vulnerable, not a strong, position. A very attractive deal was offered to the founder who accepted it with alacrity. Jim Barry remarked:

> Those years were a real struggle. We were making everything ourselves; the software, all the support, trying to fund the thing. Because of the struggle, we were very receptive to the licensing arrangement with Hugin-Sweda. It lifted a huge weight. It stabilised the place financially. It really allowed you to focus on the development of products rather than on day-to-day fire fighting.

The financial manager suggested that the founder regretted this decision and probably should have remained independent. The arrangement was a very 'cushy situation' and at the end of the three years, management found that their technology did not advance the way they would have liked it to advance. They were stagnating. In an industry characterised by short product life cycles and constant change, this erosion of technical vitality was a serious weakness:

> We were developing nothing of our own at that time...We had to try and catch up on what was happening generally. We felt this was a great weakness. The company has learned to be cautious when arranging partnerships and to keep control of the direction of the company themselves.

One employee claimed:

> With hindsight, the Omron deal was bad....We have learned from that. It has given us second thoughts about being involved with licensing. We would be very careful with the next deal.

McKeown and Fiacla did not show the same unwillingness to diversify possibly because new ownership provided finance which stabilised the venture and minimised the prospect of a recurrent crisis. The case findings showed that forces for continuity and inertia were found to exist in the small firm. Crisis brought about changes, both positive and negative, in the founder's beliefs, values and objectives. However, crisis experienced by some companies was often a disincentive to growth. Many founders were personally exposed and stood to lose a great deal if the business failed. The ramifications of crisis episodes cannot be overestimated and in the aftermath of a crisis the morale of the company may have been weakened. In the long term the new risk-averse ideology seemed to become a constraint and had to be broken or 'unlearned'. RTI and QFS have since taken steps to remedy this problem. QFS has launched a new risk management project and RTI has changed its strategy from licensing and has assumed full control of product development. Crisis encountered in the high technology firms seemed to have more detrimental effects than for firms in the low technology sector. Jim Barry remarked:

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

Due to the pace of technological change, a high-tech firm cannot afford to stand still and persist with its founding strategy. It constantly needs replacement products to give it a competitive edge in the marketplace. Early crisis experienced by companies may be a disincentive to growth since stringent controls on cash are put in place. This induces conservatism into a firm which should be innovative and the inclination therefore may be to avoid major change.

(4) Strategy formation in SMEs - a phase pattern

So far in this chapter we have considered in turn how each of the three variables of the entrepreneur, context and history have influenced the strategy formation process in SMEs. The final section looks at the effects of the interaction of these variables over time. When looked at in this way, the data revealed an interesting phase pattern that was characteristic of nearly all of the cases featured in this study. This phase pattern has already been anticipated in the previous discussion of defining episodes and is more fully developed in this final section of the empirical analysis. This is illustrated in Figure 5.5. The companies evolved from an early fluid stage and disorganised state (the quasi-strategic phase) to a stage where the enterprise became led by a more explicit and well defined strategy (the strategic phase). Table 5.4 describes the key events each company encountered during the phase change. The following section discusses the phase change in four cases: QFS, McKeown, RTI and Fiacla. Due to time and resource constraints, a decision was taken to analyse a limited number of cases in-depth.

Figure 5.5. A phase pattern of strategy formation in SMEs

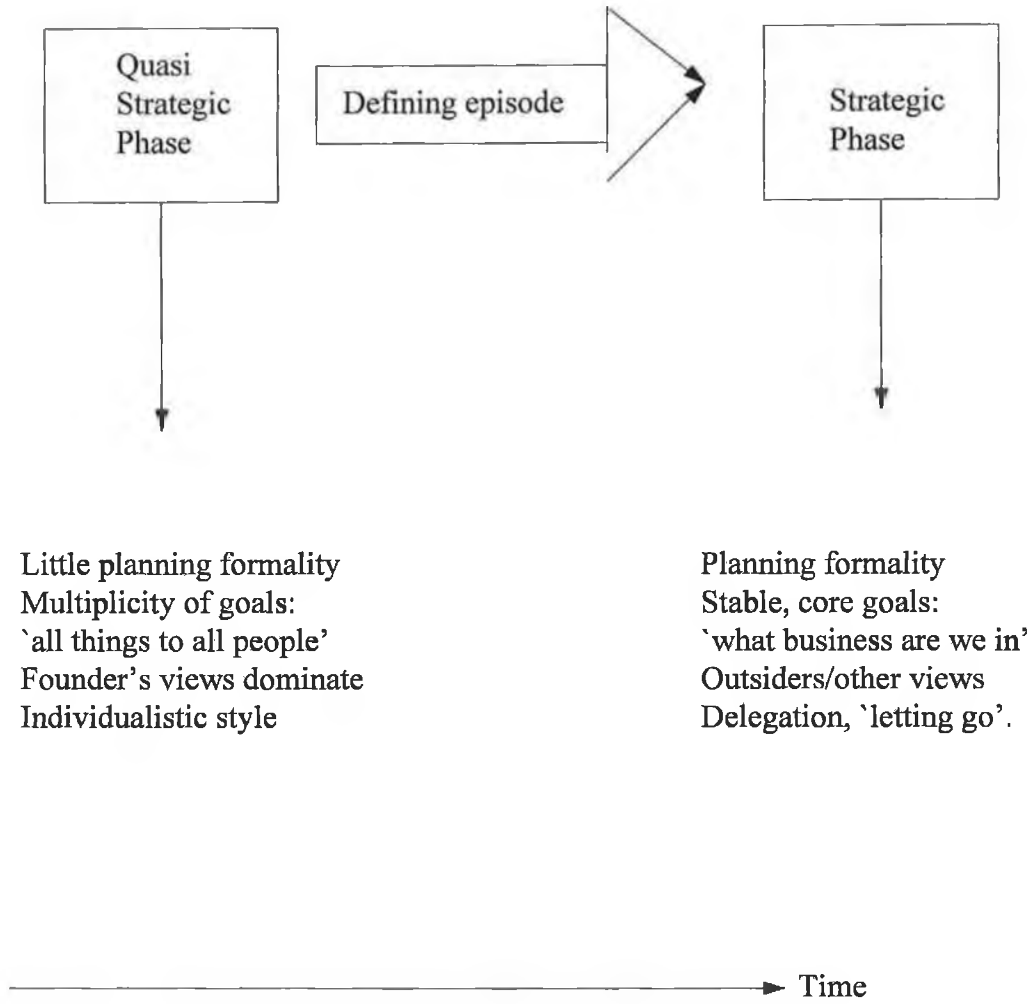


Table 5.4: The phase pattern of strategy formation in SMEs

Quasi-strategic stage	Defining episode	Strategic stage
QFS 1985:founded Ambitious growth strategy. 1987: crisis	Crisis due to failure of proposed deal with Telerate. Shortage of venture capital arose. Major decision: to persist with venture in a loss-making situation.	Prudent as opposed to ambitious expansion. Cash and profit oriented. Technical to commercial values. Board of management. Change in managerial style. 1990: office opened up in New York, London. 1991: Strategic alliance 1995: Take-over
McKeown Software 1976: Formed Service-oriented. 1980: first software. package. 1985: UK Office. 1989: crisis.	Crisis due to lack of planning and financial control, high R&D and high marketing costs, bad debts.	Change from bespoke development to a more product-led strategy. Evolution not revolution. Stability in product line. Restriction of employee numbers. Formal board of management. R&D values. 1990: Take-over. 1990: enters UNIX market 1991: Office in Hong Kong 1994: NHS contract
Fiacla 1983:formed. based on own-label. 1984: Fiacla launched. 1989: major capital investment. 1989: crisis	Crisis due to demise of distributor in Poland and lack of credit control. Result: over-capacity. Major decision was to sell a majority shareholding.	1989: Take-over Deliberate strategy based on spreading risk. Focus on high margin, speciality toothpastes. 1992: Sensitive toothpaste. 1994: Baking soda toothpaste. Focus on cost competitiveness and efficiency. Prudent as opposed to ambitious expansion.

\continued

Table 5.4: The phase pattern of strategy formation in SMEs.

Quasi-strategic stage	Defining episode	Strategic stage
RTI		
1979: Founded. Strategy of producing full EPOS systems. 1982: IBM PC available. 1984: Project for Japanese OEM. 1989: Contract with Arnotts, Dublin. 1988: Exclusive licensing deal negotiated. 1993: crisis situation.	Early years of struggle endured. Led to risk-averse licensing deal in 1988. 1993: failure of licensing arrangement due to politics; erosion of technical vitality.	1996: PAS Keyboard. Move from being a provider of total solutions to that of software solutions. Key objective to restrict company size.

The 'quasi-strategic' phase

The first phase in the development of the companies could be best described as a 'quasi-strategic' phase. This phase was generally characterised by the lack of a clearly defined strategy and the founders' intentions were often negotiated and aborted at a later stage. It was also characterised by little planning formality, a multiplicity of goals, the founder's views dominated and an individualistic style of management was evident.

Little planning formality

The findings of this study suggested that strategic planning did not exist in small firms, at least in the early stages of the firm's development. The companies were not led by a formal strategic plan but were managed opportunistically and intuitively. The strategy formation process did not conform to the rational, planning, textbook model of strategy. Instead vision, learning-by-doing and learning-from-experience seemed to be a substitute for formal planning.

The quasi-strategic stage in McKeown and Fiacla was characterised by the lack of a strong product/market focus or a dominant strategy.

McKeown is a perfect illustration of this process and one manager said:

> The company was formed by Gerry McKeown and two or three other people. There was no strategy. They simply wanted to get enough cash to pay this months wages.

The company started out as a software services house. The initial customers came from the dairy industry since Gerry McKeown had an employment background in this sector. The comments of the financial controller suggest that formal planning was absent in the early stages:

> The company started off with a few employees, with his ideas, with what he wanted to sell, after that there was continual growth all the time to the mid-1980s...Long term plans are not present in the initial stages

The company was guided by Gerry McKeown's vision and opportunism rather than a formal plan. The first Digital Vax machine was launched in 1981 which represented an opportunity for McKeown. The company began to concentrate on developing software for the Digital VAX/VMS range of equipment. It gained a franchise with Digital and used this connection to increase sales. The firm entered the public sector market when they obtained a contract to supply the health sector in the UK - the opportunity simply arose rather than being anticipated and planned for in advance. The firm underwent a fundamental re-direction in 1980/81. Four years after start-up, the firm decided to become more product led. It made more sense to develop a basic accountancy package instead of constantly 'reinventing the wheel'. This was the first significant decision to be faced by Gerry McKeown.

Similarly, the process of strategy formation seemed informal and even more fluid in the case of Fiacla. Richard Brierley's approach seemed to be an intuitive rather than planned approach. The start-up stage was a learning process. It was only by putting plans into action and learning from the outcomes that Brierley arrived at a workable strategy. This inexperienced entrepreneur had to grapple with being in business in the early days, with what that meant for him on a personal level, with all that was entailed in establishing a business. Richard Brierley planned to produce for the own label market initially but quickly realised that own label would not be profitable. Within a year, Brierley decided to produce a branded product as well. Operational and production planning seemed to overshadow strategic planning in the firm in the early stages. Manufacturing was sub-contracted out to a company in Connemara but this arrangement was soon terminated because of the lack of control over quality and difficulties associated with being too far away from the manufacturing process. Brierley also experienced problems with suppliers when the design wore off the toothpaste tubes supplied by them. Early plans and intentions were aborted through a trial and error process. Likewise, as new opportunities arose (such as the growth in speciality toothpastes, emergence of Eastern European markets, new innovations) Brierley seized them.

Richard Brierley seemed to take a very informal approach to strategy making. The comments of the marketing manager suggested that Brierley had very general goals and Fiacla was not led by a formal or detailed strategy:

> I don't know if he had specific goals. He wanted listings in Quinnsworth; an acceptable level, 50% of stores would have been a realistic level and a 40% share. I doubt very much is it was as detailed as that. He knew how many tubes of toothpaste he had to produce in year one, two and three, in order to finally make a profit. That is what his view would have been, on cost, the price at which he would have to buy materials, he had all these goals. But as for actual marketing goals, I don't think they were as well defined as they are now.

A much clearer product/market focus was evident in QFS and RTI from the outset, although the entrepreneurs seemed sceptical of the benefits of formal, long term planning. RTI was set up to exploit a new technology aimed at serving the emerging EPOS (electronic point of sale) market. The founder remarked:

> We had a focus. We knew what we wanted to do. We were always reasonably realistic about what we could achieve. We had a business plan, projections and we were usually able to meet them...We do not get overburdened with long term planning. What's a five year plan in this business? We look 18 months ahead, in a bit of detail. But that's as far out as we like to look

RTI experienced significant changes along the way, entering into a licensing arrangement for several years, then going in a new direction by launching its own range of products. This change in direction was sudden and opportunistic. A visit to a trade show was the source of Jim Barry's inspiration for the new line of product development. This change in direction was led more by the instinctive, 'gut feeling' of the entrepreneur rather than by in-depth market analysis. Therefore, elements of vision, opportunism, luck and spontaneity clearly played a part in the strategy formation process in RTI.

QFS also had a clear product/market focus. Strategy in this company was more deliberate than emergent. According to Gerry Giblin:

> We started out with a pretty focused mission and I think, if you look at the original placement document for the company we took advantage of the initial BES schemes way back in 1984 and what we laid out there as our product strategy we continued to pursue.

However, there was no sense of the company adhering to formal textbook planning. Gerry Giblin remarked that they did not plan 'in the formal sense' and went on to say that it 'would be over a few pints' and did not concern the long term 'it wouldn't be a case of where are we going to be in five years time.' One manager suggested that the company was led more by the vision of Gerry Giblin than by a formal plan:

> It was 70% vision of Gerry Giblin and 30% planning. A company can't succeed without planning, not in the long term. The company would have to have some plan. Gerry's vision would have been a key part...

Although the company adopted a very specialised product/market strategy, Gerry Giblin claimed that the thrust of the company was still opportunistic:

> If someone suggested something, we'd be capable of actually saying: 'stop this' or 'lets hire people and have a go at doing this.' We'd be pretty flexible about it.

The strategy formation process in QFS and RTI was clearly affected by context. The enterprises of QFS and RTI were characterised by skill-intensive, technology-based goods with a high export potential, whereas Fiacla was characterised by a fairly simple product of low skill intensity (toothpaste). McKeown was a knowledge based firm also, but it offered services to clients and the functionality of its accounting software did not change all that much. The most important characteristic differentiating QFS and RTI from the other major cases was the focus on innovation. The high costs of research and development demanded a clear and well defined strategic direction as well as sufficient funds to get the product to the market. The more deliberate nature of the strategy formation process may be due to the nature of the industry. Original decisions regarding products, markets and technology were crucial since the founders could not afford to make mistakes.

Some founders faced obstacles to planning; new product development in the high-tech firms was a highly uncertain process. The software companies were based on a high number of assumptions and inevitably experienced deviations from the original forecasts. In case of Kestrel, the product development cycle took longer than anticipated and the firm ran out of funds for product development and was forced to target a new area (alarm installations) in order to improve its cash flow situation. Gerry Giblin of QFS remarked that they had to allow for contingencies:

> We spent two years doing things wrong, making mistakes. When you say you need funding up front, you need funding up front to allow you to make those mistakes, to actually develop the product. You just don't do everything right straight away. So when you see a business plan, do x, y and z, you just have to build in some room for contingencies, because you are learning.

The lack of formal planning meant that the company was characterised by flexibility. The small size and simple internal structure of the small firm made it fundamentally adaptive. According to the employees in QFS, they were able to change very quickly if mistakes in the area of technology were detected. Gerry Giblin saw the firm's flexibility as a key strength and said:

> Getting the appropriate structures and the appropriate people in place for the next 12 months and then being able to change all that is very important

It was revealed through interviews with entrepreneurs in BFK Design, Irish Breeze and Kestrel that all had used a business plan. This did not prevent contingencies and crises from arising. The founders of BFK Design spent months devising a business plan but like the founder of RTI questioned the value of committing detailed plans to paper. The business plan seemed to be used more as a marketing tool to gain finance rather than as a planning or management tool.

Braycot, initially a biscuit producer, expanded its product range as new opportunities and threats arose, and produced cereal bars, organic products, own label and chocolate products. It attempted to penetrate markets such as Canada and the US but had to withdraw due to difficulties over sustaining the shelf life of the product. The thrust of the company was opportunistic rather than planned.

Multiplicity of goals: 'all things to all people'

The quasi-strategic stage seemed characterised by a multiplicity of goals. Since the margin between success and failure can be thin the entrepreneur has to grapple with diverse tasks and different goals. Entrepreneurs sometimes need to focus on several goals in order to ensure the viability of the enterprise. The sales manager in McKeown remarked that in the past, 'we tried to cover too much ground, we bid for nearly everything that moved, we would grab it.' Today, they do not bid for contracts with a large bespoke element due to the change in their core strategy. They are 'more completely focused on profitability not on revenue'.

The marketing manager of Fiacla suggested that the early start-up period was fraught with instability and many goals had to be achieved; it took time for the business to establish a certain level of comfort and stability:

> At the start, you need 20 things to happen, to make the business worthwhile doing. Whereas when you achieve those 20 things, you then start to pick and choose... You can choose your goals once the business is up and running. The company has becomes more focused. What we like to do we do it well. We have time to investigate things.

Similarly, RTI also focused on several goals in the start-up period. Jim Barry was involved in the exploitation of a new technology. The company installed EPOS systems in a few outlets in Ireland and the UK and therefore had to maintain a sales office in the early days. The company had to prove that the technology would work and that was the rationale for installing entire systems. Jim Barry was 'never completely comfortable with that' but needed to master diverse skills in order to get the business off the ground. He found those years a 'real struggle' and the focus seemed to be more on 'day-to-day fire fighting' rather than on the development of products. After several years in a licensing arrangement, the company decided to launch its own products and again took control of its destiny. The sales manager remarked:

> At the moment he is 'hands-on' everything. It would be better if he hugs the ideas, got the drawings on board and then leaves it to someone else to let it work. He is very much over committed as he is now.

Likewise, Gerry Giblin of QFS was preoccupied with many different tasks in the start up stage. He had to develop and test the software product, liaise with NCB so that the software solution would conform to users' expectations, negotiate a deal with Telerate and ensure that continued funding would be available.

Similarly, the founder of BFK Design had to deal with an unstructured, pressure-ridden environment. Kevin Barry (entrepreneur) found that he had to deal with many pressing issues: such as getting business, producing the work, getting paid for it, thinking about the future and keeping abreast of technological change. He found such there was 'a lot more involved in running a business than I thought.'

Founder's views/vision dominates

The quasi-strategic stage seems to be strongly influenced by the vision, goals and attributes of the entrepreneur. RTI, McKeown, Fiacla and QFS were set up by charismatic individuals with a creative idea, immense drive and determination to succeed.

Richard Brierley had a broad 'vision' for the enterprise, that of producing a top quality Irish-made toothpaste for the home and export markets. He was described as someone who: 'knew what he was talking about' and 'knew exactly what he wanted' when he went into business. Richard Brierley remarked that an entrepreneur is someone who 'believes in what they do, believes in the product, is able to make it happen.' This faith in the product and in the venture itself helped him overcome obstacles. One manager in Gillespies remarked that it was 'Richard who had to drive the business' from a marketing point of view. This highlighted how closely the firm's development was linked to the personality of the entrepreneur.

Similarly, Jim Barry of RTI dominated the company from the outset. One employee remarked that 'it was very much the founder's company.' Jim Barry remarked that: 'I suppose, from a product and vision viewpoint, I drive it. I'll say that.' Likewise, Gerry Giblin was perceived to be synonymous with QFS and was well known throughout the software industry. His ability to persuade local financial institutions to pay for, and take the product, was seen as a critical factor in the success of the company. One employee remarked that:

> He has put a lot of enthusiasm into the company, he's keen on pushing it forward, it has developed over the years, he had many contacts with the industry - in Ireland and abroad - he has used those to generate sales

The strategy of QFS and RTI was clearly affected by the personal preferences of the founders. Jim Barry was not interested in building a large organisation whereas Gerry Giblin saw the need for a professionally run mature organisation. Gerry McKeown was perceived to be a major force in the development of the company. He had a combination of technical and marketing knowledge that was crucial for company success. As mentioned previously, the founders had a significant impact on the culture of the firm. They instilled certain values into the companies such as quality, team-work and a customer orientation. For instance, Jim Barry suggested that what made RTI distinctive was the fact that they: 'look at things from a user's point of view, rather than things being driven by technology.' These values lingered on even when the company was taken over.

Individualistic style of management

An individualistic style of management was characteristic of the quasi-strategic stage. Richard Brierley had total control over the development of the company since he was the only shareholder. In hindsight he claimed that there were things he should have done differently: 'I would not have tried to do everything myself'. He regretted the fact that he did not have the support of a small team of people who would constitute a 'think tank to come up with solutions - and share the worries.' A 'hands-on' approach was taken by the Richard Brierley in the early days. He was responsible for all aspects of business start-up and development and performed a wide range of functions. Likewise, Jim Barry played a pivotal role in the development of his company and was perceived to be virtually indispensable to the firm. He described his management style as autocratic in some ways, since he had a significant influence on product development.

In QFS the comments of the founder suggested that his managerial style was both informal and charismatic in the early days:

> There was no formal board or board meetings, meeting someone in the hall and having a chat - that was effectively the control of the company.

This was to change as the company grew larger. Giblin remarked that the company had to make a transition from a small company to a more mature, professionally run company where employees no longer reacted to the 'personal charisma' of one individual. It had to change from a 'people-driven to a more process-driven organisation.' He remarked:

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

As a leader, he had the ability to stretch the capabilities of employees, beyond what they themselves believed possible:

> The art of the entrepreneur is to take a gamble; they have to deliver on that gamble. Gerry's strength was that he knew exactly how much we could step up to fulfil the promises he made.
> As the company gets larger, it is harder for him to put his finger on the pulse, to know just how much he can gamble. He does not take those types of decisions anymore.

His style of management was individualistic, in the sense that he had significant control over the company's future. Gerry Giblin remarked that he 'basically built the thing up' even though the company was substantially owned by a venture capitalist. One manager remarked that he: 'provided the initial vision and had the foresight to come up with an idea and base a product around that idea and start up a company.' Giblin negotiated the deals with both Telerate and Micronogosis. He was aware of the problem of over-dependence on one person's key skills; he believed that the company possessed the necessary innovation and creativity but more importantly, it was embedded in a team structure.

The 'strategic' phase:

The strategic phase was characterised in general by a clear and controlled sense of direction and the presence of well defined strategies. The salient features of this phase were as follows: planning formality, stable, core goals, the emergence of outsiders' views, and delegation on the part of the founder. The phase change was instigated as a result of the defining episode which was a significant shaper of strategy in the firms under study.

Planning formality

The strategic stage was characterised by a certain degree of formal planning in the SME. Growth in the quasi-strategic stage was largely achieved by the guiding vision of the entrepreneur with minimal planning taking place; in the strategic stage, greater attention was paid to planning.

In McKeown, long term plans were put into place in the mid 1980s due to the experience of crisis and change in ownership structure. One manager remarked that major change took place after the crisis since in the early stages, McKeown did not have an explicit long-term strategy:

> ...At that stage, business strategies would really have been kicked into place, in the long, long term. Up until then, it would have been in the growth stage, which is quite common in a lot of companies, you know who you are selling to, what you are selling, you take your product and sell around the hardware.

There was a shift from offering a service (bespoke contracts) to a much more product-led strategy. This meant that most of the programming staff were re-trained and diverted into the product development and R&D unit. The key policies which the founder and the board of management developed were explicit and shared throughout the organisation.
The key objective, at this stage, was to protect and stabilise the early success of the organisation. It became necessary for the founder to adopt more formal patterns of behaviour. Management started to plan its resource requirements, whereas previously the entrepreneur seemed to learn about what was required through action. One manager remarked:

> It was a silver spoon situation, everything had gone well. Since the crisis, we have become far more contemplative about how we ran the business. We cut costs. We had to be prudent on what we were spending our money on. We became more budget oriented. R&D expenditure would be decided a year in advance.

A clearer focus was evident throughout the organisation. For instance one manager remarked that since 1989, they 'really concentrated on a declared product-oriented strategy.' The comments of the general manager suggested that formal planning took place within the organisation:

> ....we have formal meetings to look at past performance. We also try to forecast over a three year period as to where we might we going, what investment we might require to keep up to date with technology. We have a dynamic three year business plan.

Similarly, RTI experienced an increase in formal planning from its early days:

> The firm has much more formal plans now. That has to happen. We also have ISO9000 in-house which has helped a lot. Planning and having procedures, rather than the 'lets go and do it' approach. Everything is formal now. Before when we were selling anything, our view was what is the best price you can get, now we have definitive price lists for everything we sell. The actual product, the parts, down to support charges, tariff charges, components. That has only recently emerged.

Likewise, the general manager of Braycot remarked that planning became a feature of the firm's development and they learned valuable lessons from the crisis episode:

> There is a lot more research into prospective customers. We plan a lot more.

Fiacla adopted a more rational and more planned approach to strategy formation shown by the close attention given to cost and credit control. Brierley referred to the increase in formality that took place after the crisis:

> ...that's the most important thing, keeping control on the finances. We know from one month to the next what we have achieved. As a matter of principle, we review things every month...Because of our borrowings, the number of people involved, we have to have formal procedures. We have to keep an eye on one of our major costs, transportation and get the best rates we can.

The strategic stage seemed characterised by a greater awareness of the company's strengths and weaknesses. RTI has developed a good understanding of its strengths, which include the quality of the product, customer satisfaction and its R&D capabilities. Its main weaknesses revolve around management in the sense that they are dependent on a few key people. Similarly, Richard Brierley had a clear view of the company's strengths and weaknesses. Its strengths depended on the quality of the product, customer service and flexibility in terms of response to shifts in demand. The major weakness of the company was its geographic location at the edge of Europe.

Stable, core goals: 'what business are we in?'

Stable, core goals emerged in the strategic phase which contrasted with the multiplicity of goals present in quasi-strategic phase.

Richard Brierley of Fiacla developed a clearer focus and a more well defined strategy emerged that centred on marketing high-margin speciality toothpaste products and expanding into Europe. The seeds of its strategy were sown during early turbulent periods. As a new organisation, it endured periods of instability which resulted in a greater focus. The transformation of the company involved the incremental extension of some policies (increasing exports; reducing reliance on own label) as well as features that were more radical (new plant and equipment, change in philosophy, professionalism, new product range, wider markets, reducing dependence on a single market). The large investment program was the main driver of change.

