CHAPTER 19

Strategy models and their application to small- and medium-sized enterprises

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Introduction

Small businesses have been part of social and economic fabric of nations since the beginning of economic activity. Still, most business strategy literature that currently exists is from the perspective of larger businesses. One of the reasons for this bias was the emergence of large businesses in the 19th century as a source of economic progress. The complexity of bringing together factors of production on a large scale intrigued economists and later business strategists. However, as there appears to be resurgence of interest in entrepreneurship, especially through small businesses, it is vital to revisit small business strategy process to understand how current theories can be applied to the investigation of small businesses. The purpose of this chapter is to understand why strategy theories and models are not commonly applied to small businesses. Given this understanding can hospitality small business literature be strengthened? The paper uses evidence from two recent hospitality small business case studies and tests the application of two leading strategy models—Michael Porter's generic strategies model (1985) and Olsen *et al.*'s (1998) co-alignment principle—to assess their applicability on small businesses. This paper argues that as most hospitality strategy literature is based on strategy models with a lesser emphasis on small businesses, by default the emphasis has been on studying large businesses even though hospitality and tourism industries as such include a larger number of small businesses. Therefore, to strengthen hospitality strategy literature and in favour of studying small businesses, researchers will need to expand the existing models and theories. This will also have implications on methodological approaches. Resulting argument is that earlier strategy models and theories may have (unintentionally) excluded small businesses resulting in the dire need for a parallel stream of literature focused solely on small businesses. However, given that both small and large businesses exist for similar purposes, to maximize wealth for their owners, then attempts should be made to reduce this polarized approach.

Recent studies also have shown that small businesses, especially hospitality businesses such as hotels and restaurants have the potential to not only contribute to a nation's economic development but to its entrepreneurial activity (Sharma and Upneja, 2005; Sharma, 2006a). Therefore, strengthening the stream of literature that evaluates strategic processes of such businesses is not only essential but also a much overlooked aspect of hospitality research.

Literature review

There are a total of over 150 theories and models of business strategy. How many of these were developed in view of special characteristics and circumstances facing small businesses? It is not possible to review all of these theories and models in this chapter, instead two leading models, one from mainstream strategy literature and the other from hospitality strategy literature, were evaluated to assess their applicability to small business research. Strategy literature applicable to small businesses is, at best, scattered and limited. For instance, of the strategy articles available for reference in leading management research databases (over 115,000), only 1% (1034) were devoted to small businesses (ProQuest, 2007). Of these almost 50% were published in the last decade. The following review of key studies related to small business strategy will further highlight the difficulty of categorizing this research under themes.

Earlier studies of small business strategy were highly applied. For instance, Van Auken and Ireland (1980) proposed an input–output approach to small business planning. The paper was significant in proposing a practical forward-thinking strategic approach for small businesses. Similarly, Brasch (1981) proposed a mode for practitioners to decide on an organizational structure for marketing export entry. Proposed choices were very practical and involved different ways for the firm owners to invest in marketing resources. The growing popularity of information technology prompted Allaway *et al.* (1988) to present a framework for small retailers make effective promotion mix decisions using "off the shelf PC-driven software." An interesting aspect of this study was that it used an actual store data analysed through a case study approach, and emphasized the use of computer technology to improve effectiveness of small business decision-making. Other studies related to information technology that followed on these earlier works were that of Drozdow and Carroll (1997). They proposed practical tools such as PC-based simulations for family firms to help them develop their strategies. Hall and Mestler (1997) evaluated software available for small business strategic planning. An example of operational analysis was Bassin (1990) who presented the use of economic order quantity (EOQ) technique to manage inventories in small retail businesses, stressing that inventories is a financial investment and how they can be managed using this technique with limited operational assumptions and simple methodology. Such studies set the tone of small business investigations to be not only very practical in their application but also problem-oriented.

Slowly, however, the focus evolved from more analytic aspects of operations and technology to behavioural, human aspects of the entrepreneur and the management, and the more traditional strategy concerns of the environment, organizational configuration, and their alignment. Variyam and Kraybill (1993) investigated a broad choice of small business strategies, and the influence of managerial human capital on business strategy. The study found that firm size impacts certain strategy choices and that managerial human capital had a significant influence on the choice of strategies by small businesses. Hatton and Raymond (1994) evaluated the organizational effectiveness framework in context of small businesses to assess the congruence and mates of key variables such as environment, strategy, technology, task, structure, and individual. Around the same time Morrison (1994) investigates the strategic alliance behaviour of small hotels and found that cooperative alliances was a necessary aspect of strategic choices that hotels would need to consider due to rapid environmental changes, particularly due to emerging "electronic markets." Nwachukwu (1995) found that CEO's locus of control in small businesses was related to the business's structured differentiation, and that this was related to its economic performance. The study results emphasized that more focus needs to be on CEO judgment and small business performance rather than evaluating strategy processes.

