

VISION AND OBJECTIVES: A MUST FOR SMES IN THE NEW ECONOMY

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ABSTRACT

Many new economy firms have emerged to answer the latest increasing needs of various kinds in today's global village. Are those firms different in their management from the more traditional ones? The owner-managers of one hundred and eight Canadian SMEs participated in a study attempting to suggest some answers to the question. One of the central hypotheses for the study was that the level of performance of the firms was associated with the level of manifestation of the strategic vision of their owner-managers. The results confirm the presence of a strong strategic vision in the better performing traditional firms. They also indicate the pertinence of strategic vision in SMEs of the new economy. But there the evidence emerges differently. In this paper, the author contrasts both results and stresses important issues for the management of small and medium-sized enterprises operating especially in the new economy.

KEYWORDS: Strategic vision. Small and medium-sized enterprise. New economy. Performance evaluation. Strategic health.

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Many industries and markets have been profoundly transformed lately. An interdependent global economy, faster means of communication, changing consumer needs, and ever-increasing knowledge-based competition are some major factors which have changed most traditional structures and consequently the world of business in recent years. Industries are redefined (Sampler, 1998). In the turbulence, new types of firms have appeared in relatively large numbers. The new economy firms have sort of emerged to answer the latest increasing needs of various kinds. In a certain way, they contribute to the phenomenon of all-embracing deconstruction which shakes today's social and economic structures as well as ideas in general.

The new economy, as defined by Beck, 'consists of industries that have not peaked structurally. While they ride the normal ups and downs of a business cycle, they are underpinned by long-term structural growth. Recession years are followed by strong and lengthy recoveries to new industry production records. Examples include semiconductors, instrumentation and pharmaceuticals' (Beck, 1995 : 13). According to Tapscott, a dozen overlapping themes differentiate the new economy from the old. The new economy is : 1. a knowledge economy, based on human capital and networks, 2. a digital economy, 3. virtualized, 4. a molecular economy, 5. a networked economy, 6. eliminating middlemen, 7. being created by the new media, a convergence of the computing, telecommunications, and content industries, 8. an innovation-based economy, 9. blurring the gap between producers and consumers, 10. immediate, 11. a global economy, and 12. causing discord (1997). The Canadian industrial structure for instance is becoming increasingly knowledge-based and technology-intensive, with competitive advantage being rooted in innovation and ideas, the foundations of the new economy (Surendra and Kurt, 1998). Journals and newspapers are filled with articles on the subject. Harvard Business Review presented for example a series of articles addressing the challenges of managing in the new economy. Books are also written on the topic proposing challenging new rules and radical strategies such as the one by Kelly (1998). A relatively large number of firms now operate in

this new economy. They are obviously young enterprises and many of them are relatively small. It could be said that their proliferation contributes largely to the growing better recognition of the role of small and medium-sized enterprises in general in all parts of the world.

Those firms have rapidly attracted the curiosity and interest of researchers on the management of Smes and certainly that of the present author. Being possibly better adapted to a new environment, would they be different in their management? Meeting with their young entrepreneurs was immediately generally quite revealing. For instance the new breed of executives appeared to be at ease in constantly changing conditions, were able to choose and adapt certain everyday well-known managerial practices, oftentimes managed collectively, worked very hard in peak periods and seemed to have fun doing it. Such observations gave sufficient reasons to go further in the study of those firms. Colleague-researchers and I had, earlier, often said and empirically confirmed that SME management was not the same as that of large enterprises. But now there was also a chance that the management of non-traditional SMEs could be different from that of the businesses usually studied in the past.

THE EMPIRICAL STUDY

Those considerations, among others, motivated a study of the characteristics and strategic activities of a number of Canadian enterprises over the years 1997 and 1998. The owner-managers of one hundred and eight firms, chosen from various publications on Canadian businesses, participated in the research. Some were high profile SMEs; others were less known and potentially less profitable. The procedure followed can be considered as judgement sampling. It is often used in exploratory research (Emory and Cooper, 1991; Kerlinger, 1986). The sample is a convenience sample since the respondents finally chose themselves in accepting to be interviewed (Sekaran, 1992 : 243). Forty-seven SMEs operated in traditional sectors of the economy while sixty-one of them belonged to the new economy. Many of the latter operated in the computer business. Semi-structured interviews with the respondents aimed at gathering information on owner and enterprise managerial characteristics, on strategic orientations and activities, and on specific measures of performance. One of the central hypotheses for the study was that the level of performance of the firms was associated with the level of manifestation of the strategic vision of the owner-managers of the firms. The measurement procedure of strategic vision was based on that of an earlier study identifying the presence of vision in SMEs (d'Amboise, Nkongolo, and Garnier, 1994). Respondents were asked to speak about the firm that they projected into the future. What was their realistic dream about it? Thus vision was taken in the sense earlier defined by Bennis and Nanus (1985). Clarity of expression, extent of diffusion, and degree of concreteness were assessed in order to score the level of manifestation of vision of each respondent on a scale of 1 to 5. Performance measures included variation in sales and profits over the last three years as well as a self-evaluation by the executives of the level of attainment of the general objectives earlier set for their firms.

