

INTERVENTION METHOD FOR PARTICIPATORY STRATEGY DEVELOPMENT AND IMPLEMENTATION (IPAS) - A WAY TO ENHANCE STRATEGIC THINKING AND ACTING OF SMEs

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—Abstract—

Empirical results demonstrate that strategic management and strategizing of small and medium sized enterprises differ significantly from those of larger firms. The purpose of this paper is to present via a work-in-progress-report first findings of a case study in the manufacturing industry. There we introduced and investigated an intervention method for participatory strategy development and implementation (Ipas). This intervention is aimed to aid SMEs to analyze their organizational and environmental conditions, to formulate and finally to implement corporate or functional strategies. The findings will illustrate an enlargement of strategy process types after the intervention, meaning autocratic guideline was complemented by coexisting strategic planning and strategy projects. Building upon these outlined aspects this paper represents a contribution to the strategic management research with a special focus on SMEs.

Key Words: *strategic management; strategy process types; intervention method (Ipas); participation; small to medium-sized enterprises (SMEs)*

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1. INTRODUCTION

The importance of strategic thinking for success regardless of firm size is well documented in the strategic management literature (Gibbons and O'Connor,2005:171; Gibson and Cassar,2005:215). Empirical evidence shows with respect to small and medium sized enterprises (SMEs) a lack of strategic management, or more precisely, strategic planning is rather uncommon for SMEs. A qualitative case study (problem-centred, semi- standardized interviews) in two mechanical engineering companies represents our data basis. In the course of the conducted intervention we were firstly confronted with typical SME issues such as the concentration on the daily operative business and the central role of the top management. Secondly, an extension of formal strategic activities took place and provided differentiated insights in the pros and cons of several strategy making modes from the perspective of SMEs. In sum the case study investigates the importance of participation within strategic processes and shows some possible ways for participatory strategy development and implementation in SMEs.

2. STRATEGIC MANAGEMENT AND SMEs

2.1. Strategic Management: State of research

The academic field of strategic management has a relatively long history; the origins could date back to the 1960s (Furrer et al.,2008:3; Grant,2007:15). It “deals with (a) the major intended and emergent initiatives (b) taken by general managers on behalf of owners, (c) involving utilization of resources (d) to enhance the performance (e) of firms (f) in their external environments” (Nag et al.,2007:942). There is no coherent theory of strategic management, but interdisciplinary influences (economics, sociology, marketing, management etc.) and various perspectives can be identified (Bowman et al.,2006; Nag et al.,2007). For instance over decades the discussion was polarized by the market-oriented (“market-based view”) versus the resource-oriented approach (“resource-based view”). Another very common differentiation since the early 1990s is between content and process research. Meanwhile, these two fields of research are complemented by the strategy-as-practice approach, which puts greater emphasis on details of strategy processes such as micro activities, the real practitioners and tools of strategizing (Chia and MacKay,2007; Jarzabkowski and Spee,2009). In sum there is a wide spectrum of issues with regard to strategy making, this article presents a process point of view.

Within the process subfield the complexity of strategy making is often reduced to two extreme types: strategic planning paradigm and the emergent learning

paradigm (Brews and Hunt,1999:890). The school of formal planning highlights the long-term processes that were normally initiated by top management. As Boyd and Reuning-Elliott (1998:189) point out that the strategic planning construct implies a clarification of a company's mission, trend as well as competition analyses, formulation of long-term and also annual goals, the development of short-term action plans and finally ongoing evaluation. On the contrary, the school of incrementalism underlines a view that embraced trial and error experimentation with decentralized emergence of strategy (Mintzberg,1994; Watts et al.,1998). Nonetheless, few empirical evidence (e.g. Andersen,2004a, 2004b; Andersen and Nielsen,2009) had shown that formal planning and emergent incrementalism may coexist: The studied enterprises enabled decentralized decisions due to strategy initiatives at lower hierarchical levels, higher participation as well as autonomy of action. Hence, the latest process research is characterized by a type differentiation (see Menzel,2010). The strategic process types of Kranz (2007) are one example for this issue, which differs according to problem solving approach and initialization (figure 1) between strategic planning, autocratic guideline, strategy projects and autonomous behaviour.