Similarly, RTI developed a clear sense of its future direction. It defined itself as a supplier of software solutions, whereas in the early days it was forced to develop entire POS systems and it offered total solutions. RTI has established a track record and has achieved a certain level of credibility with customers which has made the process of product development much easier. The company was able to persuade the customer to pay for production. They no longer had to strive for credibility and prove themselves in the marketplace. The new project, the PAS keyboard, represented a significant break from its previous strategy of licensing its technology. It recently negotiated a financial package in order to obtain a placement on the small firm stock market.

McKeown emerged from the critical period in the 1980s with two objectives: a commitment to product stability and the intention of restricting growth in terms of employee numbers.

Outsiders/other views

The experience of crises provided a rationale for bringing in outsiders and/or putting a professional management structure in place. McKeown, Fiacla and three other companies, Braycot, Caraplas and Kestrel were taken over after the experience of a crisis.

After the takeover, QFS diversified into a new area, risk management. The new owners realised that the core product was moving into the final stages of the product life cycle and a new product was needed to prevent stagnation. This view did not seem to be shared by the founding entrepreneur. Before the take-over, Gerry Giblin did not see any lack of demand for their product and did not envisage moving outside of the financial markets. He remarked:

> If QFS continues to be Irish-owned, it would be a question of sticking to our knitting. If we go down the route where we try to sell to someone else, we would be lucky to have a situation where our software skills are recognised and if that company had opportunities in other sectors then of course we'd want to pursue those. But if we're staying as a stand-alone Irish company (which may well be the case) then I would not see us moving out of financial markets.

When QFS was taken over by CSK, they devoted resources to R&D. QFS was then able to carry out R&D 'knowing that salaries will be paid next month'. Gerry Giblin's role changed under new ownership. He remarked:

> My role is changing. It's a number of things. It's talking to customers, strategic customers, having time to think about what we will be doing next. It's also going back down into the lower levels and saying "lets sit down and talk about what product is going to be developed next. Let's work on this in some detail."... I also get the opportunity to go back down into the organisation and continue to inspire groups of people to do exciting stuff

After take-over, Richard Brierley focused more on production management and the development of new export markets. Gillespie & Co. assumed responsibility for strategic management and accountancy. Richard Brierley had regular board meetings with his distributors to discuss issues. Roles were clearly defined. According to the distributor:

> I think we marked out the course. We both know the field we are playing in. He is on the left side, I have got the right. We do not get into that much conflict. He is left a free hand in the day to day business.

Jim Barry has also experienced changes in his role over time. He became more focused on idea generation and customer contact which contrasted with his earlier role of organising the production, development and manufacture of products. As the business matured, the entrepreneurs seemed to have more freedom to pursue the role at which they excelled.

The strategic stage was about comfort, long term survival and the existence of a strategy in a well established organisation. The take-over brought financial stability to both QFS and McKeown which they did not have before.

Delegation, 'letting go'

The strategic phase saw a change in management style on the part of the entrepreneurs. The individualistic style of management in the quasi-strategic phase gave way to more delegation, to 'letting go' and greater reliance on general managers and employees.

QFS, like McKeown, has undergone a major transition from a small start-up company to a mature, professionally managed organisation. QFS has moved from a 'garage style operation' where employees responded to the personal charisma, energy and style of the founder to an organisation with formal personnel policies, regular board meetings and the presence of a general manager who is responsible for day-to-day operations. In QFS, the style of leadership in the start up phase (visionary, charismatic, collegiate) was wholly different from that in the later stages, (formal, dispersion of control, delegation). According to Gerry Giblin:

> We are moving from a situation where trust and peer pressure were the only two management techniques that actually motivated people to a situation where we are making decisions on people's productivity, time-keeping and so on. It is quite a painful transition.

Gerry McKeown made a transition to a formal board of management and seemed willing to relinquish control. One manager remarked that:

> As to actual man management, he would probably shy away from that. He would look for people who would be good at that.

Not all founders found it easy to breach this barrier and make this transition. Progression from a quasi-strategic to a strategic stage was not inevitable in the case of Kestrel; growth seemed to be arrested largely due to management's delay in finding a strategic alliance partner. In addition the severity of the crisis meant that the company's lack of financial resources became a constraint to action. Braycot and BFK Design experienced changes in managerial style due to the increase in company size, and greater attention was devoted to areas of weakness in the aftermath of the crisis. Caraplas was taken over and since the original founders were no longer with the firm, insufficient data was available to assess whether a phase change occurred.

To summarise, the strategic stage was characterised by some degree of formality and by whether or not the company had:

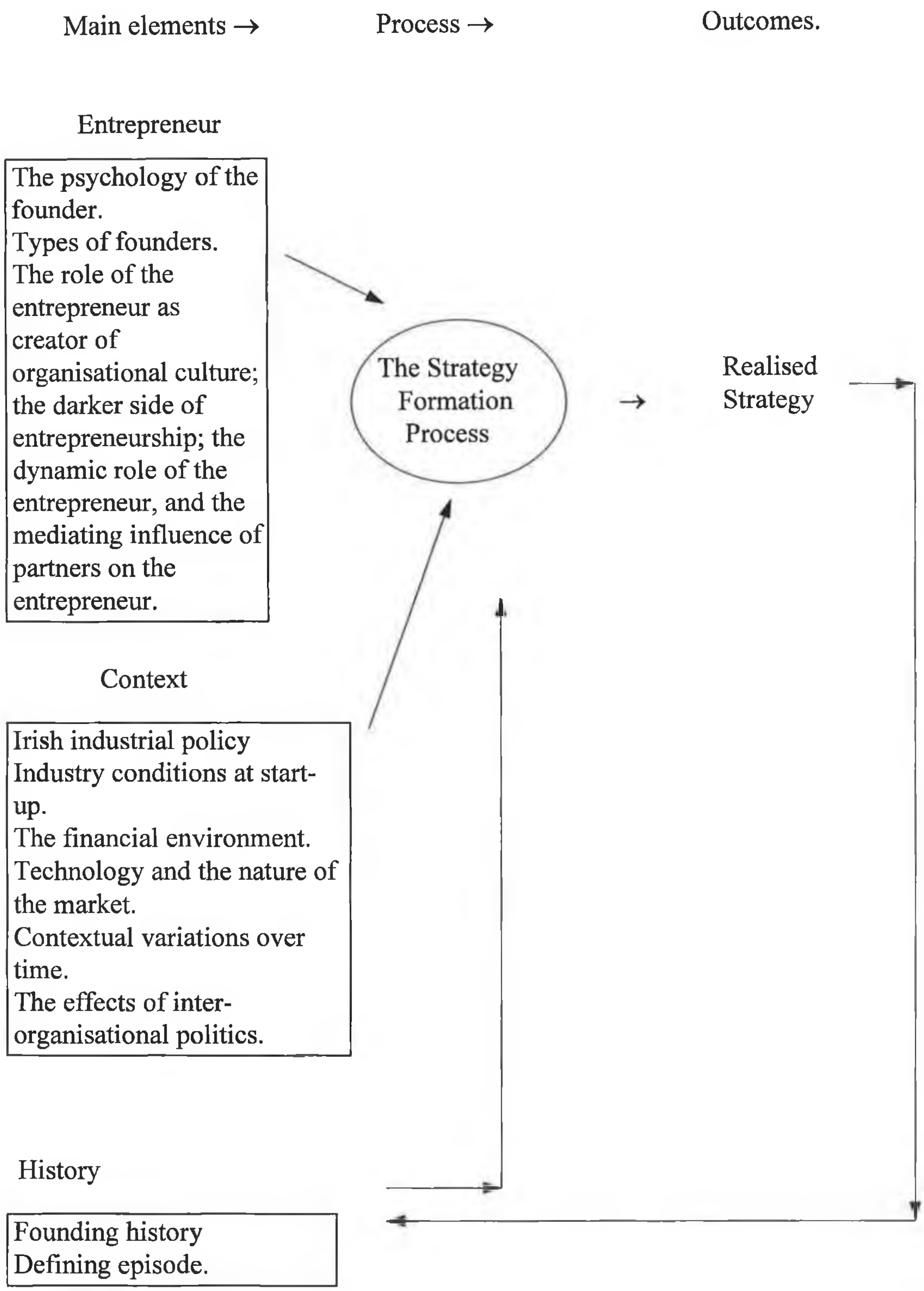
(1) greater planning and control systems
(2) clearly defined roles
(3) explicit or implicit strategic plans
(4) changes in ownership structure
(5) a focus, a clear sense of firm's future direction and its strengths and weaknesses
(6) stability and financial security

In the 'strategic phase', a strategic consciousness, a focus, a dominant strategy and dominant ideology seemed to emerge. It seemed that the small firm became more focused and persistent in its strategic patterns. Strategy, before the crisis experience, seemed a fluid and emergent process, but afterwards, it exhibited more deliberate components.

Summary

This chapter has analysed the strategy formation process in SMEs in terms of the perspectives of the entrepreneur, context and history. Figure 5.6 synthesises the findings relating to the three key variables. The role of the entrepreneur in the strategy formation process was described and two main types of entrepreneurs were outlined. The entrepreneur played a key role in establishing enduring cultural values that affected strategy formation well into the future. This chapter also drew upon the data to describe the dynamic nature of entrepreneurship, suggesting that the effectiveness of the entrepreneur changed over time. The entrepreneur experienced changes in cognition in terms of change in goals, managerial style and attitudes towards risk. Based on the data, a phase pattern of the process was generated suggesting that the companies adopted a more planned orientation as time passed. These two main phases were termed the 'quasi-strategic' and 'strategic phase'. The data suggested that the entrepreneur played a key role in the strategy formation process, although this role was mediated by contextual and historical forces. The next chapter will discuss the significance of the findings and examine their implications for future research and practice.

Figure 5.6: A model of the strategy formation process in SMEs



CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS

Introduction

The overall objective of this research was to identify and analyse the main factors underlying the strategy formation process in Irish SMEs. The aim of the author was to make sense of the company's realised strategy, by looking at the company's origins, its unfolding history and the intentions and actions of the founder. This approach allowed the researcher in this study to see strategy as the interplay between the founder, context and history. Despite the growing interest in strategy process research, it emerged that limited academic attention had been given to the SME. Contemporary evidence was gained through a study of nine indigenous Irish companies. In this concluding chapter, the primary concern is to examine the contribution that this study has made to existing knowledge of strategy formation in SMEs and to discuss its implications for further research and for practice. The chapter is organised under the following headings:

(1) Typologies, traits, roles and the dynamics of entrepreneurship
(2) The phase model
(3) The utility of the strategy process model
(4) The elaboration of the model: how the strategy formation process in SMEs is different from that of large companies.
(5) Strategy formation in SMEs: the rational planning model and intuitive learning model
(6) Areas for future research

(1) Typologies, traits, roles and the dynamics of entrepreneurship

The next section relates the findings of this study to the entrepreneurship literature in more detail. Figure 6.1 outlines the major themes relating to entrepreneurship that emerged from the data.

Figure 6.1: Outcomes: typologies, traits, roles and the dynamics of entrepreneurship

		Typologies, traits and roles.
Entrepreneur	<	
		Dynamics of entrepreneurship.

Entrepreneurial typologies and traits

There were variations in the personas of the entrepreneurs and their role in the strategy formation process. By comparing and contrasting types, this study distinguished between the charismatic and pragmatic entrepreneurs; the key distinguishing characteristics among the types were underlying world views and attitudes to risk. Table 6.1 illustrates the dominant attributes of the two main types.

Table 6.1: Dominant attributes of the charismatic and the pragmatic entrepreneurs

Type 1:	**Type 2**
The charismatic entrepreneur	**The pragmatic entrepreneur**
Dominant attributes	Dominant attributes
Approach to strategy formation: visionary, idealistic, romantic, intuitive. A 'bullish' approach to the management of risk Abiding commitment; obsessive; success against the odds; achievement of goals an 'end in itself'.	Approach to strategy formation: 'common-sense', down-to-earth, planned, rational. A 'bearish' approach to the management of risk. 'Calculated' commitment; success obtainable: dream within reach; instrumental aims: achievement of goals a 'means to an end'.

The strategy of the firm can follow very different patterns, reflecting the variability in attributes and objectives of individuals. The charismatic entrepreneurs shared common characteristics: all were visionaries; they had an unshakeable, obsessive belief in their venture ideas and abiding loyalty to their companies; their vision was often based on intuition and experience rather than hard data, proven facts, forecasts or plans. They were prepared to assume risks in order to aggressively grow the company even when their ambitions exceeded company resources. Although they were small players competing in industries dominated by multi-nationals, their ambitions were not modest. They had the ability to persuade stakeholders to continue to support the venture in times of difficulty. Their tenacity and persistence in the face of difficulties eventually led to success, often success against the odds. They were guided by idealistic as well as commercial goals: success and financial reward was important to them but they also had other aims such as: making computer power at the point-of-sale more accessible to the users; building a world-class reputation for Irish software, and proving that Irish produce is as good, if not better, than the import substitutes. They constituted a driving force in the development of their companies, but on the negative side, their role in developing the business and emotional attachment to it made them virtually indispensable to the firm. They were reluctant to cede control of the venture and take- over was forced on the companies in two cases.

The pragmatic entrepreneurs, in contrast, were more aware of the constraints on their actions, they sought to avoid risk and adopted a more planned approach to strategy formation. They were only willing to grasp opportunities if current resources existed. These individuals viewed the business in instrumental terms and were willing to sell if the take-over price was right. For instance, Peggy Connolly (a pragmatic entrepreneur) and Richard Brierley (a charismatic entrepreneur) set up similar ventures but adopted entirely different approaches which was a function of their personalities. The former sought to minimise risk through the setting up of a home-based business, the undertaking of a feasibility study, the use of sub-contracting, the targeting of the 'safe' domestic market, and later succumbed to an attractive take-over offer. In contrast, the latter made a commitment to a production run, invested £500,000 over the years into the business, targeted the high-risk 'Eastern European' markets, and the approach to business start-up was intuitive rather than planned. The take-over of the company represented a difficult episode for Brierley.

The literature rarely accommodates the pragmatic type of entrepreneur, mainly because the notion of entrepreneurship is a popular and potent one. The discourse of entrepreneurship has succumbed easily to rhetoric, platitudes and catchphrases which have served as a simple way for describing entrepreneurs in today's world. It has encouraged the use of over-simple stereotypes such as the 'bold risk-taking hero' (Mintzberg and Waters, 1982) of organisational life. Hobbs (1991, p. 107) remarked that up until recently, entrepreneurship was perceived to be the 'province of exceptional, often obsessive individuals...doomed romantics...' who 'obtained great wealth in a style that was rather dashing and rather eccentric.' It is all too easily forgotten that most entrepreneurs may not correspond to the exceptional, obsessive and charismatic type. The pragmatic entrepreneurs do not seem to fit the stereotypical view of the entrepreneur, however, the fact that they were prevalent in the sample of nine entrepreneurs questions the universality of the traditional model.

While the pragmatic entrepreneurs did not share the all-consuming passion and commitment of the charismatic entrepreneurs, their companies such as BFK Design, Irish Breeze, and Braycot enjoyed success. This suggests that organisational success need not always depend on the presence of a strong charismatic entrepreneur. However, it must be recognised that the research design of this study did not incorporate robust measures of company performance, nor did the study seek to explain success.

However, in the literature value-rich leadership is seen to be a potential source of superior performance (Leavy, 1996). There has been, and still is, great interest in the notion of visionary leadership (Bennus and Nanus, 1985) or charismatic leadership (Bryman, 1993). According to Bryman, charismatic leaders are regarded as exceptional, they have a vision that elicits followership and enjoy great personal loyalty and high levels of commitment from their followers. In their study, Collins and Porras (1995) found that, contrary to conventional wisdom, the success of some of the world's most well known companies was neither due to great ideas nor great and charismatic entrepreneurs. This study on SMEs also questions the implicit assumption in the literature that there is a necessary link between 'heroic' entrepreneurship and the founding of successful and enduring companies.

Entrepreneurs are not similar in nature; some, like the charismatic entrepreneur still manage to retain their propensity to assume risk, while others, like the pragmatic entrepreneur, approach risk situations with caution. Being in a position to take risk is not the same as taking risk. Risk-taking will always be a function of the individual's personality; some individuals will have a greater propensity for risk-taking than others, although genetic influences interact with circumstance to determine the treatment of risk. This study illustrates that not all entrepreneurs conform to the traditional stereotype of the 'bold risk taker'. This finding shows the danger of drawing upon literature that is American in origin. It means that research may be culturally bound and policy makers should be careful in applying stereotypes to the Irish situation.

The distinction between the charismatic and pragmatic entrepreneurs revealed in this study also contributes to the minor, but growing literature that takes issue with the predominant view that there is only one distinct type of entrepreneur. A great deal of thought has been devoted to the small-business entrepreneur with the result being a number of interesting typologies (Birch, 1987; O' Farrell, 1986; Sexton, 1989; Smith, 1967; Storey, 1989). Smith's (1967) study, like many other typologies, links the type of man to the type of firm and more specifically whether it is growth-oriented or not. Birch's (1987) categories of 'income substitutors' and 'builders' also illustrate the importance given to growth. These two categories reflect the difference between two types; on the hand one, there is the small business owner who does not exhibit innovative behaviour and is not interested in building a large organisation; and on the other hand, there is the entrepreneur who is characterised by innovative behaviour and is interested in growth. The former, who is not interested in growth, tends to be described as a sort of 'half-hearted' or reluctant entrepreneur. These typologies suffer from the drawback of attempting to embrace all types of entrepreneurs under one dimension. The pragmatic entrepreneur does not seem to fit into the fore mentioned categories.

Existing typologies capture some, but not all, of the traits displayed by the charismatic and pragmatic types profiled in this study. The charismatic entrepreneur shares some of the characteristics of the visionary (Bennis and Naunus, 1994) or charismatic leader (Bryman, 1993) in the strategic management field. Chell and Haworth (1992) describe the prototypical entrepreneur as being proactive, highly innovative, intuitive, adventurous and capable of promoting a high profile image for the company. This type came close to the 'charismatic' entrepreneur proposed in this study. Chell and Haworth (1995) proposed another type, the 'quasi-entrepreneur' who was not as opportunistic as other types and showed more restraint in pursuing an idea. Growth was constrained since they carefully considered an idea before pursuing it. Hornaday's 'promoter' type is also relevant since this type shows more loyalty to career rather than to the company. 'Promoters' are interested in personal gain and drain cash out of their firms without regret; they found, grow and sell the businesses as a normal way of doing business. In this sense, they share some of the characteristics of the pragmatic entrepreneur (see Table 6.1).

While existing typologies come close to capturing some of the differences between the charismatic and pragmatic types described here, terms such as 'income substituter', 'promoter' or 'quasi entrepreneur' do not quite capture the essential contrast that the pragmatic entrepreneurs presented from the more 'heroic' type in this study. Here, the difference is not just in growth-orientation but it seems to be in more fundamental personal world views. The charismatic type is a romantic who seems to be driven by transcendent aims - the pragmatic type is a rationalist who seems to have a more calculating and instrumental outlook in terms of business and personal goals. This study proposes a more in-depth profile of entrepreneurial types based on their fundamental values, motivations, attitudes and approaches to strategy formation.

The charismatic entrepreneur is driven more by emotion-rich values such as the desire to become a 'world class software developer'; the desire to make computer power at the point-of-sale accessible to the 'huge uneducated market out there'; and desire to 'build a large software house.' Their valued reward is turning a dream into a reality; they are intuitive, far-seeing, action-oriented, able to take risks in the pursuit of their visions. The qualities of these individuals, their commitment, charisma and vision, were often decisive factors in securing credibility and getting the business off the ground. These qualities helped push the firm towards growth in the early days.

The pragmatic type relies more on analytical reasoning and hard facts rather than on the non-rational, visionary, intuitive approach of the charismatic entrepreneur. The pragmatic entrepreneurs make an assessment of both themselves and the market; the aim is to set up a business that has a good chance of succeeding. One founder remarked that he would never 'wish to become huge' and that the company would have to 'remain relatively small in a niche market if we are to succeed'. The founders of another firm remarked that: 'we go through decisions, like employing another person, very very carefully.' They decided to set up a professionally-run, well organised organisation that was not always characteristic of start-up firms in the design industry. Previous employment skills, knowledge, pragmatism and desire to contain risk, were key factors in getting the business off the ground. The pragmatist is driven by tangible goals such as the desire to make a living, earn financial reward or sell the business at a profit. Unlike the charismatic entrepreneurs who tend to be more emotionally attached to the venture, the pragmatic entrepreneurs are not as umbilically tied to their organisations. On account of their more down-to-earth approach to strategy formation, they find that ceding control of the venture is not overly difficult.

The distinction drawn here between the charismatic and pragmatic type reflects a similar distinction between 'romanticism' and 'rationalism' in western philosophy (Ebers, 1985). Ebers (1985) noted that the belief in the supremacy of reason was inherent to rationalists. The rationalist approach dominated organisational studies until recently with its tendency to view organisations as goal-oriented, efficiency-seeking entities. Ebers (1985, p. 53) noted that the symbolist perspective 'originated in dissatisfaction with the exclusively analytical-quantitative approaches dominating organisational analyses until recently'. Romanticists, on the other hand, recognise that not all areas of human experience can be known through reason and hard facts, and that some areas are accessible only to non-rational faculties and may lie with intangibles such as imagination. Culture and symbolism consider intangibles and highlight the limitations of prevailing 'objective' research efforts. This study differs from others in that it acknowledges the positive aspects of the charismatic and pragmatic types of entrepreneurs.

The role of the entrepreneur: as creator of organisational culture

One of the contributions of this study was to affirm the pivotal role played by the entrepreneur in the strategy formation process through the creation of enduring cultural norms. The term used to describe entrepreneurs was: 'agents of cultural transmission.' The founder played a key role in establishing founding values whether that was a culture emphasising product quality, team spirit, or responsiveness to customer needs.

In most cases culture was the result of the personal preferences of the founder and may have accounted for different patterns in the strategy formation process. Culture had an impact on how entrepreneurs saw the world. For instance, Jim Barry of RTI valued ideas, research and development and working as part of a small highly motivated team of individuals. He did not want to build a large organisation which would encroach on this type of culture. On the other hand, Gerry Giblin wanted to become a developer of world-class software and perceived a large, professionally run, mature organisation as the pinnacle of success. The original founders of Braycot were biased in favour of a top quality branded product. Unlike other companies, they did not stress the 'Irishness' of the product, being either unwilling or unable to do so.

Likewise, Schein (1983) found that the initial thrust of the company or its culture was very much a function of the personality of the founder. Culture, in itself, determined performance. Murray (1984) also examined the role of the founder in creating organisational culture. Murray (1984) found that the entrepreneur plays a key role in forging a vision for the firm and in imprinting a 'corporate personality' that was unlikely to be easily discarded even after the entrepreneur had bowed out of the firm. These studies suggests that entrepreneurs had an important role to play in the organisations they created.

The basic premise of Ray's (1993) paper was that entrepreneurial personality had a decisive impact in shaping a new venture, and usually left an imprint on the company for a long period of time. It shaped the company's culture, the values and the social behaviour of the firm. This study on SMEs, along with others (Kets de Vries, 1990; Schein, 1983; Murray, 1984) has progressed from the simple trait theory with its static terms of reference to more complex models that see a link between individual characteristics and the organisation. These studies seek to explain rather than merely document the entrepreneurial phenomenon.

The dynamics of entrepreneurship

This study has also extended the literature on entrepreneurship by firstly adding fresh insight to trait theory (in relation to risk) and secondly by forging a deeper understanding of the dynamics of entrepreneurship. It differed from many previous studies on entrepreneurship by taking a dynamic perspective and by following the development of enterprises beyond the formative early period. The insights gained by this longer than usual time perspective are illustrated in Figure 6.2.

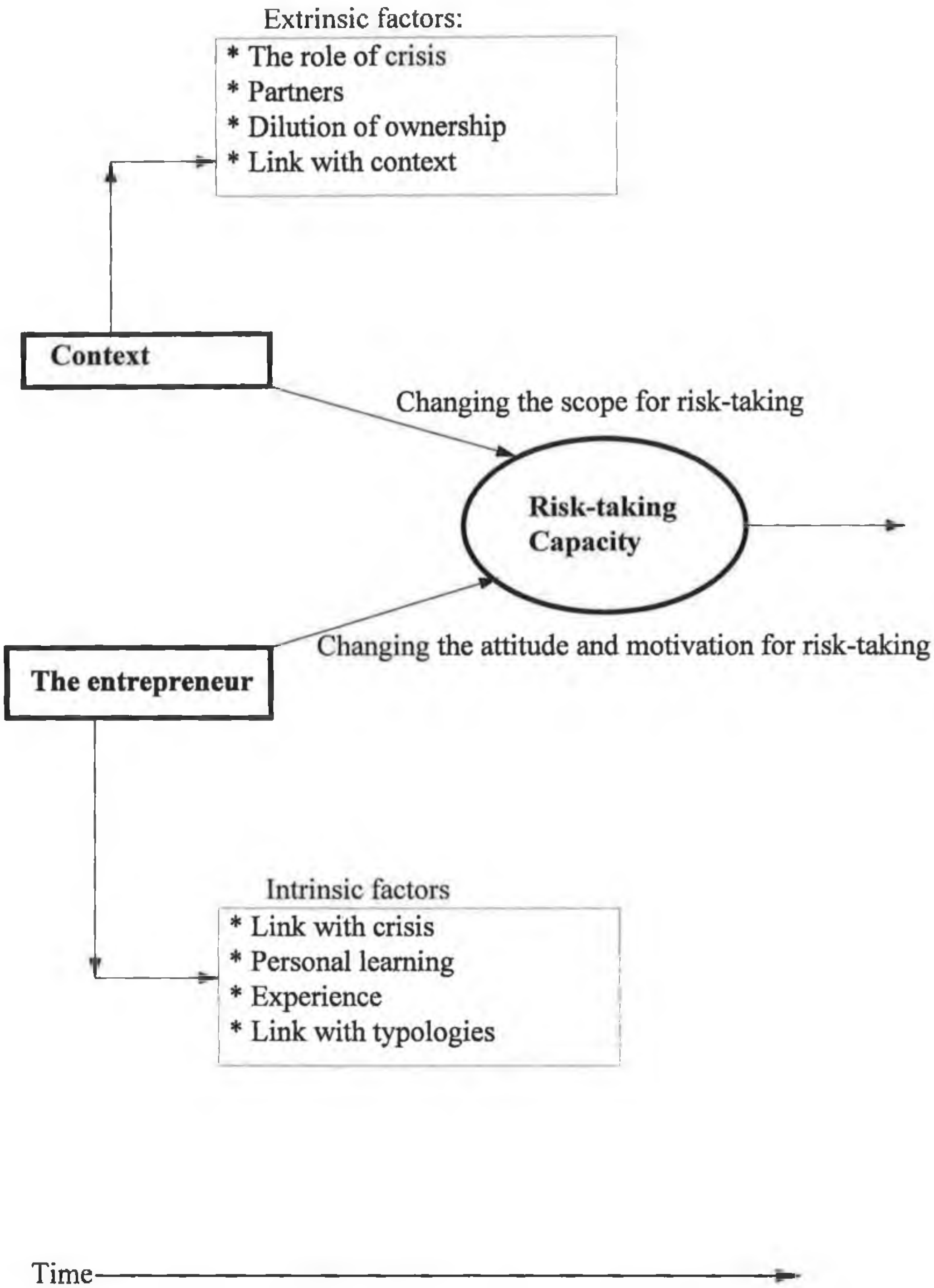
Figure 6.2: Change in entrepreneurship capacity over time: a dynamic process perspective

A dynamic perspective <	Changes in risk perception over time. Change in management style and personal life cycles. The changing influence of the entrepreneur in the process. The creation, maintenance and abatement of credibility.

