

# Chapter 35

## Strategy Formulation and Organizational Structure in SMEs: Taking Business Models beyond the Hands of the Founders

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### ABSTRACT

*One of the biggest challenges faced by small and medium enterprises (SMEs) concerns the capacity of the entrepreneur to formulate strategies within a formal organizational structure. Very often, important knowledge about the business remains solely in the deeper levels of the entrepreneur's mind and cannot be accessed by any stakeholder. As a result, many of the good ideas that entrepreneurs have end up dying with them. This hinders business growth, business model replication, and successful succession in family businesses and SME's in general. Therefore, it is important to investigate ways to structure within the firm the strategies generated in the entrepreneur's mind, in order to prepare SMEs for growth and long-term sustainability, above and beyond the minds, hands, and lives of their founders. Our chapter explores this general theme by offering methodological insights on how to extract and formalize the tacit knowledge coming from SME founders. We focus on the formulation of strategies based on the marketing knowledge and life experience of the entrepreneur.*

### INTRODUCTION

One of the biggest challenges faced by small and medium enterprises (SMEs) concerns the capacity of the entrepreneur to formulate strategies within

a formal organizational structure. Very often, important knowledge about the business and about the business' strategy remains solely in the deeper levels of the entrepreneur's mind and cannot be accessed by any stakeholder, including partners, employees, friends, and even family members. As

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a result, many of the good ideas that entrepreneurs have end up dying with them, without being transferred to or shared with others. This, of course, hinders the chances of business growth, business model replication, and successful succession in family businesses and SME's in general.

In fact, the difficulty entrepreneurs often have to formalize and share knowledge is a double-edged sword. On the one hand, tacit knowledge is a powerful source of innovation and the relative lack of formal structures with clear communication channels and written memory makes it difficult for competitors to copy such innovations stemming from tacit knowledge. On the other, the difficulty to share and formalize tacit knowledge contributes to limit entrepreneurial actions and to restrain firm size to a level that the entrepreneur believes can be directly and personally managed. Thus, the informal character of strategies and business models formulated by many entrepreneurs is likely to have an ambiguous effect on SMEs' competitiveness: although it is source of innovation and competitive advantage, it also bias business development and limits growth opportunities.

Marketing is one important functional activity that SMEs have to develop in order to grow, since it concerns the relationship with current and potential customers. As environmental constraints and opportunities increase in both volume and complexity, SME founders and managers tend to focus on local survival and to develop strategies that are highly dependent on them. In case of limited or no success, the limited capacity to operate and deliver goods and services in a satisfactory way becomes apparent. Otherwise, success seems to unfold from feeling and intuition, being generally attributed to the entrepreneur's innate capacity to make wise decisions. However, in both cases marketing strategies and their process structures remain mainly in the entrepreneur's mind and are often lost in her absence.

Therefore, it is important to discuss and investigate ways to structure and internalize within the firm the marketing strategies generated in the

entrepreneur's mind, in order to prepare SMEs for growth and long-term sustainability, above and beyond the minds, hands, and lives of their founders. Our chapter's purpose is to discuss this general theme and further explore it by offering methodological insights about how to extract and formalize the tacit knowledge coming from SME founders. We focus here on the formulation of strategies based on the marketing knowledge and life experience of entrepreneurs. Our focus on the marketing function allows us to better confront insights coming from different research streams—i.e., marketing and entrepreneurship—and practice.

## **BUSINESS ENVIRONMENT, MARKETING, AND THE LIFE OF THE BUSINESS OWNER**

Many entrepreneurship manuals focus their first chapters on the entrepreneur's need to know the market and customers' preferences in order to identify and exploit a business opportunity. However, few entrepreneurship books and little research actually offer insights on how to align business environment, marketing, and the entrepreneur's previous and present life. Very often, researchers that observe entrepreneurs working in their SMEs for more than a decade or for their whole life ask themselves how these individuals can achieve success without having any kind of special support or advice from experts (Aidar, 2007; Degen, 2009; Dornelas, 2008).

Such question becomes even more salient when one considers the paradigmatic changes that take place in the way organizations operate, when they follow changes in the business environment through a historical series of economic, social, technological, political, and ecological cycles. A few examples of such changes are reengineering, the introduction of the internet, globalization, protectionism, oil crises, and economic crises of diverse durations in Asia, Europe, Latin America,

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