Figure-1: Strategy process types

		problem solving approach	
		<i>synoptic</i>	<i>incremental</i>
initialization	<i>induced</i>	strategic planning	strategy projects
	<i>autonomous</i>	autocratic guideline	autonomous behaviour

Source: Kranz: 2007: 75.

Strategic planning as induced-synoptic type of strategizing is based on a systematic and rational process to develop strategies by top-level management using sophisticated planning tools and methods. Results of these planned activities are strategies with long-term nature. The *autocratic guideline* follows an autonomous initialization and a synoptic problem solving that is mostly a sole responsibility of the SME leader. Hence, this process is predominately focused on

the person of the managing director and is likely to depend on his personal knowledge and mindset. Strategies are often vision-based and intuitive decisions. This kind of person-centrism can be observed quite often in SMEs (Deimel and Kraus, 2007:162). Referring to this, Gibb and Scott (1985) coined the idea of strategic awareness that consists of four major elements: time to fulfill strategic tasks, environmental awareness, understanding the necessity for enterprise strategy, and the management skills to realize strategy processes. A major drawback of this kind of strategy process is that a great share of internal knowledge and experience will not be utilized for strategic actions. Hence, chances for intra-organizational learning are leaving unused. The *strategy projects* as induced-incremental mode of strategy making are initiated by top management respectively requiring their approval. These incremental strategy processes, are implemented for a particular time to initialize or adapt the corporate strategy. A selected group of SME executives and employees or even external stakeholders (e.g. customers, consultants) is requested to participate in such a project and is supposed to develop and implement a comprehensive strategy in joint efforts with the management. The integrity of such a project is ensured by management involvement while providing multiple-perspectives in decision-making and problem-solving processes due to its various participants (see Jarzabkowski et al.,2007). And finally, the *autonomous behaviour* relates to a rather free flow of formal and informal strategic inputs from different hierarchy levels and stakeholders. This bottom-up stream of ideas may be channeled by a few responsible employees, but in general the collective reflection is explicitly requested. The outlined process should therefore enable organizational learning and follows Mintzbergs (1987) approach of incremental strategies while supporting trial and error behavior. It should be noted that this kind of strategy process evolves to a large extend unplanned; hence, the high degree of uncertainty might limit its valence to managers.

Typical strategic management practices of SMEs will be outlined in the next paragraph.

2.2. Strategic Management in SMEs: Key features and challenges

Empirical findings reveal that conventional strategic planning is rather uncommon in SMEs (e.g. Lerchster and Ukowitz,2009; Deimel and Kraus,2007; Schön and Foschiani,2007). The minor ability of SMEs to think and act strategically has its origins in insufficient time resources, knowledge gaps, and lacks of experience and awareness as well as the complexity of the topic. Many SMEs tend to focus on daily business or operational activities. However, completely ignoring the long-term perspective on enterprise development might not be very sufficient.

This reactive behavior might be problematic for firm's success, especially under dynamic environmental conditions. SME leaders are mostly acting visionary, intuitive and based on the trail-and-error-principle instead of formal plans. This is highly reminiscent of the "entrepreneurial school" (Mintzberg and Lampel, 1999:22; Mintzberg et al., 2002:123ff.). Another fact is the central position of the top management, because other hierarchy levels or functional areas are rarely involved in strategic decisions. Moreover, the strategic orientation is thus dependent on the skills and attitudes of the SME leader and his time resources.

However, in SMEs less planning tools, strategic analysis methods, evaluation practices and control systems are used. For the SME context classical strategic planning processes are unrealistic and not typical. On the other hand SMEs have advantages in the development and implementation of strategies due to their flexibility, flat hierarchies, short decision paths, transparency of internal processes and structures and they are closer to market conditions and more customer-focused. This specific strengths and weaknesses concerning their strategic management leads to the question, what alternatives exist for SMEs instead?