The perspective on traits and risk in particular

This study extends the personality trait literature by showing that risk is not just a function of personality but it also reflects organisational context, and organisational history. Furthermore, risk is a capacity that changes over time with learning and change in cognition. Figure 6.3 illustrates the main variables that impinge on the entrepreneur's changing perception of risk.

Figure 6.3: Changes in risk perception over time



In overview, this framework conceptualises risk as composing of two main variables - context and the entrepreneur. The capacity or propensity of the entrepreneur to assume risk is influenced by context - factors that are extrinsic to the entrepreneur such as crisis, partners, new ownership and the nature of the market. In addition the capacity to assume risk is determined by factors that are intrinsic to the entrepreneur - such as personal learning and experience, personal crisis, and the innate personal attributes that are reflected in the different types of entrepreneurs (charismatic and pragmatic) identified in this study.

The role of crisis

Crisis constrained the entrepreneur's risk-taking propensity since it deprived the company of funds needed to implement risk decisions. For instance, in the aftermath of the crisis episode, Kestrel was severely constrained. The company lacked the resources needed to develop new products, enter new markets and adopt a proactive stance in general.

Furthermore, crisis led to a heightened awareness of risk since a very real threat to the company's survival was posed. Problems and crises, which were generally not foreseeable at start-up, arose which increased the entrepreneur's perception of risk. For instance, the founders of both QFS and RTI encountered problems, and as a result, were markedly influenced by a strong desire to maintain the companies' financial health. The survival of the firm took precedence over riskier initiatives, such as R&D and new product development. New product development requires substantial financial investment, which would, in all likelihood, be lost if the project failed.

Since the entrepreneur is likely to have devoted himself to the venture at a personal level, business crisis becomes the crisis of the individual. For instance, crisis was a traumatic experience for the founder of Kestrel who remarked that he had 'gone to the edge' and found that 'it was easy to see who your friends are, to see loyalty and to see those who sit on the fence. It is down to yourself.' Crisis resulted in a greater awareness of the consequences of one's actions. Richard Brierley of Fiacla had just bought new capital equipment when their main market collapsed. He became more aware 'of cause and effect' and that he 'had to generate a million before he could spend it.' Management in Kestrel realised that if 'you cannot survive in the short term there is no point in thinking in the long term.' These accounts suggest that the ramifications of crisis should not be underestimated.

Partners and new ownership

The data suggested that the founder's plans for the company were sometimes revised to satisfy the requirements of partners or new owners. Partners with an accountancy background often counteracted the risk tendencies of the entrepreneur, by pointing out the risk of certain courses of action. Jim Barry of RTI suggested that the presence of an analytical thinker like his partner served the interests of the enterprise. He realised that what he was trying to do had to be 'harnessed'. His partner was a 'controlling influence' and was not as 'as free with cash' as the founder would like. However, Jim Barry who was an intuitive thinker, was still vital to company development.

The incorporation of new owners into the company seemed to bring competing views to bear on the company, demanding that the vision of the founder be shared rather than internalised. For instance, the marketing manager in Fiacla claimed that his role was to assess Richard Brierley's ideas in a strategic manner and develop those ideas that had merit. Richard Brierley faced constraints from his distributors. They were 'more prudent', placed constraints on his plans for growth, and adopted a 'more strategic based approach' instead of the instinctive approach favoured by the entrepreneur. This suggests that the founder still has the propensity to assume risk but that it is curtailed involuntarily.

Link with context

The nature of the industry had an impact on how risk was assessed and managed by entrepreneurs. The high technology industry environment is generally perceived to be a dynamic, complex and high risk one, and it was interesting to explore how entrepreneurs coped with the nature of the industry. The scope for risk-taking was often constrained by the environment; the entrepreneur's experience of the high technology environment raised their awareness of risk. The hi-tech founders endured early years of struggle which made them receptive to the idea of licensing, of collaboration with competitors, partnership arrangements, all of which were an alternative to the high-risk 'go-it-alone' strategy. One company was forced to abandon an ambitious growth strategy, realising that: 'there was no point in trying to be IBM in the garage style mode of operation.' The comments of one founder suggested that disillusionment was part of the process of developing a software company: it had 'broken the spirits' of many. Many founders did not have the resources to develop new products and were obliged to seek a strategic partner or venture capital which reduced financial risk.

Personal learning and experience

In addition, the entrepreneur, in interaction with organisational history and context, begins to perceive risk in somewhat different terms. Crisis provided valuable lessons of experience for the founders. Recall the comments of one manager, Jim Barry, who remarked that he had changed from being a 'risk-taker' to a 'risk planner'. The comments of Jim Barry suggest that some notion of acceptable risk had been developed over time. The founder of Kestrel described himself as an 'optimistic risk-taker' but noted that this had been 'battered out of him'. This reflects personal learning and the full range of experiences the entrepreneur had in starting and developing a venture. Richard Brierley became aware that his risk-taking, enthusiasm for new ideas, and lack of proper credit control procedures underpinning growth, contributed to the crisis.

The literature on entrepreneurial risk-taking: the static trait view versus the dynamic learning and contextualist perspective.

The topic of risk has been, and still remains, a source of controversy in the literature. The trait view of risk which defines risk purely in terms of personal attributes (Knight, 1921; Begley and Boyd, 1986) can be contrasted with more recent thinking on the subject (Ray, 1993, Deakins, 1996) which sees risk more as a strategic and contextual variable. In addition, within the trait school of thought, various debates have arisen over the exact nature of risk: whether entrepreneurs are high, low or moderate risk-takers (as indicated by Brockhaus, 1987); whether the entrepreneur is distinguished by his perception of risk or propensity to take risk (Perry, 1990).

Trait theorists (Knight, 1921; Begley and Boyd, 1986) generally use static terms of reference in relation to traits since attributes are 'measured' at a particular point in time. The argument put forth here is that a limited perspective on entrepreneurship and risk exists in the literature. This study allows for the possibility of new attitudes towards risk emerging as the history of the company unfolds, that are not observable by simply measuring traits at a particular point in time. The literature on risk-taking has been criticized by Ray (1993, p. 348), who suggested that risk is not just a matter of personality, but largely 'a function of situations, information, strategy and decisions.' Likewise, Drucker (1985) is prominent among those who dispute the relationship between risk-taking propensity and entrepreneurs. He argues that entrepreneurs are individuals who define the risks to be taken and they then seek to minimise them as much as possible. Drucker (1985) suggests that the search for a distinct entrepreneurial personality is futile. Others like Sandberg and Hofer (1987) and Brockhaus (1987) have expressed similar views.

Perry (1990) made the insightful distinction between the perception of level of risk and propensity to take the perceived level of risk. Both Perry (1990) and Palmer (1971) have argued that the perception of risk is what distinguishes the entrepreneur from the general population; it is not a personality trait, an approach or reaction to the world but a perception of the world. The findings of this study lend support to this concept of risk; risk perception is open to change, and as a variable it is not independent of the strategy formation process. It was by no means suggested that entrepreneurs changed their personalities, rather that traits, attitudes and goals were not always stable and constant.

This study showed that personal learning played an important part in altering the founder's perception of risk. From the softer behavioural sciences, learning approaches provide helpful information on risk perception. Learning theorists state that learning is context-dependent and socially-constructed (Perkins, 1994; Krueger and Hamilton, 1995). Personality trait theory tended to take a regressive perspective by looking at the entrepreneur's past and their background. The ability of the leader to learn from experience and modify their behaviour accordingly seems underplayed by trait theory. Deakins (1996) pointed out that characteristics were not stable, in fact they changed over time; he suggested that the personality trait approach has diverted attention away from the ability of the entrepreneur to learn and gain from their business experience (Deakins, 1996, p. 22). Low and MacMillan (1988, p. 148) outlined a problem with personality trait theory:

> ...the possibility that observed entrepreneurial traits are the *product* of entrepreneurial experience, make it difficult to interpret results.

The implicit assumption in static trait theory is that one is either born a risk-taker or not at all. However, psychologists are not 'hard' determinists, they are 'soft' determinists (Low and Macmillan, 1988). Social psychologists recognise the influence of environmental factors in shaping personality and that traits have a limited influence on specific people in specific situations (Gartner, 1989). A social development perspective encourages one to believe that behaviours can be acquired over time which in turn modify the personality (Rotter and Hochreich, 1975). In this way, one need not take the personality profile as given, instead, when the individual's behaviour is placed in context, detailed explanations of the individual's behaviour are possible.

This study highlighted that new attitudes towards risk emerged as the history of the company unfolded, and some support for this is to be found in the literature. The debate on 'nature versus nurture', voluntarism versus determinism, has engaged the attention of numerous scholars, spanning diverse disciplines. In the field of entrepreneurship, the pendulum tended to swing firmly towards inherited traits and away from environmental influences. Interest in notions of personal learning and change (Deakins, 1996) serial entrepreneurship (Lamont, 1972) and personal life cycles (Gersick, 1991; Liles, 1981) has given rise to an approach that is neither overly voluntaristic or overly deterministic in outlook. Although researchers conceive the entrepreneur as both influencing, and influenced by the environment, few studies have sought to demonstrate how exactly the entrepreneur interacts with his or her context. This study concludes that risk is not just a personality variable but reflects organisational history and context. At certain times, the founder is clearly a risk-taker and at other times, the founder's tendency to assume risk is tempered. As regards the 'nature versus nurture' debate, this study seems to indicate that the pendulum should rest mid-way between the twin columns of genes versus the environment.

This study, with its more embracing view of risk sheds further light on a complex issue. For instance, one aspect of context - that of crisis - was shown to help shape the entrepreneur's perception of risk. Numerous scholars have contended that managers serve a cognitive function in organisations by interpreting events and ultimately using those interpretations to frame meaning for other organisational participants (Daft and Weick, 1984; Isabella, 1990). Since leaders have the formal authority to prescribe interpretations, their viewpoints and how they shift during change can be highly instrumental and significant (Isabella, 1990). Isabella (1990) found that it is external events that appear to trigger a shift in thinking and move individuals from one interpretative stage to another. Isabella (1990, p.33) pointed out that cognition and emotion were intertwined and that:

> ...personalization of trigger events appears to bring an affective dimension into play.

In the literature, it is recognised that crisis is linked with learning and reactive change. Since crisis is a highly charged, emotive event, then it might be expected that crisis would lead to a change in the entrepreneur's views. In this study, early crises and years of struggle helped break certain ways of thinking and acting. Van de Ven (1980) suggested that personal crisis initiates change in cognition. Hedberg (1981) argued that it may take trauma or the experience of crisis to help management alter culture and so unlearn deeply held beliefs. Notions of cognition, personality development, learning and reactive change, illustrate the complexity of the relationship between personality and the strategy formation process. This study suggested that the traditional image of the risk-taking entrepreneur (as identified by trait theorists), needs to be expanded, if not changed radically to incorporate the new evidence. The main implications for personality theorists is that entrepreneurship is multi-dimensional rather than one-dimensional in nature, a dynamic as opposed to a static phenomenon.

Finally, it is argued that the ability to assume risk is a feature of the strategy formation process but that risk needs to be managed by the entrepreneur as the business grows.

In a number of cases, the desire to seize new opportunities, expand and grow led the company into crisis and jeopardised the continued survival of the business. Therefore, the risk-taking propensity of the entrepreneur that propels business start-up may not always be appropriate at different stages of business development. The explicit assumption in trait theory is that the same characteristics which lead to the decision to launch a new venture are also synonymous with success - an assumption which is open to challenge (Ray, 1993).

Change in management style & personal life cycles.

A further contribution of this study was to affirm the entrepreneur's capacity for change - manifested in a change in management style and a change in personal goals in line with shifts in personal life cycles - which offers further support for the dynamic nature of entrepreneurship. For instance, most founders learned that their style of management had to change with the increase in company size. The influence of personal life cycles was noted albeit in only two cases. One manager suggested that Gerry McKeown's desire to be in the driving seat was lessened as he approached retirement age. Jim Barry remarked, 'I have got too old for that', meaning that he was not prepared to re-locate to the U.S even though its environment was more conducive to innovation than Ireland. Chell and Haworth (1992) also pointed out that personal circumstances affected the motivation for further growth. For instance, business owners near retirement were reluctant to pursue growth. Other writers (Gersick, 1991; Liles, 1981; O'Farrell, 1986) also suggest that personal circumstances or stage-of-life have an impact on the decision to start and grow a new venture.

The changing influence of the entrepreneur in the strategy formation process

This study found that entrepreneurial capacity changes over time, which highlights the dynamic rather than static nature of entrepreneurship. Entrepreneurial capacity was influenced, not just by the possession of innate personal traits as trait theorists would imply, but by other factors such as circumstance, the context in which entrepreneurs found themselves, and through historical experiences such as crisis. For instance, the hi-tech entrepreneurs seemed to face greater strategic challenges than the entrepreneurs in the FMCG area which constrained their scope for action.

A key research question centred on the role of the founder in the strategy formation process. It was revealed that the role of the entrepreneur in the strategy formation process was not always constructive. Although the literature gives primacy to the entrepreneur and the pivotal role played by them in securing support for the venture and gaining the commitment and loyalty of a followership, this study highlighted what is often ignored in the literature - the abatement of credibility.

The creation, maintenance and abatement of credibility

The theme of credibility emerged as an interesting theme from the data. There was little doubt that the personal attributes, values and commitment of the founders had a decisive influence on the companies' early expansion, growth and ultimate success.

As one employee recalled, Jim Barry of RTI was a 'driving force' in the business. If it had not been for Jim Barry, the company would not exist today. To another employee, he was 'a brilliant entrepreneur.' Jim Barry supported an organisation 'at great personal risk' to himself and his family. His capacity to understand customer needs and ability to 'bring customers along with him' was crucial to company strategy. In another case it was remarked that Gerry Giblin of QFS was an 'opportunistic risk taker' who drove the firm forward. Gerry Giblin persisted with the venture after the proposed deal with Telerate fell through. This was 'a big disappointment' but Gerry Giblin managed to maintain the trust and backing of the venture capitalist which was crucial to the continued existence of the firm. The quality control manager of Fiacla attributed the success of the company to Richard Brierley and his 'tenacity, risk-taking and entrepreneurial spirit'. Brierley managed to gain the support of a distribution company, Gillespie & Co. which played a role in the firm's success. The fact that Richard Brierley, among others, succeeded against the odds also increased the entrepreneur's credibility. These accounts suggested that the founder was able to secure the support and commitment of a followership. The study identified factors that helped secure credibility for the entrepreneur: the degree of persistence exhibited by the entrepreneur in achieving his or her goals; early years of struggle endured; the great belief of the entrepreneur in the venture as well as innate personality strengths, all these factors perpetuated the idea of the strong entrepreneurial figurehead.

The abatement of credibility

In Fiacla, the pressures towards growth and expansion were very strong. Brierley freely choose the growth situation. Although the firm seemed caught up by inexorable forces, it was the characteristics of the founder that led the firm into crisis. For instance, the distributor of Fiacla's products remarked that the cash and credit flow procedures were practically non-existent before the crisis episode. The distributor remarked that this was ‘very imprudent’ and that the crisis was ‘not the most glorious moment in the company’s history’. A manager in McKeown remarked that, ‘the company was maybe mismanaged in some ways’. There was evidence of the founder’s reluctance to seek equity in the face of early success and rapid growth. The early crisis in QFS revealed that, ‘there was no point in trying be IBM when in the garage style type of operation’. In QFS, a manager remarked that efforts to diversify should have been made early on. In these cases, crisis exposed the entrepreneur’s area of weakness.

The fact that the status of the founders was eroded at certain stages due to crisis suggests that the ‘heroic’ view of leadership is incomplete and overly voluntarist. Crisis was found to be a common occurrence in the SME and resulted primarily from mismanagement. The founder’s conviction and belief in the venture was necessary to gain the support of employees and outsiders, yet the risk remained that an uncritical, non-judgemental acceptance developed among stakeholders. The founder was seen to have the knowledge, expertise, commitment, vision and so on, to deal with most aspects of the business. The founder was generally in a position to make all the decisions and was perceived to be in control. However, the fact that crisis resulted from internal inefficiencies, loose accounting controls, and lack of strategic thinking, suggested otherwise. In some cases, company take-over was forced on the firm through crisis episodes.

The literature relating to the theme of credibility.

The behavioural science/cognitive sciences provide helpful information on the role of the founder in new venture development process. The concept of 'charismatic power' has been generally associated with the German sociologist Max Weber and show how individuals gain support for their ideas. Other researchers have paid attention to the issue of charisma or vision; in general it is a way of ensuring that ideas are enacted into social reality (Daft and Weick, 1984; 1987; Hanlon and Scott, 1995; Schumpeter, 1921; Joerges and Wolff, 1991). For instance, Hanlon and Scott (1995) argued that founders were able to persuade others to 'buy into' their dream or vision; organisational stakeholders participated in shaping the vision, and hence, in the development of the venture. The concept of charisma and the credibility that it confers appear to fit well with the fascination with business heroes, leaders' visions and capacity to have a pronounced motivational effect on others (Bryman, 1993, p. 289). It involves power over others and power to accomplish great feats. Charisma is a designation made by others and therefore it is not just a personal trait but a social relationship between leader and follower. Bryman (1993) pointed out that certain aspects of charismatic leadership have been marginalised by researchers - such as the loss of charisma - even though issues like these were central to Weber.

The variation in effectiveness over leadership tenure was originally highlighted by Eitzen and Yetman (1972). However, it remained a neglected issue until revived in recent years by Hambrick and Fuktotomi (1991) and Miller (1991) in strategic management. Eitzen and Yetman noted the curvilinear relationship between leadership performance and tenure. In a study of college basketball coaches, they found that the longer the coaching tenure, the greater the team success but after a certain period, approximately ten years, team performance declined steadily.

Many reasons have been put forward to explain loss of effectiveness. Loss of charisma in organisations is often, but not always, associated with a deterioration in performance (Bryman, 1993). Research on tenure (Hambrick and Fuktotomi, 1991; Miller, 1991) corresponded to some extent with the creation and loss of credibility theme. This stream of research suggests that the insularity and power of CEOs increases over time, along with their commitment to a paradigm; however environmental change will ultimately expose their areas of weaknesses.

The work of Hambrick and Fuktotomi (1991) suggested that there are discernable phases, or seasons, within a CEO's tenure in a position, and these seasons give rise to distinct patterns of behaviour, attention and ultimately, organisational performance. The CEO is given a mandate, responds to it, experiments, selects and converges on an enduring theme, which ultimately leads to dysfunction. In particular, the more dynamic the environment, the earlier and steeper the performance downturn of the long-tenured CEO. Over time, CEOs become more and more wedded to their 'paradigms', i.e. their beliefs, perceptions and skills. In addition, the power of the CEO increases with time. By becoming more close-minded or committed to a particular strategy, structure or policies, the CEO becomes resistant to change even when change is necessary. Miller (1991, p. 35) found that successful leaders became victims of their own success. Success 'increases the credibility and independence of leaders and makes them overconfident and complacent.' As their power and reputations grow, their views are less likely to be challenges from within or without. They and their organisations become less responsive and the likelihood of a serious mismatch developing between the organisation and the environment increases.

However, there is a lack of empirical evidence on how the entrepreneur's credibility with key stakeholders is eroded over time in the SME context. In this study, it was crisis that brought about a questioning of the entrepreneur's abilities. It may be that the capacity of the founder to assume risks where others would have been rendered incapacitated led to the creation of credibility. Comments such as 'I don't think I would have done that...' illustrate this point. However, evidence of success in the face of risk-taking strengthens the founder's charisma, credibility and independence. Followers develop a strong belief in the entrepreneur's sense of judgement. Due to sole ownership and control, founders continue to assume risk, even when risk-taking behaviour may not be appropriate. Thus a combination of factors may contribute to the gradual erosion of the entrepreneurs' credibility: crisis, environmental shocks, company's lack of success, risk-taking, the dark side of the founder in terms of need for control, inability to listen to others and compromise.

The darker side of entrepreneurship - excesses of power and control

There were indications that the role of the founder in the strategy formation process was not always a constructive one. Paradoxically, the entrepreneurial impulses that were responsible for start-up and early development (tenaciousness, driving conviction to succeed) were later seen to translate sometimes into resistance to change, unwillingness to listen to other views and result in excesses of power. This is illustrated in Figure 6.4.

Figure 6.4: The dark side of entrepreneurship

The dark side of entrepreneurship <	Excesses of power and control

The individualistic style of management clearly contributed to crisis in the case of Fiacla. Richard Brierley 'wanted total control' and he remarked that he: '...tried to do everything myself'. The entrepreneur was perceived to have the vision and commitment needed to expand the company, however these characteristics eventually led the company into crisis. The founder's desire to rapidly grow the company led him to ignore proper credit and control procedures. As an individual driven by the strength of his convictions, he failed to realise the need for restraint. In another company, McKeown Software, the reluctance of the founder to seek equity investment to sustain growth contributed to crisis. In a third company, Irish Breeze, the founder's unwillingness to re-think her vision for the company led to a disagreement with a key stakeholder and the eventual sale of the company. She formed a strong allegiance to a particular strategy - that of targeting the US market - and was not open to different views and failed to recognise the need for change (such as the need to target the East European market).

Although small firm researchers take an idealised view of employment relations in small firms (Schumacher, 1973) and suggest that the potential for political behaviour is constrained due to the small size of the organisation, shared goals and ability of owner-manager to exercise control, this study found indications that the small firm is not immune from political behaviour. The study found that the propensity of the founder to centralise power, the unwillingness to change and listen to other views, can be a problem in the smaller firm. In the small firm setting where the founder exerts undue influence, this is power.

Other studies also suggest that strong leadership can give rise to problems. Kets de Vries et al (1984) addressed the 'dark side' of the entrepreneur and the negative influence of the founder's dominant personality. Kets de Vries (1990) examined the negative repercussions of need for control, sense of distrust, desire for applause, which resulted in irrational and self-destructive behaviour. This type of individual would have a problem with delegation (Kets de Vries, 1990). A study by Hendry et al., (1995) has also highlighted the negative effects of the founder's dominant personality and how it contributed to crisis. Many firms contribute to crisis by virtue of their own actions and the failure of entrepreneurs to cede control. Many commentators today (Stanworth and Curran, 1973; Lindell, 1991; Hendry et al., 1995) propose that entrepreneurs must delegate authority for decision making and hire professional managers.

Some of the entrepreneurs in this study conformed to the traditional 'hero leader' or charismatic model of leadership. However, the implicit assumption in trait theory is that the traits responsible for start-up are associated with continued success. This study highlighted that this is not always the case. The same attributes of tenacity, self-belief and commitment responsible for gaining credibility and driving the start-up process sometimes translated into darker qualities such as an unwillingness to listen to other views. This study builds on previous studies by outlining the darker side of entrepreneurship. It answers the call of Ray (1993, p. 355) who argued that much more 'needs to be understood about entrepreneurial behaviour and the relationship between the entrepreneur's personality and the new venture creation process.' He (1993, p. 350) criticised the 'simple-mindedness' of early trait approaches that did 'a grave injustice' to the complexity of the relationship between personality and the new venture development process.

Issue of overdependence

An issue closely related to excesses of power and control is that of over dependence on the founding entrepreneur. The classical stereotype of the entrepreneur has been that of the 'power seeking' individual.
For instance, Pitt (1989) found that CEOs in small firms tended to be pivotal, involved and charismatic figures, whose disappearance would

create major problems. Hendry et al., (1995) also referred to the problem of over-dependence on a strong entrepreneurial figure. His study found that a dominant personality tended to stifle creativity among workers; it created overdependence on the founder, with problems of founder succession.

A contribution of this study centres on the mediating role of partners and the role they play in circumscribing the influence of the entrepreneur. The case of RTI, for instance, showed how the financial partner and employees were able to challenge the views of the founder and counteract his risk tendencies. Researchers, as noted by Hendry et al. (1995), have tended to see the entrepreneur as a solitary and heroic figure, instead representing a team of employees joined in pursuit of a common goal. Other studies (Cooper, 1980) have found that team ventures, as opposed to individual ventures, were linked to the success of the organisation. Teams provided a balance of skills and allowed for greater access to finance. This study suggests that a third factor - a combination of analytical and intuitive thinkers - could well be in the long term interests of the enterprise. However, further research is needed to validate this proposition.

Contextual variation - high technology firms versus FMCM firms.

This study showed that entrepreneurial capacity was influenced, not only by the possession of innate personal traits as trait theorists would imply, but by other factors such as the context in which entrepreneurs found themselves. This study proposed a multi-dimensional rather than one dimensional view of the strategy formation process. Contextual factors such as: Irish industrial policy; industry conditions at start-up; contextual variations over time; the financial environment; technology and the nature of the market; the effects of inter-organisational politics; all played a role in inhibiting or facilitating entrepreneurial behaviour.

The nature of the market had a strong influence on patterns in the strategy formation process. The founders of firms in the high technology sector faced a more constraining environment than firms in the FMCG sector, which influenced the strategy formation process. The computer industry is one of the most dynamic in the world, with large, powerful US companies such as Microsoft dominating the product market. Irish companies had to anticipate and respond to technological developments that were largely outside of their control. The software firms faced fundamental financial and technical challenges. As a result, RTI and QFS seemed to adopt a more focused approach than other firms at the outset. The high costs of R&D allowed little leeway for a fundamental change in strategy. These firms also saw strategic alliances as the only option if the firms were to grow.

There has been a growing disillusionment with personality trait theory, with all its emotional overtones of 'good' and 'bad' entrepreneurs. Attributing organisational outcomes to the particular traits of individuals is seen as reductionist in nature. The work of Sandberg and Hofer (1987, p. 26) challenged the long held belief that the entrepreneur's traits had an influence on new venture performance:

> ...there is little justification for researchers' continued use of standardized psychological questionnaires that measure need for achievement, need for power, or risk preferences. Even though they may be easy to use, they have produced few useful results to date.