RESULTS

Previous studies on SMEs have shown that there existed a possible relationship, albeit curvilinear, between the level of manifestation of strategic vision and performance especially on relative profits in firms of the traditional economy (d'Amboise, Nkongolo, and Garnier, 1994). It was then assumed that in entrepreneurial establishments, vision replaced to a certain extent planning per se. The present study also exhibits a positive and significant association

between vision and a combined measure of variation in sales and profits in the case of the traditional firms in the sample as shown in the following table.

TABLE. ASSOCIATION BETWEEN LEVEL OF STRATEGIC VISION AND LEVEL OF PERFORMANCE.

	Variation in sales and profits (Kendall tau)	Level of self evaluation
For the firms of the traditional economy (N=47)	.31 (p < .05)	.17 n.s.
For the firms of the new economy (N=61)	-.03 n.s.	.27 (p < .01)

But, as also evidenced, no such relationship was found for the sub-group of firms belonging to the new economy. Having strategic vision does not seem to be conducive to increased sales and profits in these types of businesses. It rather seems to be conducive to the attainment of more general objectives. The results show a significant association between level of vision and the subjective measure of performance utilized. In a number of new economy firms while vision does not appear to assure performance as usually measured it seems to lead to the satisfactory achievement of more personalized and overall goals.

DISCUSSION

The above findings were at first sight somewhat surprising. They confirm certain convictions but they also, at the least, raise questions on important issues for the management of small and medium-sized enterprises. Such findings certainly convey that we need to better understand the motivations and activities of the leaders of firms of this new economy. They can also provoke a worthwhile discussion on the management apparently somewhat different of those businesses.

The results confirm the presence of a strong strategic vision in the better performing traditional firms. They suggest at the same time that usual performance measures are still pertinent for the evaluation of their progress. In relatively stable industries, growth in sales and profits is certainly meaningful. And vision helps growth. This inference is especially evident in the case of such firms operating mainly in their local environment. For that group of 31 firms, vision and quantitative performance are significantly related ($\tau = .35$; $p .05$).

They also indicate the pertinence of strategic vision in SMEs of the new economy. But the evidence emerges differently. The relationship does not exist with usual performance measures but with a whole set of objectives which could include growth but certainly not exclusively. Vision and self-evaluation are even more strongly associated in the new economy firms which are active on the international markets. For that group of 25 firms, the conclusions are evident ($\tau = .52$; $p .01$). These findings raise questions. In turbulent conditions, for instance, what is progress? Are the usual indicators of growth sufficient or really pertinent? The question is a knotty one.

In deconstruction, business conditions change rapidly; managers have to deal with all-encompassing discontinuities. In all types of firms, growth in sales and profits is always certainly desired and welcomed. The present results do not demonstrate that these performance indicators are worthless in turbulent circumstances. But some recent empirical evidence shows

more precisely that most new, technology-based firms are not primarily growth oriented (Autio, 1998). In the minds of the present group of owner-managers of new economy SMEs, growth in sales and profits is not the definite and unique measure that they use to assess success. They seem to set and refer also to possibly more realistic objectives. And as a matter of fact, the leaders of the more profitable firms in that group actually score high in their self-evaluation of their businesses.

Those observations can easily lead into old debates on the inherent value of entrepreneurial behavior which, for some, means success and which, for others, is likely to be associated with poor performance (Covin and Slevin, 1991; Hart, 1992). Here, one could argue that new economy leaders are more entrepreneurial. A number of them are nevertheless successful. It also opens for discussion the likelihood of a convergence between objective and subjective measures of performance. Some prior research has found both types of measures to be consistent with one another (Venkatraman and Ramanujan, 1987). Only in the case of the firms of the new economy here, can this assertion be timidly supported ($\tau = .22$; $p .05$). In the 17 very small new economy firms however, the convergence appears to be much more evident ($\tau = .50$; $p .01$). In those specific instances, the self-evaluation scores would potentially cover the indicators of objective performance resorted to in this study. The self-evaluations made by the new economy participants did refer to more than growth in profits and sales.

The overall results on the firms of the new economy are nevertheless quite understandable if one accepts to make a few plausible assumptions. The owner-managers are relatively young. They are in most cases the founders or members of the founding teams. One can assume that they are inspired by a passion and guided by very personal ambitions. Some of them are happy to have built a job for themselves, to have the setting and the chance to apply their expertise and develop their skills. The establishments are also relatively young; their modal size is small. For many of them the real challenging chasm has not yet been crossed (Moore, 1999). Investments in R&D are immediately necessary; training of personnel is expensive. The payback is certainly not always there immediately. Those disbursements definitely have to be seen as investments for the future. Sales may increase but not necessarily profits. As with most high technology firms, such investments drain revenues and do affect declared profits. Their owners are sometimes very pleased by the simple fact that their firm is still alive. Success in getting a new product on the market, like an innovative computer software for example, is always very gratifying. Finally penetrating a specific or foreign segment of a market can also be an important source of pride. Self-evaluation is thus much more complex than relying on generally utilized performance standards. And a number of the executives interviewed manage with vision in the new economy, measure their performance with overall indicators, and show success in these terms.

