Chapter 1

Strategic Management in SMEs: An Orientation Approach

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ABSTRACT

The chapter examines strategic orientation in small and medium-sized enterprises (SMEs) in response to the growing demand for the generation of new knowledge concerning strategic behaviours of SMEs. Drawing from both strategic management and entrepreneurial marketing literature and using models and recent theoretical developments from published research based in small firms, it explains the sorts of activities, attitudes and behaviours which occur in SMEs and suggests that different strategic orientations generate either increased or decreased profitability and firm growth. It also presents a conceptual model which serves to illustrate the competitive strategic typologies adopted by SMEs and the interrelationship between these strategic typologies and an Entrepreneurial Marketing Orientation (EMO) dimension of SMEs. The authors propose that the dominant strategic orientations of SMEs could be predicted by application of this model in future studies. The chapter concludes with recommendations and suggestions for future research directions.

INTRODUCTION

This chapter examines strategic orientation in small and medium-sized enterprises (SMEs) which is fast becoming an area of increasing interest and concern (Jones & Parry, 2011; Poutziouris, 2003). This research area is of particular significance to owner-managers of SMEs, business support agencies and policy makers as the way in which an SME orientates, focuses and navigates towards sourcing business opportunities has major implications for firm growth and regional regeneration. SMEs are acknowledged as being vital components of a competitive private sector, dynamic catalysts within the economy, without which it will fall into a state of decay (Bryan, 2000). Key to both national and regional economic growth, SMEs are of increasing importance to governments and international agencies. This high level of interest has resulted in an abundance of research largely with
the view to inform policy. As such, development of public policy which supports increasing growth of entrepreneurial and innovative SMEs as well as regions, is of global interest (Eshima, 2003).

The choices that entrepreneurs make in terms of strategic orientation and firm direction are often difficult to disentangle and thus, little has been surfaced on this topic. Yet it is a growing and significant area of research both for developing understanding of how SMEs grow local markets and for sourcing internationalization opportunities. As entrepreneurs are often adept at opportunity seeking, leveraging resources for the firm by networking and developing close, fruitful business contacts in the context of their own industry, much of the firms’ strategy and orientation is developed from implicit firm behaviours and significantly influenced by the entrepreneur who is the manager of the firm (Jones & Rowley, 2011). In terms of strategic orientation, there is a significant body of research which acknowledges the relationship between entrepreneurial orientation and positive firm growth. There is also a substantial body of research which identifies that firms which exhibit an entrepreneurial orientation together with a market orientation are often much more successful. Grinstein (2008) also observed that firms with a market orientation combined with other strategic orientations were generally more successful.

However, much of this ‘orientation’ research has originated in the United States (US) in large sized enterprises (LSEs) and in mass markets. Although there has been some research of strategic orientation in SMEs this has been mainly explored through use of scales and measures, often using scales which are developed in LSEs and hence are only suitable for large organizations. Much less work has been carried out in smaller firms with the exception of such authors as Pelham (2000) and, over the past two decades academic thinking has now developed which now recognises that small firms are not simply smaller versions of larger organizations, but that they behave and operate very differently to their larger counterparts. Hence, further investigation and understanding of strategic orientations in SMEs is required as the implications are that it is very different.

There has also been growing demand for the generation of new knowledge concerning SMEs behaviours, in order to understand why firms take the actions and strategies that they do. Inductive enquiry and qualitative research enables uncovering of previously unknown phenomena and, research of the SME often involves the entrepreneur as the sole respondent or research participant. This chapter takes a step further and tackles the issues of SME behaviour from both the employee and entrepreneur’s perspectives as although the entrepreneur is a major influencer of the firm, all employees working in the firm are responsible in some way to the overall behaviour of the SME firm. The chapter then goes on to explain the sorts of activities, attitudes and behaviours which occur in SMEs and demonstrates this by use of models and recent new theoretical developments from published research based in small firms. It then explains how strategic orientations such as an entrepreneurial orientation, can be closely intertwined with other orientations such as marketing orientation, innovation orientation and customer orientation. It also suggests that different strategic orientations generate either increased or decreased profitability and firm growth. The chapter concludes with recommendations and suggestions for future research directions.

**BACKGROUND AND LITERATURE REVIEW**

**Strategic Orientation**

Strategic orientation has been described as the directional thrust of a firm based on its perception, motivations and desires which guide the formulation of strategy. Firms respond differently to their environment and their responses can be classified according to their strategic orientations (O’Regan
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