Instead, Sandberg and Hofer (1987) found that success depended on industry structure and the strategy of the venture involved. Sarason's (1972) study suggested that while the role of early leaders may be critical during organisational birth, as the organisation matures, it develops norms, acquires a history and identity and the importance of the person at the top diminishes in explaining organisational outcomes. Previous research can be taken to task for being too narrowly focused on personality variables to the exclusion of context. Other scholars have directed the attention of researchers to the importance of context in determining outcomes. Murray (1984), for instance found that the experimental 'learn as you go' approach was not feasible in a context where the costs and risks of start-up were high. Various studies[1] have highlighted the lack of venture capital in Ireland and the need for software firms to enter into alliances at an early stage.

In reaching a balanced judgement on the potency of entrepreneurship, the researcher had to inevitably pronounce a verdict on the total context, and had to assess the achievement of the leader in the context of the possibilities and limitations of the environment in which the founder found himself. The case study findings showed that contextual factors circumscribed the influence of the founder and his or her actions. However, the role of the founder was still vitally important in making choices, indicating that some of the critics of the trait or typology approaches may be going too far in their dismissal of such approaches.

(2) The Phase Model

A central theme of this study has been that strategy formation in small organisations is a process influenced by the interplay of three elements: the entrepreneur, context and history. Adopting a multi-dimensional and processual approach to the examination of strategy formation helped to reveal the 'phase' pattern that characterised the development of most of the SMEs under study over time.

The companies evolved from an early fluid and disorganised state - the quasi-strategic phase - into a stage where the enterprise became led by an

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[1] A Strategic Review (1992) Irish Software Directorate, IDA.

explicit and more well defined strategy - the strategic phase. The companies underwent a phase change primarily due the experience of a defining episode (eg. crisis). Formal planning became evident to a certain degree in the firms but it was the product of years of struggle, crises, the growth of the venture, changing perception of risk, constraints imposed by context and new owners. As time went on, the founder's ability to manage the firm opportunistically and intuitively was constrained by new ownership structures. The characteristics of the phases are shown again in Table 6.2.

However, the phase model is not a rigid model. For instance, entrepreneurs like Jim Barry of RTI and Gerry Giblin of QFS tended to adopt a more planned and deliberate approach to strategy formation from the beginning. This was accounted for by the nature of the market.

Table 6.2: Characteristics of the quasi-strategic, defining episode and strategic phase

Quasi-strategic phase	Defining episode	Strategic phase
Little planning formality Multiplicity of goals: 'all things to all people' Founder's views/vision predominate. Individualistic style	Crisis/ period of transition resulting in strategic change.	Planning formality Stable, core goals: 'What business are we in' Outsiders/other views Delegation, 'letting go.'

The fact that strategy was evolutionary rather than predetermined had its own logic. The comments of Jim Barry illustrate the need for risk-taking and instinct in the start-up and development of a business; this is not accommodated by the more rational, planning model of strategy. He remarked that:

> A manager has to be a very disciplined, analytical type of person, who can look at things and weigh them up very carefully. Managers are more careful people. An entrepreneur is not a careful person. Careful people write the history they don't create it.

In addition, all problems and new opportunities that the entrepreneur would face could not be predicted. For instance, Gerry Giblin remarked that they spent two years 'making mistakes' and they needed funding to 'allow them to make those mistakes'. The case findings showed that some entrepreneurs questioned the value of long term planning; one founder remarked: 'what's a five year plan in this business?'. However, various factors stimulated greater planning.

The literature on phase changes

Life cycle models (Kimberly and Miles, 1980) chart the growth of the organisation from a small unit to large corporation. A biological metaphor is used to classify organisations into analogous equivalents of the stages of life: birth, growth, maturity and decline. The power of the life cycle concept is that it directs descriptive and prescriptive theory onto the contingencies presented by these different stages. These models fail to capture the important early stages such as the origins, founding history and early growth. As a model of process, the life cycle metaphor is over-deterministic and this is perhaps its most serious limitation. The phase model proposed here, does not assume that there is an inevitable, well-ordered linear sequence of stages in organisational development. In addition, the life cycle model does not offer much help for those interested in understanding why a phase change occurs. The phase model here attempts to explain the process of change of the SME by discussing the significance of defining episodes or crises.

Greiner's (1972) model is a growth model which discusses five phases - growth through creativity, through direction, through delegation, through co-ordination, through collaboration. At the end of each phase, a crisis occurs - crisis of leadership, of autonomy, of control and of red tape - that leads to change. Unlike the life cycles models, Greiner does not assume that decline is an inevitable feature of organisation life. Greiner's (1972) model was one of the few that recognised the role played by history (previous actions that subsequently constrain) along with crisis on organisational development. Therefore, the model proposed by this research is similar in some respects to Greiner's (1972) model. Greiner (1972) argues that as firms moves from one stage to another, the factors responsible for this transition can sow the seeds of failure in the next. For instance, a crisis of control in one stage can result in greater control systems being put in place. However in the next phase, these same control systems can restrict the freedom of employees and their ability to innovate, thus stimulating another crisis (Greiner, 1972). However, Greiner assumes that all organisations follow the same pattern irrespective of differences in leadership and organisational context. Greiner (1972) was not overly concerned with the contextual variables that influenced the way in which firms develop over time which is a limitation; this study found that since organisations do not exist in a vacuum, contextual factors can help explain the nature of the phases and change over time.

Like other models, the phase model proposed here is descriptive. Founders tend to adopt a more planned orientation over time as a result of 'defining episode' or crisis. The model posits tendencies, not a deterministic relationship (as is the case with Greiner's model). One drawback of Greiner's (1972) model is its historical determinism - all firms are seen to go through the same sequence of phases as they grow. The model here is not as deterministic and as such exceptions and variations occur.

This study ultimately describes the first major crisis experienced by the organisations under study. This research found that companies could experience crisis at any time - pre-start-up (QFS), start-up (BFK Design) or several years after the company was established (Fiacla). The study by Greiner, in contrast, seems to suggest that crises occur in a well ordered and predictable sequence. This study found that the nature of the crisis differed in the companies under study and crisis was caused by many different factors, such as mismanagement, excessive power and control, loss of a key customer, recessionary pressures, risk-taking, etc. Greiner (1972) suggested that the most potent factor causing a crisis was the inability of the founder to delegate. In the first phase of Greiner's model, the organisation is a simple one, the owner is the business and does everything. At some stage, the demands of the business on the founder and reluctance to delegate gives rise to a crisis of leadership. The implication that the organisation's first crisis is always due to a crisis of leadership is not supported by this study.

Many researchers have extolled the benefits and virtues that strategic planning brings to the small firm (Anderson, 1970; Chaganti and Chaganti, 1983). There is, by no means universal agreement that planning is desirable or necessary. Other studies (Bhide, 1994; Gibb and Scott, 1996; Patterson, 1986) have found that entrepreneurial firms focus on 'doing' rather than on formal planning, and that formal planning may even stifle the flexibility to respond to new opportunities. Entrepreneurs are reluctant planners, because they are too busy with handling the challenges and inherent uncertainties of business start-up, growth and survival (Foster, 1993). Pleitner (1989) suggested that the necessity for working towards strategic behaviour in the SME depends on two criteria, the size of firm and type of entrepreneur. Some founders viewed the firm as a vehicle for an independent lifestyle which might be threatened by the growth option, while others sought to realise the firm's full potential. This study suggested that a third factor, defining episodes (crisis) gave rise to greater planning within the SME. The study suggests in the early stages, the vision, opportunism and commitment of the entrepreneur was a substitute for planning; the entrepreneur needed the freedom to pursue new opportunities, to assume risk, to learn-by-doing and learn from mistakes; in the later stages, the requirement for planning arose and became more potent.

Defining episodes

The term 'defining episode' was used in this study to describe a period of transition; it was seen as the bridge between the quasi-strategic and strategic phases of small firm development. It helped move the organisation from the fluidity of the first phase to the more stable, but possibly constraining assumptions of the second phase.

The 'defining episode' included the incident of crisis. Crisis was common in Irish SMEs and had ramifications for the long-term development of the company. Crisis very often forced a change in cognition, in ownership structure and strategy and as such represented a 'defining moment' for the organisation and the entrepreneur. Crisis was caused by both internal and external factors, such as mismanagement, poor accounting control procedures, and loss of key customers.

Learning and change as a result of crisis

Crisis resulted in substantial learning for the entrepreneurs and it often forced attention to areas of weakness and created a perceived need for change within the organisation. Valuable experience was gained by the founders in the area of product development, marketing and financial planning and control.

For instance, Richard Brierley of Fiacla managed to overcome a serious crisis through hard work and dedication. He learned that 'nothing works unless your efficiencies are there', in other words, keeping control of the financial side of the business. Likewise, the founders in McKeown, QFS and RTI learned of the importance of planning and control. Gerry McKeown of McKeown Software became far more contemplative as regards how the business was run. The learning and experience of the entrepreneurs was reflected in a business with improved planning practices, a clearer focus and a longer term orientation. Crisis resulted in the adoption of new roles by the founder, personal growth shown by the acquisition of new knowledge and new skills and cautiousness in decision making (for a certain period of time).

The literature on crisis

In the literature, crisis has been explored extensively. Paradoxically, it is seen to play a constructive and destructive role in the development of the organisation. A crisis stage has been defined by Weitzel and Jonsson (1989, p. 24) as follows:

> It is here that the organisation reaches the critical point in its history, during which it must undergo major reorientation and revitalization or suffer certain failure.

Hermann (1969) defines crisis as (1) turning point, implying abrupt and largely irreversible change of trend or status and (2) a situation or episode characterized by surprise, high threat to organisational goals and a short time frame for decision making. The study of crisis in small firms by Chowdbury et al., (1993) found that it was always management problems that led to business failures and corrective action was needed in this area. Hendry et al. (1995), in an in-depth study of 20 firms, found that crisis was a common, recurrent phenomenon among small-medium firms. 'Crises of control' referred to the loss of internal efficiency and control of key resources, whether of people, finance, plant or operating systems. If the growth stage was mismanaged, it could quickly lead to the demise of the organisation. The dominant personality of the founder was often a root cause of the crisis, because of a reluctance to relinquish control or failure to prepare others for a bigger role in management.

Recent theoretical developments, such as the organisational learning perspective, have provided some highly useful concepts which can be used explain strategy formation in the entrepreneurial small firm. Findings by Nystrom and Starbuck (1984), Pitt (1989) and Hendry (1995) contribute support to this study by proposing that crisis led to unlearning (a change in manager's thinking patterns), new learning and the creation of new skills and competencies. The most common perspective on crisis has been to see it breaking old strategic recipes, challenging belief systems and overturning existing power structures (Miller and Friesen, 1980; Tushman et al., 1986). One study found that crisis led to substantial renewal, significant learning and a general enhancement of the organisation's capability to cope with future opportunities and threats (Hendry et al., 1995). Hedberg (1981) argued that it may take trauma or the experience of crisis to help management alter culture and so unlearn deeply held knowledge and beliefs. Pitt (1989) saw crisis as a turning point for better or worse; it was a stressful situation that demanded decisive actions. These actions often altered a firm's domain, resources, standard operating procedures and cultural patterns and values.

Ideological shifts

The case findings showed that ideological shifts took place as a consequence of the defining episode. This is illustrated in Figure 6.5. The change in ideology is not just a product of the individual alone, but also of the wider organisational and historical context. Ideological change was seen to be an important force underpinning a phase change from the quasi-strategic to strategic phase.

Figure 6.5: Ideological shifts over time

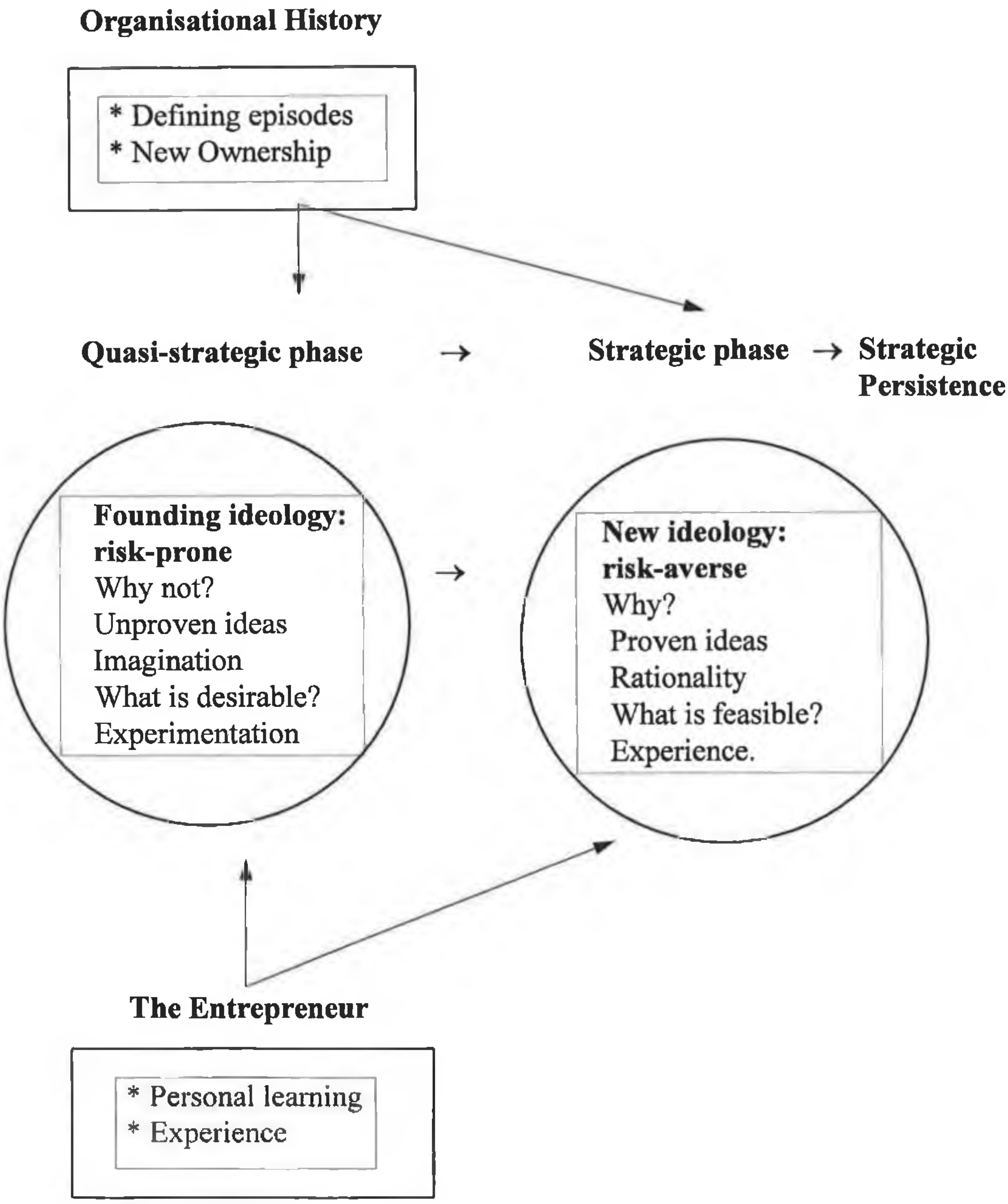


Figure 6.5 shows the change from a risk-taking ideology to a more conservative, risk-averse ideology as a result of historical and entrepreneurial forces. The quasi-strategic stage was characterised by a founding ideology of risk taking (why not?). For instance, Fiacla was a speculative venture and the founder faced scepticism from state bodies. QFS had an ambitious growth strategy in mind. This stage was characterised by a founder with a business idea, however, formal planning was absent (unproven ideas, imagination); the company was managed opportunistically and intuitively (what is desirable?); the stage was characterised by learning-by-doing (experimentation) since getting the business off the ground was of paramount importance.

During the defining episode stage, a new risk-averse, more conservative ideology took root (Why?); For instance, RTI changed from a 'gung-ho' orientation in the early stages to a more planned and pragmatic orientation at later stages. More formal planning was evident (proven ideas), decisions had to be justified and were based on rationality not just intuition. For instance, Brierley had to justify new product development initiatives to a board of management. Rationality rather than imagination (What is feasible?) was a feature of the new ideology. For instance, QFS emphasised rational objectives like profit, productivity and meeting deadlines. The stage was characterised more by experience rather than experimentation. For instance, QFS had several years of experience and learning to draw upon. RTI had considerable experience in new product development.

The literature on ideological change

This research supports the small, but growing, literature that is sensitive to organisational ideology in the small firm. The study adds to the existing research by highlighting how such ideologies change over time. It is well recognised that founding entrepreneurs are able to imbue their organisations with a strong vision, culture or ideology (Mintzberg and Waters, 1982; Murray, 1984; Schein, 1985). Bouwen and Steyaert (1990) described ideological shifts in their study of a small organisation, the Newcome case. They described the dominant logic of the firm as being 'opportunistic', where reacting quickly to the demands of clients constituted the original strength of the firm. In Newcome, the original competence was service oriented. During the process of growth, a new and complementary 'logic' emerged, the 'bounding' logic. This logic expressed the need for managing the boundaries of the organisation, of selecting from possibilities, of setting limits and acting professionally as a manager. This demanded a co-ordinating role. The challenge for the firm was for the new logic to complement, not supplant, the original.

Strategic persistence

Crisis and early years of struggle had repercussions for a few companies and forces of continuity and inertia were apparent. Crisis encountered in the high technology sector seemed to have more detrimental effects than for firms in the FMCG sector. It induced a conservative ethos into a firm that should be innovative and the firm was inclined to avoid major change. This was a major drawback since a software firm could quickly lose its competitive edge in the marketplace.

For instance, a manager in QFS remarked that efforts should have been have been to diversify early on but were not due to the experience of crisis. He noted that crisis 'makes a firm conservative as regards pushing the boat out in the R&D side'. Kestrel also became more risk-averse as a result of the crises experienced. RTI entered into a licensing arrangement on account of the early years of struggle endured but their creativity suffered as a result. They were 'just working on projects that they {the partner} felt was important'. Jim Barry of RTI remarked that at this stage (after a series of setbacks) he was a 'risk planner', whereas in another period he described himself as a 'risk taker'. Jim Barry suggested that any erosion of technical vitality can be detrimental to a firm in an industry where the pace of technological change is relentless. He remarked that 'we live and die by the products we produce.' However, in RTI and QFS, there was some evidence of the ideology being dismantled yet again at a time when the field work was nearing completion.

Product development has been characterized as a highly uncertain process, entailing large resources and carrying no guarantee of success or failure. Firms that are slow or cautious in the race risk losing market share to their quicker rivals (Heeley and Hill, 1996, p. 572). This study concludes that crisis and early years of struggle could well have serious ramifications for firms in the high-tech field.

Support for this notion of 'strategic persistence' is to be found in the literature. The term 'strategic persistence' (Lant, Milliken and Batra, 1992) is often used to describe inertia in large organisations due to potent psychological, political and cultural forces. However, the study of inertia in small firms is a neglected arena. Hendry et al., (1995) made the point that crisis represented a major event in the organisation and affected psychology. According to Hendry et al. (1996, p.77) crisis: 'tends to reach throughout an organisation' and in time 'becomes myth and taboo'. It provided a lasting warning about the things that should be avoided. It created the risk that past crises over-conditioned subsequent behaviour. Equally, success itself could have a similar impact by creating over confidence. However, the study by Hendry et al. (1995), for the purposes here, was limited in that it did not discuss the concept of 'dominant logics' which explains why forces for continuity exist.

Previous research has demonstrated that biases and mental models based on the status quo may inhibit adequate strategy formation. Research in the strategic management area has shown that cultural factors are a barrier to change in the large, well established organisation. Deeply ingrained assumptions or generalisations can influence how managers understand the world, and plans fail to get put into practice because they conflict with powerful mental models. An 'organisational paradigm' (Johnson, 1992), 'dominant logic' (Prahalad and Bettis, 1986) or 'dominant ideology' is slowly built up over time. Mintzberg and Waters (1986) suggest that it is almost impossible to destroy existing paradigms, practises and beliefs, unless instability is created. Strategic persistence in the face of environmental change can often result in 'strategic drift.' The concept of 'strategic drift' (Johnson, 1992) refers to strong cultural forces that lead to little or no change in strategy, even when far reaching change is called for.

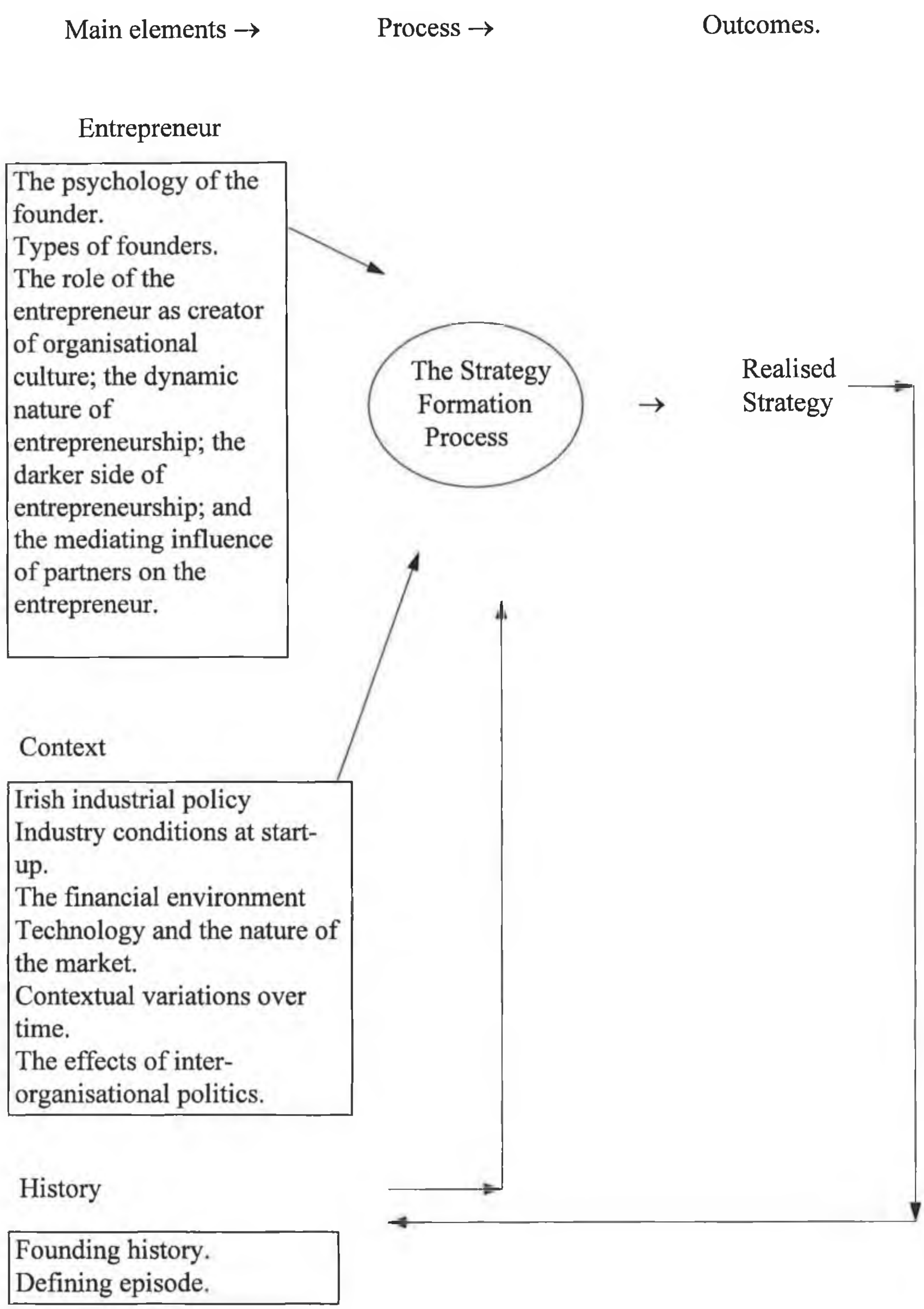
Concepts of inertia and strategic persistence, however, have been largely untested against the experience of smaller firms. The literature was replete with examples of how cultures were an important component of strategy in the large firm. Examples cited in recent accounts of dominant ideology, such as Philip Morris, IBM and General Motors, Shell Oil, and university institutions, (Johnson, 1994; Drucker, 1994; De Geus, 1988; Bettis and Prahalad, 1995) added to the emphasis on large firm imagery, and deflected interest away from the smaller firm.

However, ideology in the small firm was found to be more of a personal analogy rather than an organisational analogy - it was intimately linked to the founder and to his changing perception of risk. As such it may be more amenable to change. The small organisations profiled in this study were able to prevent 'strategic drift' (Johnson, 1992) from becoming a real problem. Although, the common perspective on dominant ideologies tends to emphasise their role as constraints to organisational change (Prahalad and Bettis, 1986; Johnson, 1993), this study examined how ideologies in small firms can act as energies: releasing, focusing as well as inhibiting behaviour. Ideologies were seen to lead to proactive behaviour as well as reactive behaviour. For instance, the founding ideology (based on risk-taking, opportunism, tenacity, persistence) helped push the new organisation towards growth.

(3) The utility of the strategy process model

One of the main contributions of this study was the extension of a large firm model of strategy formation processes to the small firm sector.
By focusing enquiry on the interaction between the entrepreneur, context and history, a more thorough examination of forces that shaped strategy in SMEs was offered, than has typified the literature to date. Figure 6.6 presents this framework of influences on strategy formation again in this chapter.

Figure 6.6: A model of the strategy formation process in SMEs



The literature review showed that explanations for organisational outcomes tended to be very person-centred in entrepreneurship and SME fields. Personality trait theorists associated the start-up and success of a venture with the attributes and abilities of entrepreneurial people. Since strategy formation represents one example of entrepreneurial behaviour, the implicit assumption in personality trait theory is that strategy formation in SMEs is intentional and under the control of the entrepreneur. Personality trait theory, however, offers only a partial explanation of the strategy formation process. Theories of leadership, on the other hand, have progressed over the years from simple 'trait' theories to approaches that considered a variety of forces at work, such as vision (Bennus and Nanus, 1986; Bryman, 1993), behaviour (Kotter, 1990) and leadership styles (Bass, 1981; Kakabadse, 1991). Recent research has sought further insight through the analysis of the interactions over time of leadership, context and history in the process of strategy formation (Leavy and Wilson, 1994; Pettigrew, 1985; 1987). For example, Leavy and Wilson (1994) argued that some leaders would be remembered as builders or revitalizers, not only because of their personal capacities for such roles, but also because of the opportunities presented to them by history and context to perform in them (see also Leavy, 1996). This study followed a similar approach in its examination of strategy formation in Irish SMEs.