Some studies have also looked at small businesses in relation to larger ones. For instance, Audretsch *et al.* (1999) investigated the theories that explain the existence of small firms in context of larger firms. A key conclusion of this study was that small firms do not compete directly with larger firms, particularly due to their larger price-cost differences versus that of the larger firms. Instead, the smaller firms tend to develop product niche strategies unlike that of larger firms. However, Benrud (2002) explored how small firms competed with larger ones on the basis of low price and low quality of products. Similar issues were investigated by Darrow *et al.* (2001) using the generic strategy framework to identify strategy options available for small hardware stores due to rapid environmental changes from big hardware stores taking control of the marketplace. The study identified critical success factors to help small hardware stores remain competitive even as they face these environmental changes. This also happens to be among the only studies to have used the generic strategy framework proposed by Porter (1985). More recently, Hollenstein (2005) investigated the factors that determined the choice of internationalization strategies of small businesses. Small businesses were found to be different than the larger ones in that they primarily rely on capabilities related to incremental innovations whereas the larger firms relied on their assets.

The impacts of strategy on various aspects of small businesses began with investigations into profitability and productivity. Roper (1999) evaluated small business growth and profitability and found that turnover growth and profitability were only weakly related. Other significant findings were that profitability was related to strategy choice, and both growth rates and profitability did not show any long-term persistence. Gunasekaran *et al.* (2000) evaluated causes of low productivity through a small business case study and proposed ways to enhance productivity in such businesses. This paper was significant in evaluating the strategies that would enhance productivity of small businesses. These earlier works laid the foundations to more thorough evaluation of small business strategy.

More recently, small business strategy literature has continued to evolve, attracting attention of research from various perspectives. Beal (2000) investigated the alignment between environmental scanning and strategy choice of small firms. The study found that broad-based environmental scanning had an influence on strategy choice; however, found no relationship to the frequency of environmental scanning. Gelderen *et al.* (2000) found that personal strategies of owners/founders of small business start-ups were related to performance and environmental uncertainty. Certain strategies were found to be more effective and high/low environmental uncertainty was also found to be related to certain types of strategies. From the financial perspective Lopez-Gracia and Aybar-Arias (2000) used credit rationing and pecking order theory approaches to show that financial behaviour of SMEs was influenced by size and business sector. The study found that size influenced self-financing strategies and business sector influenced short-term financial policy. Similarly, Reid and Smith (2000) investigated factors that made a new business start-up successful and found that above all the one factor that was successful for small businesses was the entrepreneur's pursuit of the highest return on investments. Other factors important for success were entrepreneur's realistic assessment of its abilities and long-term planning. Limited work has been done to evaluate information strategies. One such example is Levy *et al.* (2002) who investigated the process of information systems (IS) investment strategies of small firms. Investment in IS was found to be dependent upon various factors including stages of growth, entrepreneur/owner's values and experiences, and even the industry sector of the business. Davies (2001) investigated competitiveness constraints in manufacturing firms and proposed a model for these firms to minimize resource constraints through clustering inter-firm linkages in South Africa. Arasli (2002) evaluated the perceptions of hotel middle management executives towards total quality management (TQM) philosophy and how resolving these internal management conflicts could enhance overall readiness of these businesses to adopt TQM strategies. A recent study by Rasheed (2005a) investigated the moderating effect of environment construct on foreign entry mode and performance of SMEs. Results of the study suggested that firms experience higher international revenue growth rates using no-equity based foreign market entry modes "in growing domestic environments." Alternatively, international revenue growths are higher for equity-based entry modes when firms take on higher foreign market risks. Gibbons and O'Connor (2005) studied the influence of small business characteristics on their strategic planning processes. The study concluded that entrepreneurial firms adopted more formal strategic planning processes while the conservative firms adopted more incremental processes. Davis and Wood (2005) demonstrated the importance of financial forecasting by developing a model that would evaluate financial aspects of strategic decisions. The model is shown to be applicable to a number of industries including travel agencies, food brokers, and the study emphasizes the value it creates for various organizational stakeholders. And more recently, Cressy (2006) investigated why most firms tend to die within the first few years of trading. Among the key theoretical propositions of this study were that most firms die early because the market value fall below the opportunity cost of staying in business, and those entrepreneurs that are high on management human capital (MHC) tend to have higher absolute profits than those low on MHC.

