

Strategy formation and SMEs

The role played by strategy tools

The economic importance of SMEs

Small and medium-sized enterprises (SMEs) have long been subject to considerable scholarly attention. This is understandable given their major contribution to economic development and growth in countries across the globe.

Evidence shows that SMEs are central to the emergence of innovation and creative industries in today's business world. They are also credited as being significant provider of employment opportunities.

Research interest from a strategic perspective has often overlooked SMEs. However, the picture is beginning to change in this respect because of the challenges SMEs must now overcome to compete within an increasingly global economy that is largely dominated by major players. It has therefore become even more important to gain insight into how SMEs utilize strategy tools as a means to enhance performance.

Strategy tools

Management concepts, techniques and analytical frameworks are among the various strategy tools that managers use as part of strategy development. Some studies into usage have examined potential benefits to the firm of selecting particular tools. Their role in strategic planning has also been considered, with some emphasis on the scope of such tools to simplify the inherent complexities of an organization.

Most of the investigation into strategy tools has, however, concentrated on large companies and is arguably not applicable to an SME context. And although SMEs share certain characteristics with their bigger counterparts, differences significantly outnumber similarities. With regard to the former, SMEs tend to be more creative and show a stronger orientation towards customers. Their nimbleness also generally lowers response time. Another notable feature of smaller concerns is the greater likelihood of adopting a bottom-up approach.

Decisions pertaining to which tools to use can depend on the individual SME and its operating context. Resource insufficiency, independent stature of firm ownership, small company size, and the conflict between SME simplicity and the intrinsic complexities of most strategic tools are among reasons identified within the literature.

Which part of the strategy process tools are best deployed in remains subject to much debate. Indeed, scholars have yet to agree on the actual number of phases in the process. It doesn't help that empirical studies in this area are lacking. However, some guidance is offered by strategy teaching that purports tool use predominantly occurs during strategy creation.

According to dominant perspectives, use of tools in strategic planning is dictated by macro-economic reasons. But many others contend that they play in significant part in the more

informal practice of micro-strategizing. Little is presently known though about SME use of strategic tools for this purpose.

Factors that determine SME tool usage levels

Strategy tool usage among SMEs is explored by [Bellamy *et al.* \(2019\)](#) in the UK where such companies account for 99.7 percent of the 4.7 million businesses there. The various organizations analyzed operate in the manufacturing, construction and service industries. A social constructivist position was adopted to enable different and potentially conflicting views of the same event.

A key assumption at the outset was that owner-managers of SMEs use strategy tools to help them better comprehend their social world. The longitudinal study format was significant in that respect as early observations could be subsequently tested and reviewed. In addition, this approach enables more profound understanding of the complex associations between strategy configuration and context.

Perhaps somewhat controversially, it is argued that the main value of tools lies in creating a strategy framework. More critical are the competencies and expertise of those using them. Tools can thus be said to complement strategic thinking and strategic management capabilities as opposed to being deployed instead of them. But they do help to generate finer details through their capacity to permit closer scrutiny of strategy formation.

Awareness and deployment of strategy tools among manufacturing, construction and service SMEs appears to be influenced by several factors. Chief among them are idiosyncrasies of the particular sector and the degree of involvement in the firm's operations of the owner-manager.

Other more significant indications to emerge from this analysis include:

- Overall usage of different tools was more for operational reasons than any strategic basis;
- Focus was largely short-term, particularly with regard to financial tools. Challenges of accessing capital and maintaining cash flows dictated what is essentially an emphasis on the financial control deemed key to survival;
- Construction SMEs were more disposed towards a longer-term perspective, which is natural given the more capital-rich nature of the sector;
- Most SMEs use some operational tools but aligning them with business planning activities isn't common;
- Control of operations involves communication which tends to be unstructured and informal; and
- Industry type shapes operational control. Manufacturing SMEs placing considerable importance on quality assurance measures illustrates this point.

It has therefore become even more important to gain insight into how SMEs utilize strategy tools as a means to enhance performance.

And although SMEs share certain characteristics with their bigger counterparts, differences significantly outnumber similarities.

Formal use of both internal and external tools was almost non-existent, despite reasonable levels of awareness. In the former instance, this lack of using tools for analysis runs counter to the theory that companies should base strategic decisions on the level of resources available to them.

Lack of resources appears to be a key factor in respect of external analysis. Information systems are inaccessible due to cost, meaning that any data gathering is typically more ad-hoc than structured. The picture was essentially similar where using tools to scrutinize the competition is concerned. One manufacturing SME with a growth strategy based on acquisition proved the exception by implementing a formal approach.

With development tools, casualness yet again ruled the roost. Although strategic actions were conducted by one service sector company, in most other cases such activities were less overt. Although firms were cognizant of development options, few efforts were made to formalize consideration of them.

Essentially, SMEs clearly prefer a horses-for-courses policy with regard to using strategy tools. Ensuring that actions remain appropriate to company size and needs is one of the more astute aspects of this mentality. However, ignoring certain aspects could prove unwise. Doing so risks a strategic void emerging as a consequence of adopting a focus that can be deemed uncomplicated, fragmented and narrow. This invites the suggestion that a more rigid approach would enable SMEs to:

- more fully exploit the capabilities of strategic tools; and
- enjoy greater clarity about future direction as a result.

Comment

The review is based on: "The use of strategy tools and frameworks by SMEs in the strategy formation process", by Lawrence Charles Bellamy, Nii Amoo, Kieran Mervyn and Jacqueline Hiddlestone-Mumford, published in International Journal of Organizational Analysis. Awareness of strategic tools is generally strong among UK SMEs. However, usage levels are typically low and deployed more for operational than strategic purposes. Resource scarcity presents a considerable barrier to overcome but doing so and adopting a more structured approach could enable better exploitation of strategy tools and a focus oriented towards growth rather than mere survival.

Keywords:
SMEs,
Strategy formation,
Strategic management,
Strategy tools

Reference

Bellamy, L.C., Amoo, N., Mervyn, K. & Hiddlestone-Mumford, J. (2019), "The use of strategy tools and frameworks by SMEs in the strategy formation process", *International Journal of Organizational Analysis*, Vol. 27 No. 2, pp. 337-367, ISSN 1934-8835, doi: [10.1108/IJOA-02-2018-1363](https://doi.org/10.1108/IJOA-02-2018-1363).

For instructions on how to order reprints of this article, please visit our website:
www.emeraldgroupublishing.com/licensing/reprints.htm
Or contact us for further details: permissions@emeraldinsight.com