The predominance of the planning perspective in the entrepreneurship and SME fields

The dominant perspective in the entrepreneurship field has been the rational, planning model (Hanlon and Scott, 1995) which sees strategy formation as an intentional and planned process. Inherent also in much of the normative planning literature is the assumption that entrepreneurs have control over their firms' destinies. The literature review showed that there has been a preoccupation with strategy content (Hanlon and Scott, 1995) rather than strategy process. Studies aimed at identifying the most appropriate strategy for the small firm (such as a niche strategy) were included in the rational planning school of thought. However, this study shows the difficulty of applying generic terms to strategy. Attempting to label the realised strategies as niche, differentiation, prospector and so on, would be at best, reductionist and at worst, misleading. The preoccupation with planning in the literature tended to deflect attention away from the process by which strategy was actually formed within organisations. The aim of this research was to take a fresh and open minded look at strategy formation processes in SMEs. This study sought to widen the perspective beyond the planning and personality trait perspectives with the tendency to see the individual as the key actor in strategy formation. No prior assumptions were made regarding the nature of strategy formation. This study concludes that there are other explanations apart from the rational planning model as to how strategy forms in organisations that are closer to the process theories of Mintzberg (1978; 1990; 1994), Quinn (1980) and Pettigrew (1987).

A large part of the literature on SMEs subscribes to the planning perspective, that planning is necessary, that it reflects the will of entrepreneurs and that it leads to improved performance (Timmons, 1978; Van de Ven, 1980). While others (Patterson, 1986; Bhide, 1994) take a far more critical view of the role of planning in the smaller firm, the literature fails to offer alternative explanations of how strategy is formed in SMEs. The entrepreneurship field lags behind strategic management with its persistent preoccupation with the rational planning perspective. This study suggests that future research might well begin to focus less on 'do firms plan or don't they?', 'should they plan or shouldn't they?' and more on describing how a strategy is formed, and when and why a planned/emergent mode of strategy formation is adopted.

The dichotomy between the planning and process view of strategy in the strategic management literature, has been, and still remains, a source of controversy in the literature (see the exchange of articles between Ansoff (1991) and Mintzberg (1991)). This study found that defining episodes resulted in a more planned approach; this finding may help to reconcile somewhat the planning-oriented perspective with the intuitive learning perspective. A key dimension missing from the Ansoff-Mintzberg planning versus learning debate is the one of time. As this study has shown, at certain times in a firm's history, the opportunistic, learning and emergent mode of strategy formation seems beneficial, at other times, undertaking a more planned approach seems the safer route to follow for the SME. It may well be that as firms develop, they oscillate between these different modes of strategy formation. Some indications of this can be taken from the large firm literature on strategic change, where firms are generally seen to cycle between long periods of evolutionary change punctuated by shorter bursts of more revolutionary transformation (Miller and Friesen, 1980; Pettigrew, 1985; Tushman et al., 1986; Mintzberg, 1987; Johnson, 1990; Mintzberg and Wesley, 1992). The evolution period is typically characterised as one in which firms build on existing strategies and pursue it in a relatively planned and predictable way. The revolutionary period is often characterised by accelerated learning in the face of major uncertainties and volatility. The notion that SMEs might cycle between learning and planing modes of strategy formation clearly needs further research.

A summary of the main contributions of this study

The use of the conceptual model with its three key elements - the entrepreneur, context and history - offered a number of advantages. Conceptually, viewing strategy in this way facilitated the development of the main contributions of this study. Firstly, fresh insight was gained into entrepreneurship - in particular the concept of risk and the dynamic nature of entrepreneurship. A striking feature of this study was that entrepreneurs change over time, in particular, their perception of risk alters. Personality trait theory can be taken to task for adopting a one dimensional approach to the study of risk-taking, for using static terms of reference and ignoring the individual's potential to learn from experience.

At the heart of this study is the notion that the influence of entrepreneurs can be best understood by looking at what happens to them over time; the focus is on their intentions, what actually happens, organisational outcomes, rather than just traits. This avoids the over-voluntarism inherent in many studies in entrepreneurship, where entrepreneurs are simply seen as good or bad, and successful entrepreneurs are those with the traits and skills needed to start and develop companies. There is a strong predisposition towards voluntarism in entrepreneurship. Attempts to explain outcomes is very person-centred in orientation. Inherent in the literature on personal traits is the assumption that founders are the driving force in the formation of strategy. However, some studies (eg. Hofer and Sandberg, 1987) propose that outcomes do not depend on the personal attributes of the founders but on strategy and industry variables. This study, which highlighted crisis, the creation, maintenance and abatement of credibility, change in leadership capacity or scope for action over time, supports the small, but growing literature that is sensitive to context and not overly voluntaristic. The focus on history and context accommodates variation in the entrepreneur's locus of control on strategy formation over time. The strategy of the small firm, may at some times be largely determined by the voluntarist actions of the founder, at other times, largely determined by the pressures of the marketplace. In the process of forming a strategy, new people may be incorporated into the firm, the company may increase its size, crises and change in ideologies may occur, contextual variations and strategic challenges arise, all of which inhibit or facilitate the actions of the founding entrepreneur.

Secondly, adopting a multi-dimensional and processual approach to the examination of strategy formation helped generate a 'phase' model. Most of the cases showed evidence of two main phases: the first was the quasi-strategic phase and the second was the strategic stage. The companies underwent distinct periods of change due the experience of a defining episode (eg. crisis) and changes in the founder's cognition. Formal planning was evident, to a certain degree, in the firms but it was the product of years of struggle, crises, the growth of the venture and advent of new ownership. Although most businesses were led by a business plan at start-up, strategy formation was substantially an visionary, learning and emergent process in the early years. This view of patterns in strategy making is consistent with Mintzberg's (1978) study of realised strategy in Steinberg's grocery chain. He detected distinct patterns in decision making that enabled him to differentiate between cycles of continuity and change in the development of the company.

Although the stage-of-growth or life cycle models are useful as they direct attention to changes that take place over time, they are limited in various respects. The life cycle model largely ignores contextual factors, many are deterministic and assume that all organisations ultimately pass from a growth phase towards maturity and decline in a linear sequence. The phase model here seems to be closer in accord with empirical reality than the life cycle model. It recognises the role played by both organisational history and context in the organisation's pattern of development.

(4) The elaboration of the model: how strategy process in small firms is different from that in large companies.

This study showed that the entrepreneur, context and history were all linked together in a non linear way. Outcomes, such as realised strategy, could not be fully understood without knowing how the entrepreneur, context, and history were interrelated and interacted. However, there is the possibility that research frameworks from the large business sector may not generalise to the SME sector, or at least, differ due the unique characteristics of the SME. The main similarities and differences in the strategy formation process in large versus smaller organisations are discussed as follows:

This study affirmed the importance of the entrepreneur in shaping the strategy in the organisations under study. The role of the entrepreneur was highly visible and influential: it seemed to over-shadow the role of contextual forces in shaping the strategy of the firm. It was tentatively suggested that the high technology industry context seemed to play a more restraining role in the process than for the FMCG firms. The strategic challenges faced by the hi-tech entrepreneurs served to frustrate the intentions of some founders. On the other hand, firms in the FMCG sector seemed more able to transcend the influence of context and had greater scope for action. One notable finding of the study is that strategy formation may vary across contexts. However, further studies are needed to test this proposition.

Pettigrew (1987) was to the fore in highlighting the influence of of context, including culture and politics, in influencing the pace, direction and outcome of strategic change. As regards inner context, there was an indication in this study that politics was a feature of the process: it arose internally from the dominance of the founder and externally from key stake-holders, rather than internally. However, the political dimension is stressed a great deal more in large organisations, probably because politics is dependent on a large social mass; large organisations have a complex structure which is conducive to the formation of groups, of coalitions and of intra-organisational conflicts of interest. The small organisation has a simple structure, and the founder controls the decision-making process due to the privileges of ownership, and to the great personal power that charimatic leadership and credibility confers.

In large organisations, ideology is often seen as a constraint to action. It develops over time and becomes so deeply embedded in the fabric of organisational life that it can lead to 'strategic drift' (Johnson, 1992). Signals for change can go unheeded or be resisted by powerful interest groups. The concept of ideology may have a different meaning in the small firm: it is intimately linked with the founder, his values, personal preferences and experiences. Writers such Bouen and Steyaert (1990), have highlighted the potential role for ideology in the entrepreneurial firm, but the literature on the role of ideology in the strategy formation process in SMEs remains underdeveloped.

The term 'strategic persistence' was used to describe the founder's unwillingness to change. This term is often used to describe inertia in large firms (Lant, Milliken and Batra, 1992). Kaufman (1971; 1976) argues that organisations often persist in courses of action that were previously beneficial even when new conditions necessitate new patterns of behaviour. The norm is inflexibility of behaviour. Strategic persistence or inertia reflects the level of commitment to current strategy, individual support for a given way of operating, monetary investments, social expectations and institutional mechanisms used to implement strategy (Huff, Huff and Thomas, 1992). This study suggests that since ideology is so closely tied with the original founder, it may be more amenable to change. The cathartic effect that crisis was seen to have on the personal cogniion and attributes of the individual entrepreneurs would seem to bear this out. The case findings showed that although forces for inertia existed in the smaller firm - termed 'strategic persistence', efforts were made to discard outmoded beliefs.

History is sometimes seen to be of less immediate significance to the small firm than the large, mature organisation, simply because most small firms do not have a long history. This study highlighted the importance of history as a major force in shaping the formation of strategy in small organisations. The Leavy and Wilson (1994) and Pettigrew (1985) frameworks would have been inadequate models with which to explain the influence of history on strategy formation to be found in this research. History, by these scholars, was taken to mean the history of the firm to date, reflected in the strategies pursued by different generations of leaders.

History, taken here, consists of 'founding history' and 'defining episodes'. The former is more of a personal variable rather than an organisational variable. It reflects the business experiences of a single founding entrepreneur. The founder is in a position to 'create the history', unlike incoming leaders to established organisations who are not normally free to develop a strategy without reference to the past; they inherit the decisions of their predecessors. This study assigned importance in its own right to 'defining episodes' or crisis. The case data suggested that defining episodes were a significant shaper of strategy, had ramifications on the strategy formation process, in the sense that it was a cathartic event that resulted in a more well defined strategy for the organisation. Explanations of a more planned approach to strategy formation requires acknowledging the effects of defining episodes. In general, the role of historical influences on strategy formation in the small firm is underexplored. Researchers in organisation theory (Boeker,1988; Kimberly, 1979) have provided an important role for history for the organisation. They have argued that forces at birth along with the early history of the company shape organisations and set them on particular courses. It is hypothesised that organisations do not significantly alter the strategy they establish at start-up (Boeker, 1989). However, these studies do not make fine discriminations between early and late founding history. As the data have shown here, the defining episodes have most implications for future strategy and can happen years after foundation. This study therefore presents a more fine-grained picture of the impact of founding conditions upon the strategy formation process than typically found in the literature to date.

(5) Strategy formation in SMEs: the rational planning model and the intuitive learning model.

The strategy process, as depicted in this study, was very unlike traditional notions of strategy formation. The rational planning model was not a descriptively accurate one for the firms featured in this study of strategy formation in SMEs, particularly in the earlier phase of their development. The main differences between the two models of strategy formation are shown in Table 6.3. Entrepreneurs helped create culture, they encountered setbacks, learned from that, changed and re-defined their ideologies. The study suggested that the development of the SME was not necessarily a rational, mechanistic process. On the contrary, in many instances, the strategy formation process seemed to be driven by 'irrational' issues. The lack of 'rationality' manifested itself in the importance given to vision, to intuition or 'gut feeling'; the great faith of the entrepreneur in the company's products/services; the intimate link between the entrepreneur and the organisation; shifting ideologies; the presence of charismatic power, the entrepreneur's diffidence in addressing issues of autonomy and control and the emergence of inertia due to the experience of crises and early years of struggle. The lack of deliberate, planned processes of strategy formation in the early stages of business development was reversed somewhat in the later stages as the firm developed a history, experienced crisis, increased its size, changed ownership structure and acquired new norms and ideologies.

Table 6.3: A comparison of the rational planning model and intuitive learning model of strategy

The rational planning model	The intuitive learning model
Organisation should be guided by a formal plan.	The organisation need not always be guided by a formal plan.
Linear model of decision making: the firm devises a mission, goals, alternatives, selects an optimum strategy and implements it.	Non linear - due to politics, culture, opportunistic learning and practical difficulties in 'seeing' the environment.
Rational.	Not always 'rational' - due to role played by vision, intuition and power.
Adaptive	Inventive - due to vision and creation of credibility.
Voluntaristic perspective - the founder is the planner.	Intermediate view - due to role of context in circumscribing entrepreneurial scope for action.

This study suggested that the strategy formation process did not occur in a linear, sequential manner. Several perspectives were sympathetic towards the model of strategy formation as revealed by this study. Mintzberg (1978), for instance, reminded people that strategy could form gradually and sometimes unintentionally over time. Murray (1984) also found that entry strategy could be deliberate or emergent depending on the particular set of circumstances facing the new venture. In this study, the effects of history and the passage of time were explored which showed promise in explaining the process of strategy formation in SMEs.

Writers such as Daft and Weick (1984), Johnson (1987), Huff (1982), Isabella (1990), Schein (1983) and Senge (1990) have greatly contributed to current understandings of strategy processes by taking into account concepts such as learning, culture, dominant logics and cognition. Their work suggests that strategy formation in the small firm is a highly individualistic process. All these approaches have represented a movement away from the normative, rational, planning model of strategy process by describing what actually happens instead of seeking to prescribe how entrepreneurs should go about formulating their strategies.

(6) Areas for future research

This study has raised a number of issues and opportunities for further study which centre around the major contributions of the research.

Traits, typologies and the dynamic nature of entrepreneurship

(1) The typology of entrepreneurs presented in this study was not definitive or wholly exhaustive and will need further scrutiny. The complexities of human behaviour were far too intricate for this type of analysis to be absolute. It was derived from a consideration of the characteristics and motives of the entrepreneurs and was a conscious simplification of reality. It was based mainly on qualitative data and subjective findings such as attitudes to risk, attributes and motivations of the founder. It was suggested that the pragmatic entrepreneurs were more likely to follow the rational planning model of strategy and the charismatic more likely to follow the intuitive-learning model. In addition, it was proposed that pragmatic entrepreneurs were as effective as charismatic entrepreneurs, but the limitations of the research design did not allow for robust measures of company performance. Further study is needed to test these propositions.

(2) One striking issue that emerged from this research was that the entrepreneurs' perception of risk changed over time, reflecting their experience of crises, early years of struggle and learning. It was proposed that partners and changes in ownership structure, played a role in

circumscribing the influence of the founding entrepreneur and his or her capacity to assume risk. It was shown that there has been a growing disillusionment with the study of traits, such as the propensity to take risks, in the field of entrepreneurship. Some researchers (Ray, 1993) have argued that the propensity to assume risk is a contextual and strategy variable, not just a personality variable. Future researchers need to adopt a holistic approach to the study of risk since it may be a function of many variables not just personality variables. Each of these three variables - crisis, partners and new ownership - need to be analysed in far greater depth. Future researchers should continue this shift towards a more contextual and processual perspective to risk in entrepreneurship.

(3) This study highlighted the importance understanding how credibility is created and abated over time in entrepreneurial firms. The methodology used in this study had its limitations, the main one being that people may form post-hoc interpretations of events which may have distorted their representations of reality. Longitudinal studies, which follow a firm over time could give a 'before-and-after' view of a firm's experience with crisis and illustrate more clearly the creation and loss of credibility. For instance, this study proposed that entrepreneurs who were driven by the strength of their convictions, their vision and instinct for the market, managed to secure the support of key stakeholders; however there was an indication that stakeholders placed undue trust in the intangible qualities and abilities of the founding entrepreneur. The fact that crisis occurred suggests that an uncritical, non-judgemental acceptance may have developed among stakeholders. This proposition needs to be tested. In addition, it was suggested that the reverse side of the credibility phenomenon was the reluctance to change and the unwillingness to accommodate other views. It might be interesting to explore in more depth the downside of conviction leadership in entrepreneurial firms.

(4) The study provided some insight into the impact that political factors

had on the strategy formation process, albeit in only two cases. It was found that power arose internally from the undue influence of the founder and externally from relationships with key stakeholders such as distributors and strategic alliance partners. This study found that the tendency of the founder to centralise power and control had the potential to create problems. However, this study outlined the potential role of partners/mentors in circumscribing the influence of the entrepreneur. It was tentatively proposed that having a balance of intuitive and analytical thinkers in the founding team would serve the long term interests of the company. The insufficiency of the evidence makes this point a matter of judgement. Further work is needed in this area to test this proposition. The nature of power and politics in the small firm and mediating factors were not fully explored by this study and further studies are needed in this area.

(5) One interesting issue that emerged from the study was the importance of personal life cycles in the strategy formation process. There was some evidence to indicate that the founder's stage-of-life affected their goals for the business and attitudes towards take-over. This is a relationship that merits further study in its own right and clearly has implications for future research into the wider question of how and why the personal impact of entrepreneurs on the development of their firms varies over their tenures at the helm.

The phase model

(1) A phase model of the strategy formation process was proposed but the model was a simplified representation of reality; in no way was it suggested that this model represented the strategy formation process for all SMEs. Further study is necessary to validate or modify this model. It was suggested that some organisations may find it difficult to breach the barrier between the quasi-strategic and strategic phase for various reasons;

however, insufficient data meant that any points made here were a matter of subjective judgement.

(2) This research found that defining episodes or crisis were a feature of the strategy formation process. This study found that crisis had ramifications for the firm: it gave rise to a more planned approach to strategy making; it resulted in the creation of new learning and new ideologies.

It seems promising to explore the extent to which crisis is functional or dysfunctional. It was a source of learning for the small firm in the strategy formation process. Clearly valuable learning took place that might not have occurred otherwise. However, the price paid by the individual and the organisation was very high. Crisis had dysfunctional consequences and there were indications that it led to over-cautiousness in decision making. It was also proposed that crisis in the high technology sector seemed to result in a greater conservatism in organisational decision-making and reluctance to innovate. These findings point to the need for more studies on the impact of crisis on innovation processes. Although new ventures are characterised by flexibility, quick response times and rapidity of learning (Murray, 1984), the small firm may be less malleable than traditionally assumed.

A question raised by the study is whether the level of planning and control must be raised in the SME if the experience of crisis is to be averted. Since crisis stimulated greater planning does this mean that if planning was present from the outset that crisis would have been averted? This is a question for future researchers. However, this study indicated that the vision, risk-taking and intuition of the entrepreneur often acted as a substitute for planning in the early phases. Attempting to force certain types of firms into the straight-jacket of traditional planning methodologies might be counter productive and stifle the very impulses that were responsible for the start-up and early development of the entrepreneurial firm.

The adoption of a cognitive perspective is desirable in future studies since it is becoming clear that 'soft' issues like cognition, ideology, learning, change and inertia play an important role in the strategic development of the firm. Future researchers with a background in psychology could explore in more depth the changes in cognition that were found to take place as strategy was formed and crisis encountered.

The utility of the conceptual framework

(1) Describing the process of strategy formation in SMEs has been a central concern of this study. To help understand this process, this study has used a conceptual framework incorporating three key elements: leadership, context and history. Future research should continue this trend towards more contextual and process-oriented research. The framework provides an understanding of the strategy formation process within the small firm but it may also prove a useful one within which to analyse the growth of the small enterprise.

(2) This study looked at the process of strategy formation in small firms. However, the study adopted a retrospective approach, where people were asked about the past. Longitudinal studies, which follow a firm over time, and the use of ethnographical techniques, such as observation, would give a greater insight into how strategy actually forms in small firms. Such studies are inevitably more time consuming and expensive than other studies, but the potential benefits could be considerable. In this study, it was left to the researcher to subjectively interpret interview data, vague comments and overt meanings in order to piece together a picture of how strategy formed in SMEs. This carries the obvious risk that interpretations may not fully reflect reality, however this is a problem that confronts all

researchers.

The impact of context

(1) This study found that firms in the high technology context faced a more constraining environment that firms in the low technology sector. Case companies in the hi-tech sector were contrasted with two cases in the low-tech sector and it was suggested that variability in context had an influence on the strategy formation process. However, this form of comparison carried the danger of over-simplification of a highly complex process. Research is required to gain further insights into how context impinges on the strategy formation process.

Finally, the findings presented in this thesis were derived from only nine case studies and generalisations developed from such a small sample size need to be verified by more extensive research. Careful attention had to be given to the issue of 'inferring logically' from the results of the study beyond the scope of the organisations studied (Bryman, 1989). However, numerous participants in a variety of settings were interviewed which should enhance the transferability of the findings.

Practical implications of the study

(1) This study showed the limitations of the normative rational planning model of strategy which has implications for policy makers, small business development agencies and entrepreneurs alike. In many cases, the entrepreneurs under study had to contend with a multiplicity of goals; they had to grapple with the challenges and inherent uncertainties of new product development. The entrepreneurs needed time to experiment, to make mistakes and learn from their mistakes. In some cases, non-rational elements such as the vision, imagination and instinct of the entrepreneur was a feature of the strategy formation process rather than purely 'rational'

elements such as plans and hard facts. This has practical implications for policy advisors and others encouraging entrepreneurs to devise and adhere to detailed business plans during start-up. Being aware that business start-up is a learning process should allow for a greater tolerance for experimentation. Certainly, as time went on a more planned approach emerged and greater emphasis was placed on financial planning and control. Entrepreneurs need to be aware of the requirements and demand for planning when ownership structure changes, when the business becomes established and when a growth strategy is pursued.

(2) There were indications that the role of the entrepreneur in the strategy formation process was not always a constructive one. Paradoxically, the same qualities that drove start-up - the tenaciousness and driving conviction to succeed - were later seen to translate sometimes into resistance to change, unwillingness to listen to others and excesses of power. The creation, maintenance and abatement of credibility issue showed that entrepreneurs were adept at mobilising and maintaining support for their ideas, but they could also lose the support of their followership. The study suggested that entrepreneurial risk-taking which resulted in success increased the entrepreneur's credibility in the eyes of key stakeholders. However, entrepreneurs need to be alert to the dangers of a non-judgemental acceptance developing among key stakeholders. This points to the need for a balanced management team and the willingness to listen to partners for divergent, fresh insights. The entrepreneur's own program of education such as networking, going to conferences, and so on, may influence his or her open-mindedness. A willingness to accommodate other views in the formation of strategy may help avoid the loss of credibility.

(3) Crisis was found to be common in the organisations under study. It was tentatively proposed that crisis in the high-tech sector gave rise to 'strategic persistence' or a reluctance to innovate. An implication of this finding for entrepreneurs is that they may find it worthwhile to orientate

themselves towards the future, towards constant questioning, towards change. The use of a mentor may be particularly beneficial. This may help them surmount the very human tendency to cling to the status quo and avoid taking risks that gave rise to crises in the past. Given the importance of the high technology sector to the economy, policy makers may need to be more willing to deliver help to SMEs in times of difficulty. The fact that crisis resulted in take-over for some companies in the high technology sector is also an issue to be addressed by policy makers. Whether it is in the national interest to accept the loss of innovative firms to large multi-nationals, who more often that not are competitors, is an issue that needs to be debated. Although crisis resulted in considerable learning for the entrepreneur, it was achieved at considerable cost to the individual and the organisation. This may point to the need for more proactive involvement on the part of the government.

(4) It is important that entrepreneurs are made aware of the prevalence of crisis and the possible psychological ramifications of crisis for the individual. The management of stress, the need for support mechanisms and benefits of networking with business owners who have undergone similar experiences, are all dimensions that need to be given consideration by entrepreneurs.

(5) The study highlighted the strategic challenges faced by the software firms. It is possible that potential fast-growth enterprises (eg. RTI, Kestrel) have been lost to the Irish economy due to the inability of financial providers to keep their nerve and fund enterprises through the early difficult years of R&D activity. The need for adequate financing of technology based companies should continue to be emphasised.

(6) The study outlined two main types of entrepreneurs, the charismatic and pragmatic entrepreneurs. Until quite recently, it was perceived that entrepreneurship was the province of the rare, the exceptional and the

'heroic' type of entrepreneur. This led to scepticism on the part of many as to the ability of policy makers to influence the supply of entrepreneurs. However, this study proposed another type - the pragmatist - whose distinguishing attributes may be more widely distributed throughout the general population. This type might more responsive to state incentives and state training schemes.

(7) The study highlighted the dynamic nature of entrepreneurship and the fact that entrepreneurs often change their management styles, attitudes to risk and personal goals as time passes. These changes may not always be for the better. Companies need to be alert to the possibility of entrepreneurs being reluctant to launch into a new direction due to the new conservatism of the entrepreneur, increasing awareness of risk and change in personal life cycle.

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APPENDIX 1: Flexible interview structure

Stage One: flexible interview structure

Introduction: broad objectives of the study.
Preliminaries: Is it acceptable to record interview - confidentiality.
Focus on interviewee: What is your name, position, knowledge of the company's history - its start up, development and any major turning points.

Stage two: more structured interview

Introduction: reasons for follow-up interview.
Preliminaries: is it acceptable to record interview - confidentiality.
Interview content:

Founder-centred:

You mentioned a critical episode in the last interview. Has the company changed in any way because of that experience.
Has there been a change in your outlook or management style?
Based on your experience in business, what are the major lessons you have learned along the way?
What is your personal theory of management?
What do you think will be your legacy to the firm if you did decide to bowed out from it in the future?
What drove you? What were your ambitions for the firm?
Has your vision for the firm changed?
In retrospect, are there things you would liked to have done differently.
What is the ownership structure of the company.
What influenced your decision to sell shares/sell the company.
How did that come about?
What changes did new ownership/outside shareholders bring to the company.

Context

What were the industry conditions like (favourable or unfavourable) when company was set up?
How important were early marketing decisions (product/market/technology)
What were the major problems experienced in growing the business?
How would you characterize the market within which your firm operates.

Phases

Did the company have a deliberate strategy from the outset.
In your opinion, has the company undergone major change.
What caused this change.
Were changes in strategy planned well in advance or more opportunistic in nature.

Crisis

Can you think of any critical episode along the way, or fundamental decision to be made that had repercussions for the firm.
Could it have been avoided?
How did the company respond to it?
What were the positive and negative aspects arising from this period, if any.

Future plans

What do you see as the major obstacles to the growth of the business in the future?
What are the strengths and weaknesses of the business?
Where do you see the firm in the future?