Small business strategy literature, influenced by studies from entrepreneurship, also investigated issues specific to owners, managers, and their decision-making aspects. Sonfield *et al.* (2001) investigated gender comparisons in strategic decision-making in context of the Entrepreneurial Strategy Matrix. Like previous studies, this investigation also reported significant differences between female and male entrepreneurs' satisfaction with venture performance, where male were found to be more satisfied. Jocumsen (2004) studied small businesses' marketing strategy decision-making processes. The study concluded that small businesses make strategic decisions on the basis of performing three tasks: "information gathering/research," "financial analysis and assessment," and "internal matters." An interesting observation was that these tasks were conducted non-sequentially and preceded by "decision initiation" and followed by final commitment." Likewise, Kickul and Gundry (2002) studied the relationship between small firm owner's personality, strategic orientation, and innovation. The study found that small business owners' proactive personality was linked to strategic orientation that allowed the firm to change in respond to its surrounding environment. Entrialgo (2002) investigated and found links between strategy choice and managerial characteristics such as functional experience and formal education, while no links between age and tenure to strategy choice. The study emphasizes that the co-alignment between managerial characteristics and strategy choice has performance implications for the small businesses. Linking business characteristics to strategy, Chetty and Campbell-Hunt (2003) conceptualized a theoretical model to explain different paths to internationalization by integrating internationalization theories and SME characteristics. An implication of this study was emphasis on firm characteristics such as demographic aspects, management style, and competencies. Rasheed (2005b) investigated small business entrepreneurs' strategic choices when faced with either growth or retrenchment. Combining previous theories of strategy choice with the perceptions of entrepreneurs regarding their access to resources and past profitability, the study proposed that entrepreneurs essentially remain aggressive and choose growth strategies, whether their perceptions of resource accessibility and past profitability was high or low. Payne *et al.* (2005) empirically analysed cognitive maps of small business leaders to understand the influence of these maps on organization's attributes and actions. Results of this investigation suggested small business leaders could develop two distinct polar orientations through their self-identity with the organization, overall assessment of external stakeholders, and their perception of the environment. An important conclusion of the study was that small business leaders should be mindful of their orientations and biases as these could influence the behaviour and performance of their organizations.

Increasingly the idea of resources and competency development has attracted attention of researchers. For instance, Clarke and Turner (2004) extended the resource-based view (RBV) and proposed a knowledge management (KM) strategy for small- and medium-sized businesses to develop competitive advantage. The study concluded that in addition to KM SME biotechnology firms also used intellectual property also as complementary source of a competitive advantage. Gurau (2004) used the value-added chain methodology to assess competitive advantage of SMEs in the biopharmaceutical sector. This study resulted in a theoretical model that described stages and factors influencing strategic positioning of SMEs in the value-added chain of this sector. Wilson and Stokes (2005) studied the distinction between and the importance of entrepreneurs managing creativity and innovation. The study highlighted that managing these two aspects were different and would require entrepreneurs to develop internal skills such as effective communication, and also effective promotional strategies and external focus. Similarly, Adewole (2005) used Porter's (1985) five forces model to understand the challenges in the supply chain of small manufacturing businesses. Bretherton and Chaston (2005) investigated the resource dependency behaviour of small firms using strategic alliances. Results of the study found that firms were clearly using strategic alliances at various stages of the value chain to access resources and capabilities. In an applied study, Reynolds and Lancaster (2006) presented practical and low-cost marketing methods for small entrepreneurial firms to maximize profitability through increased sales and increased consumer satisfaction. This study was valuable in presenting a theory-based practical approach that small firms could apply without allocating large resources in a research and development budget. Cooper *et al.* (2005) investigated customer relationship management (CRM) aspects of family businesses and compared them with non-family businesses. The results of their study suggested that family businesses were less likely to place a high importance on CRM compared to non-family businesses and were likely to use less sophisticated strategies too, more traditional and less risky ones. However, they were unable to conclude whether these different approaches yielded significantly different effectiveness of CRM strategies between family and non-family businesses.

Small business research in hospitality literature remains limited and fragmented, especially in context of operational dynamics (Buick, 2003). Models used to analyse manufacturing industries revealed that hotel entrepreneurs employed business-oriented strategies to optimize performance and that these strategies were in close association to their individual backgrounds (Glancey and Pettigrew, 1997). Among other studies of small hotels and restaurants profitability and revenue analysis, pricing policies, and the level of investments in fixed assets include Kaufman *et al.* (1996) and Poorani and Smith (1995). Operators' previous experience, marketing resources, and capital structure mix were some of the factors found to influence performance of these businesses, including the skills and educational levels of operators and employees (Romer, 1986, 1990). Even though on-the-job training was largely prevalent in hotels and restaurants, there remains inconclusive evidence to suggest that such efforts yielded successful results (Worsfold and Griffith, 2003; Zhang *et al.*, 2002). Among other factors (like entrepreneurship activity, innovation, etc.) recent evidence shows that economic growth from small businesses can be derived from their linkages with the rest of the economy (Sharma, 2006a).

