Getting the strategy right

Never before has strategic planning been more important, writes UQ Business School lecturer Martie-Louise Verreyne.

With the business landscape changing at an escalating pace, managers of large firms are increasingly turning to strategic planning to deal with uncertainty. But how relevant can such a resource and time-consuming tool be to managers of small firms? This article investigates what academics are saying, and what managers are doing.

In a recent edition of the Harvard Business Review, Harvard professors Giovanni Gavetti and Jan Rivkin raise the long-standing debate about the best way to discover strategy. Should it be deliberate, analytical and planned; or should it emerge in a more informal manner? The first side advocates a linear process where environments are analysed, strategic options compared and the best strategy implemented. The second side advocates experimentation, adaptation and gradual discovery of the strategy.

While this debate has raged among managers and scholars of large firms, small firms have received very little attention in this regard. When I started my research on the strategy-making processes of small firms, frequent comments about the elusiveness and even absence of this phenomenon were customary. In fact, received wisdom wants us to believe that very few small firms engage in strategic planning. I set out to study the accuracy of this assertion in responding firms with fewer than 100 employees and made some surprising findings.

My research suggests that small firms tend to use more emergent approaches when they discover strategy. However, these are not necessarily messy, absent-minded processes. As a matter of fact, small firms are often very clever in how they use networks and employees to offset the disadvantages of limited size and resources.

Small firms that are successful at using two or more techniques in combination, perform even better. For example, fostering intrapreneurial behaviours by employees (intrapreneurial strategy making) on its own is unlikely to have any effect on the performance of the firm. However, if these ideas are refined with the help from, for example, customers (adaptive strategy making), and other key staff ensure the ideas get implemented in the most effective manner (participative strategy making), it is much more likely to have a positive impact on performance. The example illustrates how different processes can all contribute to the development and execution of strategy at one particular occasion. However, different processes may also be useful under different circumstances. Gavetti and Rivkin raise one such circumstance, discussing how different processes are useful during different stages of industry development. They assert that emergent processes are more likely to be used in new industries where it is often hard to analyse a non-existing or new industry.

In this case learning through experimentation seems more appropriate. Citing the internet industry as an example, they explain that this approach was used successfully by early entrants such as Yahoo.

These same firms now use more deliberate, analytical practices to deal with a more mature industry. In small firms we also find that approaches aimed at discovery, such as intrapreneurial, adaptive and participative strategy-making processes, are more often used by young firms or firms in new industries. Older small firms or those in more mature industries tend to use more simplistic approaches, basically using previous successful plans as a blueprint for future strategy, thereby building on previous successes.

There is, however, an inherent danger in continuing with the same strategic practices and choices that lead to past success. By not renewing, innovating and focusing on strategy, the firm allows competitors to imitate and even improve on the firm’s strategy and market offering. Other circumstances which may influence the best approach for discovering strategy are numerous. For example in fast changing industries the need for flexibility is great and approaches focused on discovery are more likely to ensure success, where in stable environments simplistic approaches may suffice.

In addition, it is also important for small firms to choose an approach which suits its nature and structure. For example, small firms that are more entrepreneurial will have more success with discovery-focused approaches, but small firms with formal structures are more likely to revert to formal, deliberate practices. This view of the approaches that small firms use to discover strategy is different from the view held by large firm researchers such as Bavetti and Rivkin who see it as either deliberate or emergent.

For many years researchers have applied this distinction to small firms, finding most wanting because they were not using deliberate approaches. However, according to management consultants Michael Mankins and Richard Steele, the disconnect between (often annual) strategic planning cycles and strategic decision making in larger firms means that most decisions are taken outside planning cycles which are only used to codify decisions already taken. The reality is that most decisions, even in large firms, are taken through continuous review of issues as they come up.

My research provides a better understanding of the variety of practices that small firms use to discover strategy. The four identified processes broadly describe the practices of the responding firms, but other processes may also be used in specific cases. And, as expected, many small firms do not engage in strategy making at all. In general, these firms performed poorly in comparison to those firms that used any of the identified processes.

The above indicates that it is not about HOW small firms engage in strategy making, but rather THAT they engage in strategy making.

However, when engaging in strategy making, research suggests that it is important small firms put time aside to reflect on their strategic direction, that they use feedback from the market place as input into and to fine tune strategic decisions; that they use innovative ideas from their employees; and that they empower their employees to participate in decision making.

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