APPENDIX 2: CASES

Case company: Irish Breeze

Introduction

The story of Irish Breeze is a classic example of the vision and opportunism of one individual that led to the marketing of the only Irish made soap on the market. The firm now holds 8-9% of the soap market in Ireland. It succeeded in establishing a platform in the Irish market, and also targeted the US and Canadian markets. Yet, it never fully developed its potential and was left vulnerable to take over. The founder of the firm, Peggy Connolly, was made an attractive take-over offer by her distributors, Boyne Valley Foods in 1995 which was accepted.

The new venture idea

Peggy Connolly was a native of Cape Clear Island, Cork, married with two children. She was a qualified montessori teacher and worked with mentally handicapped children for several years. From 1979 to 1984, she successfully ran her own Montessori school and worked with mentally handicapped children for several years. She subsequently gave up the school when the family moved to California.

The origins of the company began in the Summer of 1984, when Peggy Connolly was living in California. She bought a bar of Irish Spring soap which she later found out to her disappointment, had nothing whatsoever to do with the country of Ireland. The product, aimed at the large ethnic market in the States, was selling rather well. Immediately, she saw a possible niche in the market. She felt that a better quality and more authentic product could be produced in Ireland, for both the home and export markets. The founder knew that there were no Irish-made soaps and speculated that the IDA (Irish Industrial Authority) would sponsor an Irish made-soap as an import substitution business. In retrospect, the founder said that had she remained in Ireland, she would never have got the idea off the ground. The spirit of optimism in America and the competitive spirit there was energising. 'America changed me', she said. 'It instilled in me a desire to get up and do something instead of just sitting back. It charged me with an entrepreneurial spirit.'

In 1985, Peggy Connolly returned home with the seeds of her idea - that of an Irish made soap product in mind. She approached the IDA to persuade them to sponsor part of the cost of a feasibility study. Brimming with enthusiasm, the founder thought that 'the IDA would welcome my idea with open arms', but found that they were sceptical at first. They agreed to fund 50% of the cost of the market research, and she raised £10,000 from the proceeds of the sale of the Montessori school. The founder was well aware of the heavy financial considerations that went along with starting up in business and wanted to start out right. The entrepreneur adopted a planned and rational approach to business start-up. The feasibility study eventually took a year and a half to complete and was done mainly in Britain where soap production is a traditional industry and where they seem to have small plants in every town. Peggy Connolly generated a file of correspondence with supermarket chains, distributors and other interested bodies to elicit their views as to marketing strategy. She contacted suppliers of plant and raw materials for quotations on plant costs, plant requirements, market percentages and profit margins.

Demand for import substitution business

The feasibility study showed quite clearly that a gap in the market existed, since quite surprisingly, no Irish company was producing such a basic commodity item like soap. Unlike the saturated UK market, Peggy Connolly came to the conclusion that there was a constant and growing demand for soap in Ireland. It was generally felt that it was the right time to introduce an Irish-made soap. A 'Buy Irish' campaign was being given great prominence in the media. The recession was at full tilt and many people were quite emotional about it and wanted to see employment created for their families. As a result, there was a lot of goodwill present and people were receptive to irish made products. Supermarket buyers were all interested in the concept of an Irish made soap and had experience of another import substitution product, Fiacla, which had met with a favourable response in the marketplace. In spite of the fact that she would be competing against the multi-nationals in the FMCG (fast moving consumer goods) sector, who possessed a huge advertising budget and brand name equity, Peggy Connolly was confident that the 'Irishness' of the product would be a success factor. An Irish niche product stood a good chance of attaining considerable market success abroad. The founder believed that a quality product, promoted on an Irish platform, could capture the large ethnic market segment in the US.

Nature of industry

The Irish market was well catered for with several long established soap brands on sale. The three multi-nationals - Lever Bros., Colgate-Palmolive, and Procter & Gamble, were all involved in the Irish soap market. In Ireland at that time, all toilet soap was imported at a cost of £5 million per year, representing 2,200 tons. Lux, Palmolive and Lifebuoy were the Irish bestsellers. The best selling brands were all well marketed, of high quality and were not highly scented. Advertising was largely on television for the main brands and was concentrated in the Woman's press for the smaller brands. Immediately after the launch of the product, Lever Bros., objected to the name, probably anticipating the threat that 'Irish Breeze' posed to them. Peggy Connolly resolved this problem after considerable legal expense. The courts ruled in her favour and she was allowed to retain the original name. This was a foretaste of things to come, such was the nature of competition against multi-nationals. As a small fledging company, it was vulnerable to the activities of multi-nationals, who had the resources to fight for the Irish market. The founder said that it was a hard battle against the multi-nationals who still 'dump' soap on the market.

Start-up strategy

In spite of fact that the product concept held out so much promise for the founder, she considered that it was not feasible to manufacture a soap in Ireland (due to the heavy capital investment involved) without having established a strong market presence first. Despite this initial set-back, Peggy Connolly was undeterred. She pursued her options further. She returned to the US in 1987 and persuaded an international company - Avon - to produce a prototype. A handmade brass mould was used to shape the soap into a distinctive saddle shape. She returned to Ireland and to overcome the problem, she sub-contracted the manufacturing to an established company in Dublin, Ireland. Fifteen people are employed in the production process. When she first started producing, an automatic finishing line was bought for £40,000. Again IDA grants covered 50% of the cost, she borrowed the rest. The equipment was installed in the subcontracting factory in Dublin. A small company wants to minimize the risks involved in investing in large capacity, so contracting out is preferable. The trend towards sub-contracting is emerging quite strongly and the manufacturing sector is an obvious choice. As a customer to the sub-contractor, the company has a certain degree of control over supply and quality control. Pegy Connolly did not have any background experience in manufacturing or production and was happy to sub-contract. Sub-contracting as a way of overcoming the entry barriers into the industry. With an established manufacturing base in hand, the founder approached the multiple stores in 1987, who were quite willing to give it shelf space. A distribution company (Gillespie & Co.) was instrumental in getting the company off the ground. They handled the marketing and distribution of the product. According to the managing director:

> A small company like that could not have got off the ground unless they associated with a company like us. It could not have afforded to do what we do due to the logistics involved. We have 16 vans calling all over Ireland on a daily basis, often to small towns, as well as cities. A smaller company just would not be able to distribute on that scale of operation. Distribution is an expensive business.

In the words of the marketing manager,

> In anything in Ireland, you need a distributor to sell into supermarkets because supermarkets like dealing with one company rather than 15 small Irish ones.

Subcontracting minimised the financial risk involved for the founder. The distributor claimed that she adopted a cautious and risk adverse strategy.

Her distributor believed that she was running a marginal business which merely supplemented her spouse's earnings:

> Her approach was very different to Fiacla. One person got involved in manufacturing, the other sub-contracted. I do not think that soap is particularly difficult to manufacture. My own view is that the capital equipment needed to manufacture soap cannot be that different from that needed to make toothpaste. There was no real financial involvement in the company. One person was committed to a production run, bought equipment, invested substantially in the business. I think Dick saw it as his livelihood, whereas Peggy not. Her husband had a very good job. She was doing this as an outside interest.

Role of the entrepreneur

Promoting the product on the ground was crucial to the success of the firm. The founder was described by the marketing manager as a driven person:

> She was a lady with a lot of drive. She was not afraid of knocking on as many doors as possible. She did a lot of the promotion herself on the ground level. She spent hours and hours on promotion and the company was built up over the years to give her the turnover she was happy with. She was a very ambitious lady...We find with an Irish product, there is an awful lot of pressure on the person who produced it to promote it because there is never enough money left to promote it. They invest so much in manufacturing it and getting it onto the market, that they do not have any money left to advertise it. They need to do a lot of ground work at store level.

This commitment and drive of Peggy Connolly led her to receive the 'Women in Enterprise Award' in 1988. Peggy Connolly was a persuasive individual who was good at managing relationships with clients, customers, suppliers, and distributors. The success of business depended on her personality, which enabled her to generate funding, exploit publicity and persuade intermediaries to stock the product. She realised that it was important to build commitment, secure the assistance of outsiders and share plans. She understand her business and appreciated what sales and marketing could do for the business. She approached her distributors and asked them for assistance with the concept and with selling it into supermarkets in the first year of operation. They offered advice in terms of packaging, colour, fragrance and brand name. The product launch got great publicity, being widely covered on television and the press. The story had good appeal, that of a woman producing an import substitute and a basic household item. Peggy Connolly was at the forefront in the marketing of the soap to the extent that she later became synonymous with the name of the product.

Performance of the venture

It was recognised at an early stage that a significant percentage of the home market (5%) would have to be captured if the business was to be viable. Due to that fact that all operations were subcontracted, margins were being squeezed. The company went through a period of rapid growth and six weeks after the product was on the shelves, it started doing 'extraordinarily well'. By 1988, within one year of production, the firm was producing 1 million bars of soap, retailing at about 35p, competing well with imports, many of which sell at 39p. In the first year of sale, the company chalked up impressive sales, going from nowhere to holding 8% of the market in 1988/89. This represented a £3.5 million share of the Irish soap market which up until now had been dominated by imports. By 1991, the product range was extended to include shower cream, value packs, a dermatology-formulated (sensitive) soap, soaps in three variants (white, pink and green) and cotton wool. By 1991, the company had captured 10% - 12% of the Irish market which is valued at £7m a year. At the end of 1991, a deficit of £17,000 was recorded. This was attributed to the conservative accounting policy of writing off costs as they occur. In 1992, the company had a negative net worth of £7,400 which was an improvement on the year before.

Critical episode

By 1989, the company was a small player in the Irish market. Strains in the manufacturer-distributor relationship began to appear at this stage. Peggy Connolly was not content with this position and argued with her distributors that a far greater share of the Irish market could be secured with their co-operation. The distributors believed that the Irish market was too small to sustain growth and that the emerging Eastern European market was an attractive prospect. The founder, too, saw that the future for the product must lie abroad and exporting would be vital to the success of the company. The firm was quite capable of coping with large volume orders because of the subcontracting operation. The founder claimed that they could produce 120 bars a minute. Extra production would have helped cut unit costs. For personal reasons, the US was an obvious target to the founder. She had conceived of the original business idea while she was living there. In the words of the marketing manager:

> The idea of Peggy selling the product in the United States was a lot more appealing than the idea of Peggy selling to Hungary.

Future plans

The distributors believed that the US market was too vast and too difficult a market to break into; they tended to prefer markets that were closer to home. Irish Breeze had reached the stage where sales were starting to level off in the home market and it needed additional investment if it was to expand beyond the home market. The distributors became interested in buying into the firm since it had carved out a successful name for itself in the home market.

Peggy Connolly made a few trips to Canada and the US and received a favourable reaction. She had some success in selling the product. She encountered problems in marketing there. She was unable to protect the brand name and was forced to register the soap under her own name. Personalised products were popular in the United States. The presence of L'Oreal's Sea Breeze skincare product delayed her export plans. In the US, the product was to be marketed as a more up-market, speciality soap product, being more heavily scented and more elaborately packaged than the Irish family soap version. Peggy Connolly expected to charge a higher price in export markets.

Peggy Connolly knew that in order to exploit the US market, a major injection of capital was needed. She was confident that she could secure the necessary funding. She had already established a sound marketing and financial base in the home market. She had high hopes for her soaps. She planned to sell her story to the American public and carry out plenty of promotional work to help her launch the brand. Margins were very tight and any profit was re-invested into the company and go towards marketing and developing new products. Peggy Connolly did not expect to make any profit in the near future but expected it to come in time. All these plans were in the pipeline when she was approached by her distributors who offered to buy her out.

From the founder's point of view, selling out to them would entail advantages and dis-advantages. There are several issues which concern the founder. First, she proved herself capable of successfully starting her own business. Her achievement was in turning an idea of an import substitute into a reality. The brand was a household name and was gaining in value all the time. In the pantheon of Irish entrepreneurs, she is renowned. Her company is an example of how outsourcing, at the most fundamental level, can be the optimal strategy for business success and development. By targeting a niche market, she was able to 'take on the soap giants and win.' This guarantees her status in business. Her business idea is proven. Other factors must be taken into consideration by the founder. The dilemma facing her was to sell out or grow the company - she believed that the company's real future lay in the US market. It was a quantum leap to take a product from the Irish market to a more sophisticated one such as the US. Exporting demanded a level of expertise of which she had little and many barriers would have to be overcome. Very often, the demands and cost involved in exporting and the competitiveness of export markets are not fully appreciated. Peggy Connolly was convinced of the potential of the company and was optimistic that the bulk of profits would come from the US in time. She believed that a certain amount of goodwill existed for an Irish made soap that is as yet untapped. Yet, the threat of resource rich multi-nationals poaching sales has always been present. In both home and export markets, they can afford to sell soap very cheaply.

The take-over of the firm

On a personal level, a critical stage arose where Peggy Connolly started considering a take over offer from her distributors. However, she was faced with an unsatisfactory take-over bid from her prospective purchaser. A price of £300,000 was offered which in the founder's view was far too small. Her distributors argued that the company would be worth far more if the US market was established. Negotiating with distributors is a delicate process. Yet, the manufacturer-distributor relationship is a delicate one with the risk of a distributor not giving sufficient support to a product always present. The founder has a difficult course to steer to secure a profitable and stable relationship without becoming in danger of being swallowed up. It is in their interests to restrain from developing the business for fear that eventually they would have to pay a higher price. Peggy Connolly held a different vision for her company than the distributors and assessed the Irish market differently. Disagreements arose regarding the marketing strategy:

> She believed that an 80% share of the Irish market could be obtained overnight. That does not happen. The FMCG sector is a very difficult, very tough market. The distribution was there. The product was not as competitively priced as Fiacla.

Peggy Connolly was a sociable and articulate woman, with a flair for marketing. These skills were put to use at home in Ireland working in a PR role. In October 1990, her distributors established a new company whose aim was to assist companies in their marketing and sales activities, advise them in areas such as new product development, packaging, promotions, and exporting. They offered Peggy Connolly a position in the company to market Irish manufactured products. However, conflict arose between the managing director of Gillespies and Peggy Connolly. The Managing Director of Gillespies remarked:

> We had a falling out over the Irish Products Company...She sold the company to Boyne Valley Foods. They used the name to manufacture cotton wool and made a profit out of that. We got on very well. I knew her for 5 or 6 years. It was a shock when she actually sold the company. Things got a bit acrimonious in the end. But such is life, it's not all fun and games.

Irish Breeze faced many challenges and difficulties in developing beyond the home markets. In spite of her interest in growing the company, various issues influenced her decision to sell: the difficulties of entering the US market, conflict between family and work roles, the large financial commitment required. She was aware of the risks and constraints upon her ambitions to expand. An attractive take-over price was offered to her by another distributor and she accepted. A pragmatic decision was taken by this entrepreneur. Peggy Connolly eventually refused the take-over price and decided to develop the US market further. Early in 1993, Peggy

Connolly signed a distribution deal with Boyne Valley Foods who took a minority stake in the company as part of the agreement. In 1994, the company was bought out. Boyne Valley Food is a large company whose main activity is in food manufacturing and distribution. It has a shareholding in Lakeshore Mustards and sells Irish Cereals. A subsidiary - Abdine Ltd.- saw the potential in using the brand name to manufacture cotton wool and a range of baby products. This was the main reason for the interest shown in the company.

Case company: BFK Design

Introduction

BFK Design was established in April 1989 to provide design solutions and production management. The company has since completed a diverse range of projects in the graphic design arena, ranging from corporate image, brochure/literature design, packaging to annual reports and advertising. They employ 20 people, some on a part-time basis. Their client list includes well known Irish companies such as Waterfood Foods, Golden Vale, AIB and Fiacla, among others.

Role of founding strategists

The company was established by three well known personalities in the design and print industry. Kevin Barry, Johnny Frey and Howard Kent, worked for the same company and knew each other quite well. Pat McDonnell, the former managing director of the JD Hackett Group was appointed chairman of the company. He now works for the group on a consultancy basis. He played a key role in the success of the firm and helped establish core founding values. He was perceived as 'the grey haired individual', the mentor, and the founders knew that they would benefit from his business experience. The chairman instilled into the directors that they had to take a controlled, goal oriented approach to business:

> You have to decide what you want to achieve, how you are going to achieve it, and go for those goals in a controlled way. There is no point in taking off like a rocket and getting nowhere...The most important thing I have done is to give them direction. That is what strikes me. If I was not there, there would certainly be a lack of direction. I have probably instilled into them that the bottom line is profit. You have got to make a profit. I have taught them all how to read a balance sheet.

The company was founded with a balance of skills, with one individual concentrating on the management side of the group, another provided the creative input and a third individual provided the sales and marketing expertise.

The development of design in Ireland:

In the 1960s, design was virtually non existent in Ireland, with the products of Irish traditional industry being mainly copies of British design. After membership of the EEC, a growing consciousness of design began to develop. In a more competitive environment, competing firms found themselves using similar manufacturing processes to produce similar goods, so the product's packaging and visual impact became a strong selling point. The consumer became more discerning and this forced an upgrading of design standards. Entry in to EEC heralded a sense of design consciousness within the educational and business communities at large. By the 1980s, all the elements needed to develop design were present - the underlying demand for good design existed, so too did the technology, the education and the creative talent.

However, even in the 1980s, there was still a general reluctance from industry to use Irish designers. Irish business often looked for the perceived status, professionalism and high standards of British design firms; they were often willing to pay well over the Irish rate for that service. Many of the large institutions, including semi state bodies, went outside of the country for design expertise. The managers of BFK Design felt strongly about this issue and stressed that Irish design is as good if not better than the imported product. In the late 1980s, the design industry was relatively young. Some firms were ten years old, the majority were only two or three years in existence. Many design firms found it difficult to survive in the 1980s and management were aware that a number of design firms had gone into liquidation. The company modelled itself on two of their competitors, Dimension and Marketing Image. The former was taken over and and the latter has shut down completely. These design firms experienced problems due to diversifying into other areas too quickly.

The graphic design business was intensely competitive and was vulnerable to recessionary forces. Many competitors entered the industry and it has grown from about ten firms in the late 1980s to over 250 design firms by 1996. BFK Design considered itself in the top ten category. The industry consisted of numerous small designers and a few medium sized firms. Smaller competitors consisted of designers who could set up in their kitchen, with few overheads. They were able to undercut their competitors and were willing to do speculative work, i.e., carry out initial design proposals for free. In Howard Kent's eyes, these competitors cheapened design by giving it away for free. A major problem they faced in business was that customers did not always value design. It became more and more difficult to earn money in this type of climate. Even though the economic climate improved since the late 1980s, clients maintained their price consciousness. They were demanding in terms of quality, turnaround, and performance of the supplier. The nature of the industry led the founders to carefully plan their entry strategy.

Company objectives

BFK Design decided to offer full design services - including packaging, graphic design, product design and advertising. The company had a vision of employing large numbers of people and of becoming a leading design group in Ireland, the UK and Europe. They decided to use the term 'group' as part of the company's name because they intended diversifying into associated design fields. They had a business plan and decided to position themselves in the top end of the market, the premium-priced, high quality end of the market. It is very difficult to quantify and evaluate the worth of design in monetary terms. The cost of materials and services used during a project would be known upon completion as would the man hours taken to complete the project. However, it was the value of the creative work that was difficult to calculate. Designers normally resolved this dilemma by arriving at an hourly rate; the fee would also be influenced by beliefs on what the market would bear.

In the words of Howard Kent:

> The profile we put out there is - we are big. We are expensive, but we give you value for money. We never, ever apologize for being expensive. It means we have got to meet those criteria. We have to deliver. Hopefully, we shake the tree, get rid of the deadwood and deal with the good stuff. That has been my policy all along.

According to the chairman:

> One probable difference from other small firms is that BFK thinks much bigger. Projecting the professionalism, projecting the success of the product, projecting that it is good at what it does, is important. Instilling that into everyone here is important. They take pride in the place, pride in design, what they do, pride in how the whole company is presented, how people presents themselves, whether it is the receptionist, one of the designers or the directors.

Entry strategy

Regrading entry strategy, every aspect of the venture was carefully planned and assessed. The directors were very cautious and still are to a large degree. They were not, according to Kevin Barry, a company who would make rash decisions: 'We go through decisions, like employing a single person, very, very carefully.' The company possessed an extensive business plan, which, in retrospect, was of little use. Howard Kent claimed:

> Financial people blinded us with science, led us to believe that we must have this colossal business plan. We were led down a blind alley. It was took months to prepare, whereas we should have done it in two weeks.

Today, any business plan spans a few pages and is very broad in scope. They implicitly know want they have to do on a daily basis in order to survive in the long term. They need to obtain a certain amount of sales and produce the design work no matter what happens. Their business plan today is very broad which gives them the flexibility to change.

Company ethos: a customer orientation

The core service offered by BFK Design is graphic design. Graphics involves many elements, all geared towards presenting the corporation towards its public:

* Corporate identity (The logo, business card, name investigation, stationary, letterhead, etc).
* Packaging design (Style, type of material used, size).
* Audio visual Presentations (Slides, overhead presentations).
* Printing (Annual Reports, technical manuals, point of sale material, direct mail shots).

At an early stage, BFK Design geared itself towards becoming a customer oriented organization. Clients were encouraged to come and talk to the company directors with no commitment. They listened to their problem and then a written proposal on what they could do to help, how long it would take and its cost, was prepared. The managers knew that if they were going to win design assignments, the client would have to be convinced of the company's ability to deliver. Initially they undertook 'speculative work', (i.e. did initial design work for free in order to attract potential clients) but later discarded this marketing ploy. According to Kevin Barry:

> Our attitude was, we are in the service business. If a client wants something, then we have to go and do it, no matter what it takes to do it. That always had been, and still is, out priority. It is one of the reasons why we are still here. I do not believe that you cannot be arrogant or aggressive. I do not believe that we have actually changed that much.

Howard Kent remarked that he was a firm believer that 'if you think humbly about the market you are involved in it will pay off in the long run'. He saw competitors as being complacent; because they were large, they expected clients to know them and give them business.

Company ethos: emphasis on promotion

Traditionally, designers have never seen advertising as a way of generating business. The managers of BFK Design pointed out that advertising, either through the trade or print media, was ineffective and was not the way in which design was purchased. The most effective marketing strategy for a design consultancy was to produce high quality design which would stimulate referral and repeat business. In the words of one manager:

> We obtained a lot of referrals. Any work obtained, was done well. We worked extremely hard and started to build up a name for the business.

Direct selling was often frowned upon by designers, but for a new firm this tended to be the only method available to make the market aware of its existence. At that time, many clients went through advertising agencies for their promotional work, annual reports, corporate brochures, etc. The company was quite proactive in relation to securing clients and aggressively sought business. It was not unusual for them to go to their clients and offer suggestions on to improve their corporate image, packaging or product design. The chairman suspected that other design firms did not adopt this approach. The founders of BFK Design believed that a market existed for design services sold on a direct basis which was why the company was founded. Their attitude was 'to go out and really sell the service and get sales.' This strategy worked quite well for them. The sales manager believed that a combination of luck and a wide network of contacts helped establish the business.

A focused strategy

From the outset, BFK had a well structured company, with accounting, sales and production functions, as well as the core design function. Unlike many design firms, management introduced basic organizational systems early on in the life of the company to ensure its survival. The strategy of combining high quality design with business professionalism was a crucial element in the firms' success. A strong commercial ethos was maintained over the years. Management remarked that they 'were not simply designers'. Many small design firms competed almost exclusively on design quality or price and were weak in terms of management and client orientation. According to Kevin Barry:

> Designers tend to be very fickle, temperamental people. Many of them do not know how to run a business or would not have any interest in running a business. Clients see them as difficult people to work with.

Kevin Barry was attracted by the potential financial rewards of being in business. He later found that:

> There was a lot more to running a business than I had expected. There was a problem in getting business, getting the sales in, then you have the problem of producing that work, and there is the problem of getting paid for it. Alongside all of that is the whole accounting side, the technology, the building...Everyday there is something new.

He remarked that technology was a problem in the graphic design business. It was difficult for them to keep abreast of technological changes. He found that they had to continually invest in new technology and it was very difficult to budget for it. As a service business, they had to pay full corporation tax. He added:

It was tough in the start, even getting an overdraft from the bank. We were watched like hawks. We relied on mentors, on people to give us good referrals. It was a lot, lot tougher that I expected...Sales struggled. Always does. You expect to get in so much, but do not. You get promised x, y and z, but in a lot of cases, it does not happen, for various reasons.

The sales manager also agreed that success came from hard work, from ambition, from being focused, and knowing exactly where the company was going. The chairman remarked that a focus on graphic design was there from the beginning:

I do not think the business would have been as successful as it was if that focus was not there. As far as we are concerned, we have to achieve design sales each year, each month. It does not matter what else happens, If we don't get them, the we are not going to make profits. The focus has to be on sales.

Success factors

Personal contacts played a major role in the early success of the business. All had a background in the industry. It was difficult for the client to evaluate design firms because there was limited information available on which to make a confident judgement before the completion of the project. This stemmed from the nature of the purchase being made: a customised problem solving service, of an intangible nature, where the cost-benefit relationship was not readily perceptible or even understood. This placed the client in a situation of uncertainty and risk which they sought to reduce. Naturally, the client wanted the job done by people they could trust: there was no guarantee that the design team would create a satisfactory design and solve the design problem on time, on budget. The aim of BFK Design was to reduce this uncertainty in behalf of the client. To achieve this outcome, they built up a good design team and office facilities, used the most advanced technology available and offered a professional, customer-oriented service.

Crisis

The company experienced a period of solid growth. After start-up, a designer joined the company and became their first employee. However, in 1990, sales started to decline due to a recession. The slow down in business confidence in Ireland led to the deferral of design contracts. These external forces had a hugh effect on a fledgling company attempting to grow. There was an imbalance in the structure of the company. They set up a company that had to support two non fee-earning directors. That situation contributed to their financial problems. They increased their studio staff and employed extra sales personnel, people they though had 'sales in their briefcase' but found out to their cost that he did not. The business was built up in the anticipation of continued growth which was not realised. When sales started to decline, they experienced financial problems, resulting in redundancies. The major problem was, in Kevin Barry's eyes, that of growing the business too fast. One of the worst aspects of this period, for Kevin Barry, was making people redundant. Howard Kent (Sales and Marketing Manager) claimed that the company went through a number of traumatic situations. In the first year of its existence, the company experienced one major bad dept. That nearly broke them. Luckily they survived it. Howard Kent claimed:

> Within our second year of business, we were trading unprofitably. To use the words of our accountant, we were trading fraudulently. That was the most crucial period we went through. Within two years, we had overstepped our mark. We had to back peddle, start letting people go and re-focus in on the core product. We had to stop diversifying, stop looking at other things and start making money.

Kevin Barry also claimed that they were 'desperately trying to look at different areas to increase business.' Today, the company is much more settled and more focused. They have a reasonable level of business that will always be there. The company is no longer 'as panicky' on a day to day basis. They can afford to stand back a little and be more focused as to where the overall company is going. In the early days, the directors were too busy trying to survive, to resolve daily problems and get work completed and did not have the time to plan on an annual basis. Any disagreements that arose centred on how the market would evolve and where the best opportunities lay. The company had to keep adapting to the market.