Proceeding on the problems and shortcomings of strategic management based on more or less vague visions, autocratic and intuitive decision making of SME owner/manager, a greater participation of non-managerial organizational members in strategic processes would be particularly worthwhile. This does not only foster an access to the broader base of experiences, but it also leads to shared goals and higher acceptance of the strategy orientation. Due to the more intensive intra- and inter-organizational exchange of knowledge and experiences might emerge important strategic inputs.

3. ENHANCE STRATEGIC THINKING AND ACTING OF SMEs THROUGH THE INTervention METHOD FOR PARTICIPATORY STRATEGY DEVELOPMENT AND IMPLEMENTATION (Ipas): AN EXPLORATORY CASE STUDY

3.1. Unit of analyses

The unit of analyses for our research case is provided by two enterprises (A and B) in the mechanical engineering industry, which are located in the same town in the east of Germany. Both companies have the same owner since 2009 and grew significantly during the last two years. Due to the ownership situation, both enterprises are supposed to synchronize their processes in order to act internally as one enterprise. However, the merger was not meant to resolve the two companies as entities. Together the enterprises have 65 employees in total. Most administrative tasks are realized by 15 people responsible for both companies.

The remainder 50 people work in production area. Production takes place at two locations that are a few hundred meters separated from each other. Company A has a strong tradition in providing maintenance service for drive technology in the heavy industry and for power generation. Company B has its roots in mechanical parts production.

3.2. Research Methodology

In the beginning of 2010 the above mentioned companies started collaborating with a group of researchers in order to enhance their strategic thinking and acting. This cooperation was based on (1) the participative research method *action research* (Lewin,1946) and (2) the principles of *process consultation* instead of expert advice (Schein,1997). Thereby researchers act directly in the field, meaning they investigate problems of the company and develop corresponding solutions together with the members of organization (Coughlan and Coughlan,2002). One crucial part within our action research process was the application of the intervention method for participatory strategy development and implementation (Ipas). This intervention was applied in order to gain an overview on the enterprise as a whole and elicit deeper insights into strategic issues (process and content). It was structured around participative workshops, the analysis of documents, semi structured interviews, shadowing and visits at the shop floor. Key findings were documented in worksheets and fed back to participants of the analysis. Based on this data potential for improvement has been pointed out for strategy development and implementation.

3.3. The Intervention

The intervention pursued a twofold aim: (1) Gather and analyze information how the strategy process looked like (who participated in the process, who were the decision makers, how were decisions made) and what was the strategy content prior to the intervention. (2) Based on such insights intervene with the aim of enhancing the strategic thinking and acting of the two case companies.

Ad 1

Six half-day workshops were realized in order to cover the analysis of the company as well as the environment analysis (e.g. markets, customer, supplier, competitors and cooperation partner). Depending on the workshop topics, further participants beside the top management were recruited (e.g. production, purchase and the controlling functions). The operations manager, who is also the deputy of the owner, participated in every workshop. The owner joined for two workshops.

The analysis revealed that the competitive priorities were predominately on low cost and flexibility to serve customer's non-standard demands. Both priorities were deemed as major difference to well established competitors in the market and the major driver of growth. It was found that the flat hierarchies of the enterprise enabled fast decision making. However, the recent merger of the companies, the fast growth in recent years, and a high portion of entrants at several positions in the company caused communication problems, which were reported for organizational interfaces within the enterprise and to the outside (e.g. customers). Furthermore, there was almost no quantitative feedback from operations; performance evaluation was mainly based on gut feel.

The enterprises did not have an explicit strategy (neither on the corporate level nor for particular enterprise functions) when the intervention started. Enterprise goals and strategies were implicit in the owner's and operations manager's mind, and had not been discussed explicitly with the employees or others. Furthermore strategic decisions could be characterized as ad hoc intuitive decisions.