The issue evoked above may require shifting paradigms on the part of theorists in order that the field of management progresses as expected especially with respect to evaluation and feedback. Strategic health could become a more appropriate concept in this respect and a meaningful reference for benchmarking enterprise evolution. The following quote from Grundy (1998 : 44) highlights the challenge at stake for many scholars.

There appears to be a dearth of processes to track both the strategic health and financial performance of companies operating in several marketplaces and business areas. Strategic management has traditionally offered relatively little to develop combined strategic and financial measures and controls. This is partially

because strategic management has grown primarily out of planning tools and processes rather than out of controls and feedback mechanisms. Furthermore, strategic management appears to have left business controls largely to the realm of finance. This process-related problem is aggravated by two further problems: the obsession with quantification and the time lag between cause and effect... Financial analysis emphasizes the readily quantifiable over the qualitative and over the judgemental... The causes of lags are likely to be due to the benefits of investment in strategic change taking a while to materialize. Also, these benefits are offset by continued strategic drift and decay. Conventional measurement tools appear to fall well short in helping us track both strategic health and financial performance -- and tracking these simultaneously... There can be few other issues more important to the senior manager than that of having appropriate performance indicators which track the overall progress of the business.

But managers themselves in general must change their strategic thinking in the meantime. Rosabeth Moss Kanter has again recently urged today's leaders to change their strategic thinking if they are to guide their companies to success in this new economy. 'They must accumulate the three intangible assets of world-class companies : 1. concepts, the imagination to innovate, 2. competence, the professionalism to perform, and 3. connections, the openness to collaborate' (1998 : 3). The true leaders in the new economy are innovators with a vision. 'They imagine a better tool, a better technique, a better tomorrow. They make their vision known. They contaminate others with their enthusiasm. Above all, they believe their idea will work. From this certitude comes a boundless energy for reifying the ideal' (Caroselli, 1998 : 16).

The concept of strategic vision is very broad. It now pervades many topics in the academic field of strategy. Its empirical presence has appeared as very important in this research in the case of owner-managers from both categories of small businesses. Objectives evoke more concreteness. The indicators of specific objectives can serve as sources of feedback for evaluation and re-direction. The concept of strategic health could be very helpful but it needs to be well operationalized in any circumstance. Vision would be conducive to the attainment of overall performance objectives in the firms of the new economy which were studied here. The representation of performance that their owners had in mind could well correspond to that of strategic health mentioned previously. Following that reasoning, strategic vision would help attain strategic health. Theorists may not have truly tackled yet the pregnant challenge. The new breed of SME managers may already have operationalized the process without having a name for it. The strong relationships found between vision and subjective performance evaluation on personal objectives illustrate the pertinence of both terms in businesses of the new economy.

CONCLUSION

This study shows some meaningful results. It has nevertheless clearly but scratched the surface of the exciting management issues of firms operating in the new economy. Some specific conclusions have been arrived at but some assumptions not directly tested were also deliberately presented in the discussion while trying to understand and explain some observations and conclusions of the analyses. The results definitely indicate that a distinction must now always be made between more traditional firms and those operating in the newer fields emerging from the knowledge economy. They will certainly suggest numerous endeavors to other researchers as well as to the present one on those very essential managerial

researchers as well as to the present one on those very essential managerial variables of strategic vision and firm performance especially in the lately emerging types of firms. As usual, one can suggest that sampling parameters be applied in a more rigorous manner in future studies; thus a better control would be possibly achieved on certain exogenous variables; this would allow greater possibilities to generalize the stronger conclusions. More sophisticated collecting instruments could also be developed to get a better grasp on the issues at stake. A better understanding of the dynamics in the firms of the new economy would also be well served by a number of deep site field studies conducted in a systematic manner (Eisenhardt, 1989).

Practicing managers still need to develop and be guided by a realistic strategic vision in their management of the affairs of the traditional firms. In the new economy firms, if their leaders wish to attain their ambitions at a certain level they also need vision. Let us add that they also need to set out their objectives precisely in order to be cognizant of their level of progress. Small and medium-sized enterprises in all parts of the world must be able to compete more and more against giants. Let us not forget that SMEs can usually enjoy much more flexibility than their large competitors. Large size is less of an advantage in an environment characterized by rapidly changing and fluctuating needs (Aharoni, 1994 : 14). In a deconstructing world, winning strategies, even in SMEs, must be grounded on a clear vision and funneled by meaningful objectives. A constant self-evaluation on their basis could also be among the secrets for success especially in the SMEs operating in the multifaceted areas of the new economy.

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