Howard Kent claimed they developed a greater understanding of the dynamics of survival. The company survived this critical period because of the way in which they managed their cash flow. They succeeded in 'pulling back from it'. One of their first response was to re-locate from Dun Laoghaire to the city centre. That immediately increased their business. It saved both the directors and clients a lot of time lost to driving.

The development of the venture

The chairman saw the development of the business in terms of phases. He spoke of the learning curve involved in setting up a business. He talked of the early period where the company was young, where the objective was to establish the business. The financial institutions watched management and their actions carefully. They had to establish a track record with suppliers and in some cases pay cash up front for supplies. They had to struggle to increase sales, frequently attempting to do everything. They found, that due to lack of resources, they had to deal with diverse tasks, probably over extending themselves. The chairman believes that a key requirement of the firm was flexibility:

> In the first five years the company must try to have flexibility. It should be able to change tack, to make changes in the organisation quickly. By flexibility I means staying in control of the organisation, staying small in terms of people. Not over committing yourself. Having some room to manoeuvre, some options.

After a few years, the company started to mature along with the people involved. It emerged from a difficult period, managed to build up a client base, the business became more stable and financial reserves were built up. The chairman spoke of other phases in the firm's development:

> They do not need to grab every bit of business. Suppliers and the financial institutions have more confidence as well, as it has been up and running for 2 or 3 years. They won't have people asking for cash up front anymore. That is a phase. There is the more settled, consolidation phase, probably another 2 or 3 years, of building up financial strength. The next phase is diversifying slightly...

Although Kevin Barry did not feel that the company changed that much as regards marketing strategy, he spoke about the firm's development in terms of phases:

> We have been through the naive stage. We have been through the really hard times. Out of that has grown a confidence, but I do not think we have changed all that much.

The company no longer does speculative work, i.e. put out a design for free. They no longer work for free because it is uneconomical, unprofitable and just not viable. Today, because of their standing in the industry, they charge a rejection fee.

Howard Kent made the point that the company never stopped changing. He remarked that 'if we were to stand still, the company would not exist today'. When the company was founded, it never envisaged that they would have £150,000 worth of equipment. They set up with a few drawing boards whereas today they do not use them. Technology has changed and the company has changed as a result. Major capital investment decisions were made and agreed upon unanimously. Howard Kent believed that the core strategy of the company did not change. The company's strategy always centred on targeting the larger, direct client and offering design and production services. The value of the contracts have increased. In the early days, jobs were worth £1-2,000, whereas now, they could obtain a government contract worth £50,000.

The sales manager stressed that the company became much more accounting oriented. Management accounts were completed on a monthly basis, which was unusual for a small firm. Another manager claimed that they should have anticipated bad debts that arose, but did not, due to the inexperience of the book-keepers employed. They were too busy, and too eager for sales to fully check out customers ability to pay. The company learned a lot from its experience with bad debts. The sales manager remarked that there was a hugh learning curve involved in business start-up, one that cannot be gained from taught courses:

> You learn a lot, You learn to adapt. You learn to deal with different attitudes, to make decisions. People come to you looking for guidance. Suddenly you realise that you are no longer an employee, but an employer and a director. You learn to be responsible..

He believed that the ability to set up a company on his own and grow it was part of a great learning curve. He said:

> My own attitude, personality and outlook has changed dramatically. People also have a respect for you. It makes you a better person, a responsible person. I have a totally different outlook in life. You look at things and say, is there an opportunity for me there, anything we can do better, can we gain something out of it. That might be selfish, I do not know...

Changes in managerial style and roles

The company moved to larger premises, occupying 3,500 sq. ft. and employed more people, 16 to 20, both full-time and part-time. Communication became crucial. Kevin Barry saw major changes in terms of management style. As the company grew, delegation became increasingly important:

> A few years ago, we tended to hand-hold everything, every piece of communication was looked after. We tended to worry about everything. Now we have to stand back a little. We have 16 wonderful people, all of whom work on their own initiative. Once a job goes through, it goes through on it's own.

Howard Kent's role changed to seeking new business and looking after these clients. He no longer made calls to prospective clients. A new salesperson was hired to bring in new business and deal with the smaller clients. Howard Kent dealt instead with the larger, more important clients, that would keep the company afloat. He too saw that the management style changed due to the size of the company and its growth: 'It has changed. I do not always say it has changed for the better, but it has changed.'

The chairman said:

> In the beginning, it was all one big happy family. Now it is different. There are two distinct design teams. The directors have become much more demanding. They pay people well, they expect them to perform. In the early days, it was not like that. The management style has certainly changed. They have become much more removed from their staff, which is a negative thing.

He advised them to adopt an open door policy and to avoid erecting barriers between the employees and employers.

Competitive advantages

(1) Good design capability.
(2) They possess a well structured, professionally run company.
(3) They are capable of targeting large and medium sized companies.
(4) The possess a solid reputation and are confident of their repeat and referral business.
(5) City centre location
(6) A favourable working environment
(7) Young, energetic culture

Competitive disadvantages

(1) Being large means that they carry high overheads and cannot compete on price with smaller designers.
(2) Risk of losing touch with clients.
(3) More reactive that proactive
(4) Slow, cautious decision making style

Thrust of the company

Kevin Barry saw the company as being both reactive and proactive. In the early years, it was difficult for them to be proactive, since they were struggling. As the years past, they became more comfortable, structures began to 'bed down', and the directors had more time to think of the future. They aim to become more proactive than was previously the case. Howard Kent claimed that at board meetings the focus was on continuously looking for new opportunities, new business, new projects. However, risk and finance were the two restraining forces. He remarked:

> We like to think of ourselves as proactive, but we are reactive, I feel. We put many things onto our agenda which we have never completed. Possibly, if the company was run by one person, rather than four people, we could be more proactive. That one person could make decisions quicker. There is a dis-advantage of having a number of people involved.

Future plans

The company aims to diversify in the future, into areas allied to graphic design, such as packaging, PR, promotions, advertising, printing, multi-media, etc. Related diversification would cushion the company from the adverse effects of any downturn in the demand for graphic design. According to Kevin Barry, the company faces the following obstacles to growth:

(1) Outside forces over which they have no control, decline in demand for design services.
(2) The unlikely event of disagreements among directors over future direction of the company.

Howard Kent remarked that the future of the firm would lie in Europe. They always hoped to establish a foothold in Europe, but the risk of jeopardizing the Irish operation, the financial commitment required, and attitudes of directors, blocked this move. The company achieved solid growth every year. The company's aim is to concentrate on the graphic design business in the immediate future before diversifying into other areas. They eventually hope to offer the client a full service. The founders believed that if they did not consolidate existing business, they would very quickly lose everything. They fear uncontrolled growth; if they grew rapidly and moved into different, although allied, areas it could easily bring about their demise. They hope to avoid the mistakes of others. The attitude of the non-executive chairman has been:

> To stick to their knitting until they have achieved a much firmer foundation.

He was confident that BFK would diversify and seek new markets, 'through the frustration of not having done it already.' The only thing blocking the growth of the company were the directors themselves and their attitudes.

Case company: Braycot

Introduction

Braycot is a privately owned, indigenous Irish company. It supplies biscuits to the wholesale, retail and catering trade. Originally, a small family owned business, it underwent many changes in ownership structure. Gerald Crowley was appointed Managing Director of the company in April 1995. Other managers include Chris Hancock the General Manager who has been with the company from the beginning and Jerry Weldon, the financial manager.

The start-up stage

Braycot was founded in 1979 by the Hunters, a husband and wife team. Chris Hancock joined the company shortly after it was founded and played a key role in developing new products and overseeing the manufacturing side of the business. The company grew out of humble beginnings, with the founders operating initially from their kitchen. They began making handmade biscuit products. Pleased with the favourable reaction from customers, they bought a small mixing machine, some racks, an oven, a few trays, in order to produce the product. According to the general manager:

> They mixed the ingredients in the mixer, literally splayed it by hand onto the trays, baked it, cut it and ended up with the final product.

In spite of its humble beginnings, the company grew very quickly. By 1982, the company employed 10 people. The company moved into a modern industrial unit in Lyons Industrial estate, Bray, Co. Wicklow. They initially leased one unit (3,750 square feet) of industrial space but continued to expand into adjacent units until it occupied a total of 20,000 square feet of manufacturing and warehouse space. The company concentrated on the home market selling mostly through multiples. At the time only one other Irish biscuit maker existed. This was Irish Biscuits Limited, whose Jacobs and Bolands brands accounted for more than 60% of the market. Braycot, as a niche firm, had no direct competitors in the home market.

The positioning of Braycot as a niche product meant that achieving a high market share in the home market was unlikely, so management turned its attention to export markets. They participated at ISM (International Sweets & Biscuits fair) in Cologne, one of the worlds largest confectionary trade shows. This was an excellent venue for meeting distributors, buyers and learning what the competitors were doing. They began exporting to France and the UK. In 1983, they increased production and began exporting to Germany, the US, Canada, Italy and Belgium. Half of their output was made for foreign markets. Management faced difficulties in expanding beyond the home market. They admitted that international distribution arrangements were haphazard with the exception of France. France was the primary export market. In Italy and Germany, a mainstream food group distributed their products which yielded very limited results. In the USA and Canada, it proved uneconomic to ship to North America in small quantities. The product had a shelf life of 7/8 months and it was not feasible to ship by container load. Despite considerable efforts in seeking distributors for these markets, results were not encouraging. These markets are not served today.

The company also developed and expanded its range of biscuits. The company continued with seven of the original nine products (Tea Crunch, Hazelnut Crunchy, Fruit Oat Crunchy, Carob Half coated cookies, Mountain cookies, Luxury Ginger, Oat nutties) which are their stable product line. Other product development initiatives included cereal bars, shortbread, tins and gift packs mainly for the Christmas market. The company produced an organic product for their French agent Distriborg. This was in response to a request from their agent rather than the result of aggressive marketing. The organic product was marketed under the Bjorg brand name and was distributed through healthfood stores and the healthfood section of supermarkets. It was specially geared towards the more health conscious consumer. It was an expensive product to make with costly raw materials and higher labour costs. Distriborg were very pleased with the results and sales were very positive in France. Two own label products were also produced for the French supermarket chain Monoprix.

The company grew rapidly, achieving an amazing growth rate of 45% per annum from 1983 to 1986/87. The natural wholefood biscuit was one of the fastest growing sectors of the biscuit market. In 1987, levels of domestic sales peaked at £750,000. The company had the expertise to take people in and train them very quickly. Turnover increased from a few £100,000 to approximately £1 million in 1989. Of this, about 50% was exported. Within a decade, the company commanded one per cent of the Irish Biscuit Market, worth an estimated £80 million annually.

Crisis episode

1989 was a year of major upheaval for the company. The collapse of their distributor in the UK compounded the already severe weaknesses in the company. The Hunters retired from active management. Negotiations were commenced with a number of parties interested in a takeover.
The company was taken over by an importer and distributor of grocery food products.

Reasons for downturn in performance

There were various reasons for the firm's decline in performance. The combination of the following five factors resulted in the sale of the company in November 1989.

(1) High overheads
(2) Collapse of UK distributor
(3) Changing industry conditions
(4) Significant losses (£1.2 million)
(5) Declining sales

According to Chris Hancock, the growth in the market just was not there any more. Sales levelled off after 1987, not because of lack of expansion, or failure to bring new products on stream, but because conditions in the industry had changed. The UK market, in particular, had become much more competitive. According to Chris Hancock, the independent sector (corner shops) looked for the product 'for next to nothing.' At the luxurious, top end of the market, Cadburys and Foxes Biscuits, were strong competitors. At the bottom end of the market, McVities produced cheap biscuits for the more price conscious consumer. According Chris Hancock, the product was quite a difficult one to sell, in a market that was pigeon-holed strategically.

The company was very proactive in terms of new product development, but 'new products simply took up the loss on product that went down.'
Irish sales were declining by 10% per annum in spite of the expanded product range. There were several reasons for this but clearly the lack of promotional support was likely to have been a factor. Consumers were unaware that the biscuits were an Irish product. Biscuits were an impulse buy, so constant advertising and promotion was necessary to reinforce brand awareness in the consumer's mind. There was more competition in the Irish market, with products like Kellys and Seery's biscuits strongly marketing their Irish origins. Because sales were so low, margins were squeezed considerably.

The collapse of a UK distributor in 1989 was an major blow to the company. The company always had problems with distributors in the UK. They were either not up to the required standard, or too large to give sufficient attention to the brands. Eventually, management decided to open up their own office in the UK. With their own salesperson, they obtained a listing in Sainsburys and Tescos. However, sales were not high enough to justify a company controlled sales office in the UK. Scandinavian Suppliers approached the founder in 1988 and regained distribution rights. The distributer in the UK went into liquidation in 1989. Sainsbury's de-listed the products after the distributer went into liquidation. The company lost a fair amount of money from that event and never really recovered from that period. The company sought to recover lost business in the UK but failed.

The role of the founders

John Hunter was the Chief Executive and Principal shareholder in Hunter Advertising (now Satchi and Satchi), however he sold his interest in this company prior to the establishment of the company. He was well known and respected in business circles in Dublin at the time. Jenny Hunter got her inspiration from flapjacks, a soft cereal based product - and realising that there was nothing else on the marketplace at that time, she expanded this product idea into a packet of biscuits. After much consideration, management opted to use the brand name Braycot, a derivation of Bray, where the biscuits were made and the cottage symbolizing the wholefood, home-made image of the product.

The founders played a significant role in the early formative years of the company. They came up with an excellent idea and possessed the drive and commitment to build the business. Chris Hancock sees the early era of the company as a very pro-active one and John Hunter was prepared to go out and actively sell the company. They were initially very successful in terms of securing business and very active in the new product development area. He believed that the original owner 'was, I believe, a very astute person. It was the Hunters' original idea. Generally most businesses start with someone having a very good idea, the guts to go ahead, borrow capital, work hard.' The present owner attributed the reputation of the company for a the production of a good product to the original owners:

> Take this sports line bar. I am sure there are other people out there who could produce that. I am a great believer that you make your own luck too. Somewhere along the line, someone told them about the company, maybe try them. Who ever said that had a good experience with Braycot. That was not in my time. It was done before me.

The financial manager also praised the role of the Hunters in the area of promotion:

> I think the Hunters did quite a good job in certain aspects of the business. They had a lot of good ideas about promoting the product.

The aim of the company was to develop a range of wholefood biscuits, using only top quality, natural ingredients. For instance carob was used to coat the biscuits rather than chocolate, raw sugar rather than processed sugar was used. It was a gluten-free, non carbohydrate product, made without preservatives, additives, or dairy products. There was a good balance of ingredients - fat, fibre and sugar - that made it suitable for diabetics and other individuals on special diets.

The founding values of the company were based on a quality consciousness which lingered long after the Hunters bowed out from the company. The niche strategy, based on a natural wholefood product, was a strong force for continuity. Chris Hancock remarked that their attitudes and thinking have not really changed: 'We have faith in the products and believe that a market exists for them'. There was the suggestion that this strong founding ideology was not complemented by one that emphasised other complementary values. According to the present owner:

> We have deliberately changed methods of operation and attitudes, and that has had a major impact on how we are now performing. We have also had luck.

The Hunters failed to 'unlearn' the notion that a quality, branded biscuit product was enough to ensure the success of the company. The company seemed more concerned with producing a quality biscuit, rather than a quality product that made money. Under the previous management, a conscious policy decision was taken to concentrate purely on branded products, although own label business often helped small manufacturers fill capacity. In 1992, a decision was made to enter the own label business under new ownership. The climate in the late 1980s and 1990s demanded a shift in thinking. Braycot needed own label business to pay for its overheads by obtaining large volume orders. It made commercial sense to enter the own label market. The founding values of the company persisted, possibly to the detriment of commercial values, which were not cultivated. In retrospect, Chris Hancock (General Manager) claimed that managing the growth period was crucial for the survival of a company:

> Finance is always a major problem. The whole issue of growth, how it is planned and controlled can bury a company. A company has to be very careful in it's expansion plans. Managing cash flow, how much money is spent, how much is got back in, seeing that credit terms are adhered to, are all crucial...The most important functions in the company are cash flow/credit control, marketing and production...

There was a suggestion that a lack of marketing expertise contributed to the decline in Braycot's fortunes:

> Management must know the market, anticipate the market trends and know where the company is headed. A company has to start off small and stabilize the market before they try to expand. The marketing plan has to be very good. A company could be very busy but be in a position where they are losing a lot of money.....To succeed demands hard work. You have to put a lot of time into it. You have to know what you are about. At the end of the day, people pay money for a product if it gives them what they want. Biscuits are an impulse purchase. The person has to be attracted to taste it. If it does not give them what they want, they will not buy it.

A crisis in 1989, where a UK distributor collapsed and with it the market for their products, was a severe blow. Where the source of the crisis was dependency on a key distributor, and declining sales in the home market, this represented a failure of strategy. The Hunters played a vital role in the company's success but did not the skills to tackle internal inefficiencies.

As a natural food product, it was expensive to make and labour intensive. The founder found it difficult to adapt its cost base and pricing structures to changing industry conditions. They handled distribution themselves in spite of the cost involved. The new owner commented that:

> ...obviously, they were not doing things properly as they were not really making a success of it.....we have done very deliberate things.... We have changed methods of operation and attitudes....We called in the unions, told them the losses have to stop if the company is to survive. Told them a certain amount of pain has to be got through if we were to succeed. We got rid of products that were definite loss makers and concentrated on products that are money makers.

Problems in the company were traced back to a combination of mismanagement and faltering of a long term perspective. In retrospect, one director claimed:

> Unfortunately, they did not sit back and think about things. If they had organised it differently, they would have achieved more...

The fortunes of the company under new ownership

With a strong distribution capability and a well established presence in the multiples it was a logical step for the new owners to develop agency and physical distribution arrangements for other grocery products. The selling, distribution and administration of the company was integrated into Shamrock. The company went from having their own sales force (4 vans selling the product in Ireland) to a centralised, more professional distribution system.

The company did not fare very well under new ownership or several reasons. Although the company became part of a large public company with the resources to develop and expand its range of biscuits, minimal R&D and new product development took place. Chris Hancock believed that the company would not have been progressive enough to deal with new entrants to the market at that stage.

Problems in the aftermath of the take over: lack of synergy in acquisition.

The take-over was not successful. The company was making quite considerable losses (£2 million) in a very competitive industry. According to Chris Hancock, head office did not know or understand the business. They were not prepared to invest in the company. The new owner claimed:

> It was, I suppose, becoming 'a sore thumb' in the group. They were not that interested in Braycot but did not want to shed assets...The group IAWS really did not get the return for their investment. The company was too small an operation within a hugh group and did not receive the attention it deserved...In a sense, it was a mismatch. But I can see how it happened. The group has grown by acquisitions... They were not really into the manufacture of biscuits. It was as simple as that. One cannot blame them for its failure. It just was not part of its core activity and as a result did not receive proper attention.

The products of the acquiring firm were strongly represented in the grocery multiples and had the advantage of a strong physical distribution operation. Braycot was bought on the basis that its distribution costs could be reduced considerably. The company believed that they could make considerable savings in transportation and, even if they did nothing else, would make a profit. However, 20% of the company's turnover went to outlets that the acquiring firm could not access, such as institutions, schools, the AIB banking centre, universities, hotels. It was not possible to service this sector and this business was lost straight away. One fifth of turnover was lost and the company found itself in a much more serious loss making situation.

According to Chris Hancock:

> Braycot was bought on a whim. It was very badly done, most unprofessional. They were just hoping that business would come back to making £1.2 million in a break even situation. This kind of scenario went on for five years. The most positive thing that happened since 1989 was that Braycot was sold this year. It was going nowhere. It would have folded without a doubt. There was an absolute mis-match.

He felt very stifled in his position as general manager, even though he was working for a large group. He was given more freedom when the company regained its independence.

Effects of crisis

The period of crisis endured by the company left its mark on management. It had serious repercussions. The general manager remarked:

> It was very proactive in the beginning, then became very reactive in the IAWS situation. It was stagnant...It was quite conservative in the take-over situation. It is still conservative. We are prepared to take a risk if the opportunity comes up. It is a conservative risk. The negative aspects of going through a critical period is that you hesitate to bring in new products unless you are 100% sure. You need market surveys, which is expensive. There is a lot more research into prospective customers. We plan a lot more.

A new phased in the company's history

The company went through a period where it was quite successful as a small operation. Management invested quite substantially and broke even for a period. In one year, they made a sizeable profit. A new phase was signified by the regaining of its independence in 1995. A new phase was marked by the sell out of company to Chris Crowley. New ownership attempted to rectify the mistakes made in the past. The strategic decision making process improved, and the marketing and financial weaknesses of the firm were addressed.

Industry factors

Much of the firm's success was attributed to the wholesome nature of the product. Management aimed to target people who were prepared to pay that bit extra for a natural product. During the 1980s, the idea of healthy living increased in popularity, coinciding with the start up of the firm.

The industry was characterised by large companies who possessed economies of scale. Although Braycot was a niche firm, it suffered the disadvantages of being a small player in a market dominated by multi-nationals. Branding and advertising support was crucial to boost sales of a product and promote customer loyalty. The company did not possess the resources to build a brand which led to a lack of brand name recognition in the home market. In the early phase of the firm's development, contextual factors constrained the influence of the founder. Organisational members attributed the crisis of the firm more to external factors than any negligence on the part of founder. The general manager claimed that the industry climate totally changed in the UK. There was growth in the area of the luxury and economy biscuits with the result that the middle range was squeezed out. This circumscribed the founder's ability to turn the company around in the aftermath of the crisis.

Role of state agencies

Under new ownership, the company benefited from the support of an Bord Bia. According to the financial manager, the food board made a concerted effort to promote Irish produce in export markets. He claimed:

> That certainly is an element that would have helped us. It has given us more confidence to develop products and to open markets.

The 'Irishness' of the product

At the time of business start-up, most biscuits (with the exception of Jacobs) were imported and encouragement was given to Irish producers to enter markets where there was a high level of import substitution. Yet, the 'Irishness' of the product was never fully exploited. Under current ownership, future plans centre on making consumers aware that the product is Irish made. New packaging and a new logo has been designed for the product range and a national advertising campaign is also planned.

Gerald Crowley - a profile

Gerard Crowley initially embarked on a career in Chartered Accountancy in the UK. After the first year he left and decided to work in the construction industry. He obtained his IPM (Institute of Personnel Management) exams by night and returned to Ireland. His career portfolio also includes the position of Rights Commissioner in 1988. He obtained a position with the group IAWS as a consultant in Personnel and Industrial Relations affairs. It was during his work with IAWS that he encountered Braycot, as it had been taken over by the group. The company was offered to him at a very attractive price. He believed that the firm's potential was not being realised and decided to buy it out from IAWS. He became chairman of the company in April 1995. Shamrock Foods continued to act as distributor for the firm's products in the home market. This was Gerard Crowley's first foray into the manufacturing area. He saw it as a personal challenge to turn a loss making venture into a successful company.

Changes that new ownership has brought.

In April 1995 the company was bought out from Shamrock Foods, which was perceived as 'the most positive thing to have happened to the company in its entire history'. The fortunes of the company were mixed due to a lack of a clear product line, weaknesses in distribution management, lack of synergy in acquisition, cost inefficiencies, and the absence of a marketing plan. The new owner, Gerard Crowley, was in a position to develop a strategy with little reference to the past. It was clear that major changes would have to be made to arrest the decline in Braycot's fortunes.

He immediately appointed a Financial Controller (Jerry Weldon) to the firm. He had some fears about existing management that was presiding over a company that was ineffective, but these fears were groundless. Chris Hancock was appointed director with options to buy shares. The new owner claims that the two directors were effectively managers of the firm. Gerard Crowley also managed another company that specialised in world class manufacturing principles. He introduced all of these principles to Braycot. He entered into discussions with the unions explaining the changes that needed to be made in order to stem the losses of the company. A number of people were made redundant to cut losses, and were re-employed at a later stage. The product range was rationalised, loss-making products were discarded and management decided to concentrate on products that had money making potential. Investment in new offices and new machinery was made. Plans for a new production line were to be financed with a bank loan. Management decided to develop the own label business since it was quite profitable and was a relatively easy product to sell.

A number of enquiries on the export side were followed through which has the potential to turn the company around. A new sports line bar was one of the most recent products developed by the firm, and was developed in response to a request from a UK company. It was distributed through healthfood stores, gyms, leisure outlets, and the health food section of supermarkets in Europe. It was a mixture of ingredients rather than a baked product. Management was very pleased with results and considered that the product had a pleasant taste as well as being a low fat, high energy product. The product was reasonably successful. The company also started producing for a company in California - Diana's Cookies - and this firm became an agent for their organic biscuits in Canada. The company also targeted the own label business. At the end of the first year, the company broke even and achieved a turnover of £1.6 million. They recruited 15 extra people to cater for this development and may move to larger premises in the future. Gerard Crowley believed that their expertise in biscuit making enabled them to win important contracts in the face of competition.

Company sales developed with virtually no advertising support. Promotion concentrated on point of sale material and tasting demonstrations in supermarkets. Trade fairs and exhibitions was the main form of promotion used to increase exports. The company participated in IFEX 1996, an international food and drink exhibition held annually in Dublin. Gerry Crowley believed that the fact that the biscuits were Irish was an important reason for purchase, yet a high level of non-recognition of the brand existed. He aimed to remedy this. The company also appointed a new distributor in the UK called Streamline Foods. They hoped to increase distribution of their product range to all the Multiples including Gateway. A non executive director was appointed to act as advisor on marketing/sales area. The owner said:

> I took over an existing operation that was not going too well. I have spearheaded the surgery and was helped by Chris (General Manager) and Jerry Weldon (Financial Controller)....I would like to be remembered as the person who turned Braycot around, made it a success. I did that by a fairly humane and practical approach.

His goals for the future centre on achieving modest growth and keeping the firm as a family run company:

> I would never wish to become hugh. We will always remain relatively small in a niche market if we are to succeed.

According to Chris Hancock:

> It has taken us a long time to get to the position in which we are in at present. It was a very slow process. Under new ownership, the company is becoming a little bit more progressive....

The company employed a person from a Bakery School to assist in new product development. They are presently working on different projects, new products for different customers. Chris Hancock remarked:

> We are still reactive. We sit back waiting for orders to come. There are no marketing people at present. We need to go out and be active and aggressively go after business, push the company. Instead, we are manufacturing to an order book, which thankfully, is full. But we are becoming proactive. It is a question of changing....The company has become very active in new product development. We are not very well equipped for it, but we are very active in it.