*“Strategic decisions are mainly ad hoc decisions based on my gut feeling”
(Senior Management Interview)*

*“Strategic issues [...] nobody will be asked we just decide it”
(Senior Management Interview)*

*„The staff does not know explicitly our company's objectives”
(Senior Management Interview)*

*“I'm a charismatic leader and perhaps sometimes also authoritarian”
(Senior Management Interview)*

Hence strategic activities were focused on the two top managers and were likely to depend on their personal knowledge and mindset. According to Kranz (2007:75) corresponds this to the strategy process type *autocratic guidelines* (see figure 2).

Figure-2: Case Study: Strategy process type prior to intervention

		problem solving approach	
		<i>synoptic</i>	<i>incremental</i>
initialization	<i>induced</i>	strategic planning <i>does not exist</i>	strategy projects <i>does not exist</i>
	<i>autonomous</i>	autocratic guideline <i>intuitive and implicit strategic decisions by SME leaders</i>	autonomous behaviour <i>not included in our research</i>

Ad 2

Building upon the first results of the analysis it was agreed that the intervention should be used:

- to increase the involvement of other hierarchical levels to strategic decisions and
- to decrease the dependency of strategic orientation on skills and attitudes of the SME leaders.

Accordingly the researchers tried to establish beside the existing strategy process type (autocratic guideline) two more: *strategic planning* and *strategy projects*.

Even if this is a work-in-progress-report it can be stated, that the broadening of the strategy processes entailed first successes. Some strategic decisions will still be initialized autonomously and autocratically by the top manager, including the already mentioned drawbacks (see 2.1.). But due to the intervention, which implied the application of SME-appropriate strategy tools/methods, a systematic and rational process to develop long-term strategies has been introduced (*strategic planning*). The newly formulated corporate strategy consists of growth and competitive aspects:

“As a result of the intervention, we planned our first ‘real’ strategy. Our first strategic goal is a 40% turnover increase within the next three years. Secondly we shift our competitive priorities: Quality will be more emphasized in the future since costly rework and time consuming process iterations deteriorate the profit margins and customer satisfaction.”

(Senior Management Interview)

Furthermore the SME leaders recognized the importance of several other aspects like mature processes (e.g. controlling activities), capable employees and so forth. Hence they initiated a first *strategy project* with the aim that the controlling department could develop their own functional strategy in alignment with the newly created corporate strategy. For the duration of 4 month representatives from controlling and production participated in this project and developed and implemented a comprehensive strategy in joint efforts with the management. Hence, the participation of non-managerial organizational members in strategic processes increased (see figure 3) and was highly appreciated by the two top managers.

Figure-3: Case Study: Enlargement of the strategy process types after intervention

		problem solving approach	
		<i>synoptic</i>	<i>incremental</i>
<i>initialization</i>	<i>induced</i>	strategic planning <i>environmental and corporate analysis; corporate strategy formulation (growth strategy: 40% turnover increase within 3 years; competitive strategy: quality leadership) by SME leaders</i>	strategy projects <i>e.g.: functional strategy formulation and implementation (controlling) by different actors (e.g. SME leaders and functional representatives)</i>
	<i>autonomous</i>	autocratic guideline <i>intuitive and implicit strategic decisions by SME leaders</i>	autonomous behaviour <i>not included in our research</i>

Thus strategic decisions will now profit from a company's experience not only from the experience of the two managers. And even more important this leads to shared goals and a higher acceptance of the strategy orientation.

4. DISCUSSION

The findings of the case studies underline that the intervention method 'Ipas' could be suitable to overcome the central position of the top management in terms of strategic thinking and acting, because other hierarchy levels or functional areas are more involved in strategic decisions. Finally we found evidence for the coexistence of different strategy process types, which implies that the strategic

orientation of SMEs is thus less dependent on the skills and attitudes of a company's leader and his time resources.

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