The company intends approaching the IDA for capital grants, employment grants and technology transfer grants. In the meantime, the company has to being new projects on stream but require additional investment in the plant to make this a cost effective exercise. Gerry Crowley sees finance as the biggest obstacle to future growth. There has been no major capital investment since 1987:

> There are things we would like to do a lot quicker than we will do them, but we are not in a position to do so. All we have is a track record for one year under my ownership and very few people are willing to listen to you on a one year track record....I would love to have half a million pounds to invest in the advancement of the company. Right now finance is the biggest barrier to growth.

New ownership brought about important changes in the decision making process. In the words of Chris Hancock:

> They just stabilized things. Strategically, they pulled every aspect of the company apart, just to make sure that what was left worked. The whole decision making process is vastly more effective as well as being faster. In past situations, decision making was on a committee basis. It takes four months to do something that should have been done straight away. Today, if an opportunity arises, we can react very quickly.

The company made a decision to concentrate on its core business. After the collapse of the distributor in the UK, the firm became cautious about breaking into that market. Instead they decided to focus on the Canadian and European market. Chris Hancock claimed that a 'company can fall into the trap of being extremely busy without making money'. Planning and monitoring systems were overhauled. New ownership analyzed sales turnover and margins on that turnover. The company established objectives for future growth: to become a £3 to £4 million pound business within the next three years. This will mean increasing staff levels to 45.

Gerry Crowley claimed that:

> the present management is far more focused. We are not there just to produce a quality biscuit. We are here to produce a product that will make money for us and I will do whatever it takes to achieve that. That is going to be done. I said right from the start, that the key ambition was to get rid of practices and general difficulties within the company, so that way we would get rid of the losses. We have achieved that. With more 'aggression', certainly more focused marketing and more follow up with existing customers, we will put Braycot into the £3m turnover bracket for next year.

The company turned from a loss making situation in April 1995 to a break-even situation in approximately four months. This was achieved through rationalization, through adoption of world class manufacturing principles, and by bringing new projects on stream. In addition to changes in strategy, there were changes in managerial style as well. Chris Hancock claimed:

> I have always been in the driving seat. I have tried to manage everything. I have tried to hold on to all the 'tentacles' as it were but one day I had to let go.

Culture

The company moved from being part of a large, constrained, almost multi-national type operation to a small, 'family run' type of business. The culture was perceived as being informal and open. Communication was very important. According to Chris Hancock, if employees made mistakes, they were encouraged to approach the manager instead of attempting to conceal errors. Instead of covering up problems or fixing blame, Braycot made problems visible so that solutions could be found quickly. The decision making process was both autocratic and democratic. All managers had a say in the future direction of the company but ultimate control rested with the Managing Director. The present owner saw major changes in the company's culture:

> Staff and management are mixing very well. This year was special. Even though the staff are working harder and maybe a little differently, they are happier in the sense that their work is achieving something.

Company strengths and weaknesses

Strengths

(1) The company was a small, highly flexible and innovative company. Research and development was the primary strength of the company.
(2) The company was working towards world class manufacturing principles.

Weaknesses

(1) The major disadvantages were lack of finance and lack of capabilities relative to competitors.

Case company: Kestrel

Introduction

Kestrel was established ten years ago in 1985. It employs 30 people and 80% of its business is aimed at the export market. The company experienced major changes in ownership structure throughout its history. The company survived the severe cash flow crisis of 1992 and it now aims to seek a strategic partner.

Start-up

Kestrel was set up in 1985 to design and manufacture electronic security products. Two business colleagues came together, Mr Brian Caulfield who has a background in electronics and Mr. McArdle who holds a degree in Commerce from UCD. He is a qualified accountant and it was decided that McArdle would handle the commercial side and his partner would be responsible for technical design. The major strength of the company was, and still is, product design. The company had a business plan which was used to raise a grant (£68,167) from the IDA as an EDP (Enterprise Development Program) company in 1987. It also managed to raise seed capital as part of the BES (Business Expansion Scheme).

It was very difficult to survive the first five years as the company was undercapitalized. Michael O Hara (Financial Accountant) claimed that the barriers to entry included the 'intelligence' of the product and need to have a range of products. A large amount of resources were needed for R&D, and it was only when the company had gone through the learning curve that it would be able to reap the benefits and obtain a return. Joe McArdle (Managing Director) claimed that they underestimated the amount of time it would take to bring the product to the market. It took them one and a half years to develop the product. The company moved very quickly into purpose built premises which increased their overheads during this period.

Crisis and new ownership

Since the process of developing and manufacturing a product took longer than was originally estimated, the founders decided to focus on installing alarm systems, instead of product design, in order to improve cash flow. The drawback of this strategic change in direction was that they ended up competing with their customers and had to underprice them to gain installation business. This situation was clearly untenable. McArdle knew that these firms would refuse to buy their security products in the future, which was intended to be the core competence of the business. By 1988, the company was faced with the following issues:

(1) It was undercapitalised.
(2) It had neglected its core business and the installation business accounted for 75% to 80% of turnover.
(3) Its product range was severely restricted.
(4) It possessed large overheads.

McArdle realised that independence could not be sustained. The company started looking for an investor who would build up the manufacturing side of the business in return for shares. This was part of the original founding strategy, but became an urgent issue in 1988. Ideally, they were looking for a strategic partner who would not demand a majority stake, but this did not happen. Joe McArdle approached Expo-Met whom he saw as attempting to grow in the security sector. In 1988, this U.K. company (Expo-Met) acquired 51% of the business, effectively taking full control. McArdle and his partner held the remaining 49% between them.

Resources were provided to remedy the crisis and invest in the future. The acquired company was valued at £1 million. The parent company invested £500,000. Part of this money was used to buy out existing BES shareholders since these minority shareholders could have a veto over decisions and wield great influence. A time frame of six years was put on the take-over deal with the UK company, whereby the parent company could buy out the remaining shares over a 6 year period, or, alternatively sell their shares back to the original owners. If the business grew and made reasonable profits, then the founders knew that they would benefit from this arrangement. McArdle remarked that he attempted to negotiate the best deal possible for the company.

Plans after the take-over centred firmly on designing and manufacturing security products. The installation side of the business was sold off in order to grow the company. The period post 1989 was one of turmoil and change. There were changes in personnel, with the sales manager leaving, and new people coming in. A person skilled in design electronics was employed full time. Some growth was achieved in 1990/91 when the company obtained an important contract in France.

A major re-assessment of short term objectives and long term strategy was clearly necessary, but this did not occur. No major capital investment took place. The cultures of the parent company and Kestrel did not merge. The parent group tended to be budget oriented and they had adopted management by objectives (MBO) techniques. The group consisted of a group of 40 companies and those who made the most profit were given the greatest say in the decision making process. According to Michael O Hara, they were looking for someone they could work well with, they were seeking some form of strategic alliance with Expo-Met, but no synergies, closeness or connections really developed. Kestrel did not experience any growth.

Major change: management buy-out

The year 1991 ushered in significant changes. The company became a small part of a larger multi-national and its future was dictated by group strategy. The UK company, Expo-Met International, made a change in strategy in 1991. For various reasons the parent group decided that the Irish company 'was not a good strategic fit and peripheral to their requirements.' It was perceived as being too small and too far removed from the European market. The group failed to recognise the research and development expertise of Kestrel or their knowledge of the European market.

In 1991 a management buy-out (MBO) occurred. In the opinion of Michael O' Hara, the MBO was the single, biggest change experienced by the company. This transaction resulted in the formation of a new, privately held firm. McArdle and his partner raised money by leveraging the company (i.e. borrowing on company assets). A small shareholding went to other managers at the time, in order to retain their expertise and give them a greater interest in the company. The management buy-out entailed both advantages and disadvantages. Irish management now possessed full control, but on the other hand, it did not have the financial support of a large company. As a result of the MBO, there was a very high debt to equity ratio which reduced the strategic options open to management. The company badly needed investment for plant and equipment, office supplies, raw materials and marketing and sales.

The changes in the company after the management buy-out

Michael O Hara remarked that the single, biggest problem faced by an SME was lack of finance. The MBO had repercussions in terms of monetary constraints:

> Growth has been quite slow slowly really. We have not achieved the growth we would have if we had stayed with Expo-Met or alternatively taken on board outside share-holders from day one. Coming out restricted us enormously in terms of growth. We are now looking at niche markets, taking away small, profitable business from large companies. We are steering away from anything large. We just could not afford it, or be able to finance it. Any other ideas we may have had for growth, we have steered clear of as we would not be able to fund it. We have not been able to maintain a presence on the ground which would certainly have benefited us.

The management buy-out gave an immediate psychological boost to the company. Michael O Hare believed that there was a better team spirit and more co-operation in the company. As part of a multinational, there was less cohesion since other staff did not have much contact with the parent group. The culture of the company changed dramatically after the MBO deal. Michael O Hare moved from working in a multi-national environment to a small business setting. This was exciting. It was also a struggle. Being 'out on their own', according to the financial manager, gave him a great sense of achievement, much more so than from working in a multi-national. He also gained exposure to all areas of business. The managing director remarked that, as a small company, there was a lot of communication and interface between R&D, production and marketing. He saw this as one of the advantages of a small company.

A second crisis

About a year later after the management buy-out, at the end of 1992, the company endured a major crisis, due to a combination of factors:

(1) The business was undercapitalized
(2) They suffered because the business was highly geared.
(3) The 1992 currency crisis was completely unexpected.

The general state of the economy had a major impact on the company. The currency crisis in late 1992 exacerbated their problems considerably. The cost of loan finance increased to 30% per annum. The Irish pound was overvalued which was penal to a major exporter like Kestrel. For twelve months, there was complete turmoil. They lost customers, they were unable to deliver on time, they were unable to obtain supplies due to lack of finance and lost business as a result. In the long term damage was done:

> We had to claw back from these things, we have gone through that. It has been tough but not impossible. We have also got back some of those customers. We told them the reason, that we were going through a bad time... Delivery to the customer is a key thing. If they cannot rely on a supplier they will go to someone else.

According to the financial manager:

> It was very rough. The punt went up to 108p, 109p. It was an extremely difficult time. There was a serious loss of margin...We got a bit of a shock. We lost a fair bit of money. We have got more cautious since then in our dealings. In markets we price back in our own currencies where possible and use forward buying contracts. We became more focused on day to day issues. If you cannot survive in the short term there is no point in thinking in the long term.

The crisis demanded a top-down management process in which the willingness to exercise power is essential. Resolving the crisis was uppermost on the owner's mind with the result that relations with employees suffered. He believed that he became 'more aggressive and tougher' in his dealings with people. Performance controls were put in place. Managerial attitudes and style of direction underwent a significant change as a result of the crisis. Sicne the crisis, McArdle had to learn learn to be a 'little more inspirational' and had to try to 'bring people along with him'. Michael O Hararemarked that employee issues were important in a small company. He suggested that giving a greater return to staff, encouraging them to work better and so on would ultimately benefit the company in financial terms. It was a traumatic period for all concerned. The experience of crisis was an isolating experience. In the words of the managing director:

> In a crisis it is easy to see who your friends are, to see loyalty and to see those who sit on the fence. It is down to yourself.

Crisis tests personal strengths and after having gone through a crisis, he knows that he could go through another one.

> Having gone to the edge, I am comfortable being a little back from the edge.

Their financial problems were alleviated somewhat when a customer in France invested in the business and the IDA made a small investment by buying preference shares.

Ramifications of the crisis

The crisis had a significant effect on the management of the company in the long term. The comments of the managing director and the financial manager suggested that the company became overly cautious in their decision making:

> I am a total optimist but it has been battered out of me. I am expansionist in outlook but you cannot get it to work with a lack of resources. One thing I have learned is that there is no long term unless you can finance it. We are a technology company and research and development eats up capital. It is very risky business. There are short product life cycles and we can get leapfrogged along the way. In manufacturing, more can go wrong that in service firms. There are more variables.

Michael O Hara suggested that the company became conservative in its approach because of its experience of crises:

> I still believe, that we are a little too cautious,
> still a little too slow. Some one else may say we need to be cautious because we have to recuperate a costly R&D program. I would advocate that we be a little bit quicker in making decisions, that we be a bit bolder. But it is the principals who control the company at the end of the day.

On the positive side, they learned from their mistakes. The financial manager remarked:

> It has been a hard slog. We have been 'down in the dirt' a phrase I have heard before. We have struggled and have got over it. We are very sharpened now as to the effort needed. We are not taking anything for granted anymore. We are constantly aware, we try to second guess what is happening. All in all, it has taken any complacency we might have had before out of us. When we were in Expo, we were all quite young. That complacency would have been due to our lack of experience.

In personal terms, McArdle remarked that the experience of a crisis could easily make one careful. He spoke about the great pressures placed on the individual in the event of a crisis and said that:

> People can be destroyed if a company goes through a crisis. Heavy personal guarantees are made and people can lose everything home, personal wealth, the company. Banks do not usually make the company bankrupt, but will wait for the company to come back up. So an individual can be in a cash minus position rather than starting from zero.

Part of the recovery plan involved reducing exposure to foreign currency fluctuations. According to Michael O Hara:

> We have got more cautious since then in our dealings. In markets we price back in own currencies where possible, and use forward buying contracts. We became more focused on day to day issues. This thing could wipe you out. If you can not survive in the short term, then there is no point in thinking in the long term.

McArdle remarked that they had to grow the company carefully, on a controlled basis, to prevent them from running out of cash. He believed that the experience of a financial crisis could make a company conservative, risk adverse and would block growth in the long term. McArdle claimed that the company has not grown as fast as it otherwise might have done. He added that the company would be twice as big as they are at present if the crisis did not occur.

McArdle claimed that internal managerial information systems 'became tighter'. Today, management analyze problems earlier on and respond much quicker. They put more effort into forecasting the future. The experience of a crisis helped them to focus more consciously on the need to be selective in the use of resources. McArdle claimed that before the crisis, they would grab whatever business was there. Now they respect scarce resources. They had to define their core business and concentrate on the products they could deliver well. McArdle remarked that they became more strategic in their thinking, which was a positive outcome.

The crisis exposed company weaknesses, that of over dependency on a few customers and a weak financial base. A broad objective was set to spread risk in terms of customers and export markets. Prior to the crisis episode, 40% of their business came from a single customer and the company made plans to reduce this dependency. The nature of the product, a micro-processor driven, intelligent product, demanded that a long term relationship is built up with the customer. A conscious policy decision was taken that UK sales should not exceed 25%. Sales are now divided 80% export and 10% in the U.K. Michael O Hare claims that they are trying to expand the customer base and number of long term contracts, but they have the problem of funding the sales/marketing area.

The company currently operates in three product areas: security alarm control systems, communicators and access control panels. Access controls is a rapidly growing area and the decision to target this area was fortuitous and opportunistic in nature. According to the financial manager, they:

> ...just stumbled onto the access control areas. We slowly went into that areas as we saw the extra value, and potential for more profits. Alarm controls is a difficult area, very cost competitive and margins are tight. You cannot afford to make mistakes and developing products is all about making mistakes, so we have fared better in access controls.

More resources were channelled into access control panels with less being devoted to alarm controls, so the company hopes to get phased out of that area eventually.

Degree of planning

The company was guided by a broad plan they did not 'stick rigidly' to the plan. According to the managing director, planning was a dynamic process and done almost unconsciously as was the case in a lot of small companies. There were no formal meetings as was generally the case in large organizations. According to the financial manager, the company had no formal mission statement or strategy. Meetings were very informal and ad-hoc:

> We discuss operational issues at meetings and talk about the future direction of the company but this does not pan out into anything formal.

Company objectives were as follows:

(1) To aim for higher margin/low turnover business
(2) To concentrate on niche business
(3) To foster close, long term relationships with customers
(4) Adopt a risk-adverse posture
(5) To exploit their strength in design
(6) To look for a strategic partner

Industry factors

The industry was very competitive and was dominated by large industry players such as DSC and Europlex. Kestrel's competitive advantage was its flexibility. They were able to adapt the product and respond to customers needs more quickly that the large competitors. For instance a customer in France required a 'listen-in' facility where if the alarm went off, the police could listen in and hear movements in the premises. This meant that a microphone had to be designed in the unit. Kestrel successfully responded to the customer's demand as a result they beat one of top five players in the world.

The company was however too small to worry about the larger players. The fact that the market was large and growing was a a comfort to management. The company had to target niche areas rather than the high volume business because of their small size, lack of resources, and competitive pressures. The price of their products tended to be higher than competitors, because they were unable to emphasis cost efficiencies. As a small company, they did not benefit from economies of scale; they decided to offer slight variations of the standard product to suit customer needs. They were able to customize the product on site. They designed a general product the market, but allowed for different customer requirements. For instance, alarm ring time was programmable at either 4 minutes, 20 minutes, or 30 minutes.

The lack of finance

The company at the moment is trying to become more pro-active, according to McArdle, as opposed to reactive. Pro-activity implies growth, aggressiveness, asking customers for ideas, developing contact with the marketplace, investing in new product development, investing in research and development, taking multiple risks, and being able to back this up in terms of finance. Being able to fund growth is, and always was a problem. According to the founder:

> The core weakness of the firm is under-capitalisation. Finance is a barrier to growth... It keeps coming back to finance. Have you sufficient to ride a number of storms?

The lack of finance can create other problems such as disagreement and discord among managers and staff, especially as regards strategy and future direction. The partners of the firm seemed to adopt dichotomous approaches towards resolving the financial problems of the firm - one partner's preference is for a cautious, risk adverse approach, and the preference of the other partner is for a high-risk, high reward strategy.

Company strategy over the next two years involves seeking strategic partnerships. The company needs a fresh infusion of capital. A strategic partner would give them this strength and possibly act as a stepping stone to the U.S. market. One manager remarked:

> We have not spent enough time in souring investment or looking for a partner. Part of their logic is to keep a majority shareholding. We have tended to go it alone since the MBO. We have to go a bit slowly, get a little more value before we go out for equity. We have slowly come round to the idea that we need to put more effort into looking for an equity partner, for BES funding, or a strategic alliance. We see ourselves at a crossroads. We are more focused in getting financial strength, taking a bit more risk, achieving more growth.

They need someone they can work with and enjoy synergies with, some one who will contribute to the marketing/distribution side and considerably increase their growth. They also need to fund the business better. Trying to fund R&D out of existing operations is difficult. A strategic partner would give them the start they need. McArdle remarked that the lack of resources spent on R&D was, and still is, a problem. Irish companies tend to spend a very low percentage of turnover on R&D, in contrast to companies in the US, Japan, and Europe.

Company strengths and weaknesses are as follows:

According to the financial manager, the company is slow and cautious in its decision making, is risk adverse, reactive and weak in terms of its marketing, manufacturing and financial base. Another weakness of the company is bringing the product to the market too early and forcing it onto customers too quickly. The major strength of the company is its research capability, the product itself and their knowledge of the customer.

Strengths

(1) Its ability in niche marketing, finding customers offering solutions.
(2) Margins are reasonably good in the security products business.
(3) The company has a mature, diversified product range.
(4) The company has a strong export ethos.
(5) The company has installed a computer network and management information systems.
(6) The company is no longer a single product/market company.
(7) The company's R&D capability.

Weaknesses

(1) The company is undercapitalised.
(2) The company has a high level of borrowings.
(3) The company lacks economies of scale.
(4) The company is located at the edge of Europe.
(5) The company has high labour costs relative to competitive firms.

Case company: Caraplas

Introduction

Caraplas was set up to produce a revolutionary new plastic sheet product. Hoescht, a giant chemical corporation, bought the assets of the firm in February 1995. Future marketing strategy entails selling plastic sheeting direct to large multi-national companies on a world wide basis. Hoescht has a strong distribution network which means markets will be global in nature. They will also supply the raw material for the product so they can buy it at a competitive rate and formulate the raw material to suit themselves. Hoescht's aim is to reach a turnover of DM 100 million (£38 million) in five years. They plan to set up a few manufacturing plants around the world in order to achieve their objectives.

Role of founders and start-up of company

Caraplas was founded by a sales manager and a colleague who was a technical manager in the same company. Their objective was to produce a thick version of PET to rival other plastic products on the market. He presented his ideas to ICI but they were rejected by the company. Although conventional wisdom dictated that this idea was technically impossible, ICI's sales manager decided he was not going to stop trying. Together with his ICI colleague, the founder left to set up his own company. The founder admitted that it was a struggle to get the funding together. The IDA and financial institutions needed to be convinced that the technology would work. The founder tested his theory with the Irish signage manufacture Robin Rennicks, who eventually produced a 3 millimetre road sign using PET. As a result, the IDA decided to support what was a high risk venture. The IDA backed a two year feasibility study and took a 15% equity stake in the firm. The equipment to make the product was not available on the market at that time. The founder collaborated with Breyer, a leading German manufacturer of extrusion machinery. On payment of a small deposit, they agreed to finance the cost of building the machine on condition that it would be repaid on commissioning. The company had the use of £2 million in equity.

Caraplas was half owned by the promoters, with the balance split between the IDA (15%) FBD Insurance (15%) and BES investors (20%) The company was formally registered in February 1991. Ulster Bank agreed to provide overdraft facilities of £1.2 million. So, after five years of research and development, they started producing the revolutionary sheets in January 1992. They moved into Ballymount Business Park.

The product

The plastic material could be cut, formed or drawn into different shapes. Virtually unbreakable, it could be stamped, drilled or engraved, yet it was still shatter proof, vandal proof and crack resistant. This was its major competitive advantage since other plastics on the market were quite brittle. The founder saw wide ranging applications for the plastic sheets in the retail point of sale, automotive (including caravans), telephone kiosks, roof lights, signage, bus shelters, bathroom showers and machine guards. Exactly 50 years after PET was discovered, the founder believed that Caraplas sheet would create a similar revolution during the 1990s in the plastic field as it did in the fibre and packaging industry since the 1950s. He took pride in the fact that a small Irish company, after severe difficulties, eventually made a technological breakthrough which had defeated some of the world's biggest petrochemical companies. Caraplas became the only firm in the world to produce extremely thick sheets of transparent plastic.

The industry

Multinationals such as ICI and others had looked at the possibility of extruding PET (best known as the material for soft drinks bottles) as thick sheets. PET revolutionised the packaging industry, giving companies an alternative to glass bottles. PET, though, was used mainly for 'thin sheet' applications. ICI gave up after five years because of technical reasons such as difficulties with the viscosity of the material and its tendency to crystallise. The firm faced problems in gaining credibility and trust due mainly to the ingrained conservatism in the industry. The founders of the company underestimated the reluctance of customers to adopt a new innovation. From the viewpoint of customers, the small size of the company, its lack of trading experience and reputation, was not reassuring. The fact that the product would compete against those of the multinationals led to scepticism by many. The advanced technical feature of the product, combined with a major price differential of 20%, convinced the founder that they 'could walk in and just take over some markets.' This did not happen.

Crisis

The founder remarked that he could write a book about the traumas which he experienced in developing the product and establishing the company. The marketing strategy was two pronged in its focus. The promoters decided to sell through some of the major plastic stockists (eg wholesales who cut the plastic into smaller panels and sell on to manufacturers), and direct to the smaller manufacturers, at least until they were big enough to do more on their own. This marketing strategy has since been reversed when Hoerscht bought the assets of the company. They were able to provide the technical, financial and marketing resources to change the future of the firm. The former management knew that large manufacturers would be tied in to supply contracts with the multi-nationals and would remain loyal to them. The smaller customers should be more receptive to a similar sized company approaching them. Had the company not targeted the smaller customers, it would never have got off the ground. Potential customers were already supplied with plastic sheet products by large multi-nationals such as ICI, Eastman Kodak, and General Electric. These suppliers were well established in the market, and had the advantage of a proven product, a strong financial base, and technical support services. The following four problems led to the demise of the company:-

(1) Lack of credibility
(2) Customer mistrust of a new product
(3) Technical limitations of the product
(4) Errors of management

It was a struggle for the firm to break out of this straight jacket. When they finally started making inroads into some markets, technical problems arose which were not anticipated. Problems arose with their raw material supplier which drove the final nail into the coffin. According to the Technical Manager: 'It was a combination of bad luck and missed opportunities.'

Management believed that the product was suited to a wide range of applications, but quickly discovered to their cost that this was not the case. The product was used in some applications and failed. This created an immediate lack of confidence in the product. The single, biggest crisis occurred in 1992/93, when the company received very significant levels of rejections of the sheet from customers. The company was flooded with customer complaints since the transparent sheet became contaminated. (i.e. covered with black spots dotted throughout the plastic panel). This resulted in the company ceasing production for five months. The problem was traced back to the raw material suppliers. Since their financial resources were stretched, they had used cheap, sub standard raw material rather than premium grade raw materials. Although their supplier was one of the largest plastic raw material suppliers in the world, they were at fault. They refused to admit liability yet the firm received a large amount of financial compensation from them. In an industry where 'bad news travels fast', the firm's credibility was obliterated and it never recovered from this period.

In retrospect, the technical manager said that the company went into some markets that they should never have entered. The company should have fully researched the product's technical limitations and the range of suitable applications. He remarked:

> For financial reasons, even if we got an order and had our doubts about it, and our ability to supply, we made the product, shipped it and then tried to collect the money. We decided to worry about a problem if and when it arises. Had the initial applications been chosen more carefully, then after 12 months we would not have needed to grab business. In the first year, the technical problems were unanticipated. We should have grabbed 50% of the market in the first six months, but after 8 months we were out of it. We were desperately looking for sales in other areas and we should not have had to chase business at that time...

New ownership and change in strategy

The year 1992 was a very anxious time for the directors. They endured a period of five months without producing and carrying high overheads, and realised that the involvement of a big international group was needed to bring their technological achievement to fruition. Negotiations started with a number of parties interested in take-over, among them Eastman Kodak and Hoechst. Discussions went on over the next two years and the company ran production one week out of every four. In February 1995, the firm was taken over by Hoechst. The technical manager saw the take over as a major change in the company's history; Hoescht had the capacity to launch the product worldwide. The acquiring company learned from the mistakes of the original owners:

> The new owners conduct extensive technical evaluation of the product before entering markets and accepting supply contracts. There are more cautious on the technical side and have to be, because they have a reputation to consider. They can afford to be more cautious. They conduct planning on the marketing side, there is more technical certification of the product.

Hoechst bought out the firm's assets and technology. The deal resulted in the original owners being retained as consultants and the deal was structured in such as way that they would share in the product's future success. It was agreed that the sheets would be marketed under the name Hostaglas. Production was to continue at the production facility in Dublin. The twenty workers in the Ballymount factory were retained by Hoescht. Hoechst installed its own people to manage Hostaglas in keeping with the multi-national's practise on acquisitions. The small company offered Hoescht an invention that would create international business with a turnover of at least £38 million and a product marketed around the world by the turn of the century.