This rather brief, yet significantly representative review of small business strategy literature from both mainstream strategic management research as well as hospitality strategy literature shows that small business strategy studies have been limited, fragmented, and lacked focus in their direction. On one hand the lack of focus is evident in the difficulty of categorizing them in similar themes, and on the other hand, it at least shows evidence of a general evolution of perspectives in the study of small businesses.

Small business strategy studies of hospitality businesses are especially limited and fragmented. This literature stream remains in its nascent stages. There could be a number of reasons why small business strategy literature has lagged behind in its size, content, and complexity compared to studies conducted for larger businesses. One possible explanation is that leading strategy models and theories fall short of presenting evolved perspectives to study small businesses. Given that mainstream strategic management literature has developed within these leading theoretical conceptualizations, it may have led to ignoring application of these theories to small businesses. If this is indeed one possible reason, then it would be worthwhile understanding how some of the leading models have fallen short in their application to small businesses. With this knowledge at least researchers could be conscious of theoretical limitations as they approach to study strategic management behaviour of organizations. Furthermore, those researchers particularly interested in small business research can attempt to apply mainstream strategic management theories to small businesses so that small business studies can become increasingly mainstream research and not frowned upon by "mainstream researchers."

Purpose statement

As stated earlier, the purpose of this chapter was to investigate whether the partial scope of leading strategy models and theories contributed to weak literature on small business strategy. Therefore, this chapter evaluated two leading strategy models to see whether they were appropriate for studying small businesses. Given the context of this chapter, the focus was on hospitality businesses such as hotels and restaurants. Case study evidence from two recent projects was taken to evaluate the applicability of the selected strategy models.

Methodological approach

The three components of the descriptive methodological approach in this paper were: two leading strategy models; case study evidence from two small businesses; and the framework for evaluating the application of strategy models against the case study evidence. The two leading strategy models selected for this assessment was Michael Porter's generic strategies (1985) (Figure 19.2) and the co-alignment principle Olsen *et al.* (1998) (Figure 19.1). The reason for selecting Porter's (1985) model was that it has, so far, been one of the most influential models in strategy and management literature. It therefore presented itself as a significant and an interesting candidate to assess its applicability to the study of small businesses, especially since it has been scarcely applied to study small businesses.

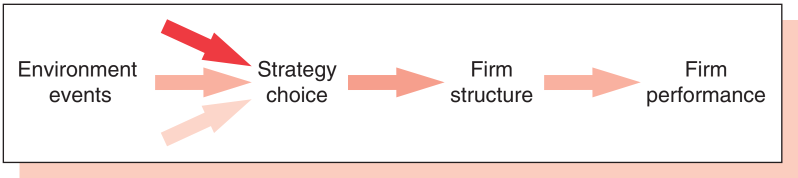

Figure 19.1
The co-alignment principle.

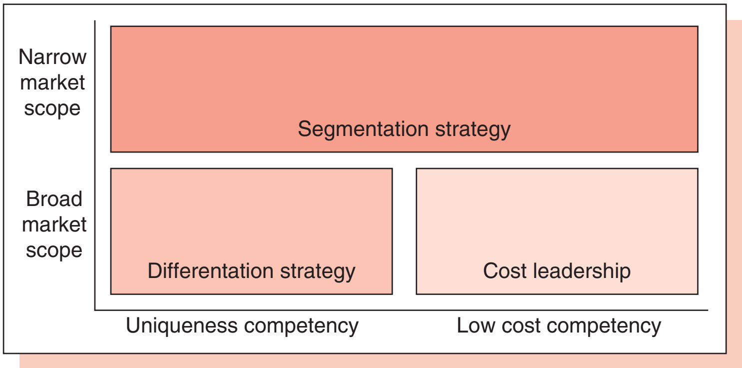

Figure 19.2
Generic strategies.

The co-alignment principle (Olsen *et al.*, 1998) remains the only strategy conceptualization in the field of hospitality and tourism and its application is increasingly gaining acceptance. Therefore it was thought appropriate to evaluate its applicability to small businesses as it lead future developments in the area of hospitality strategy.

The two case study evidence used in this paper was of a restaurant and a hotel, both small and independently owned businesses. To increase the coverage of evidence the small restaurant case study was based in North America (Sharma, 2006b) and the small hotel case study was based in a sub-Sahara African nation (Sharma and Sneed, 2007). Both these case studies were based on actual evidence from previously conducted projects. Each of these case study discussions was contextual to the strategies adopted by the businesses to develop competitive advantage.

The restaurant was located in a small mid-western town in North America. Its product and service mix could be categorized as exclusive, with an average food check at $30–50 for dinner. The chef was highly qualified and trained from one of the best culinary institutions in the world. He also owned and managed the restaurant along with a partner managing the service side of the restaurant. The eventual competitive strategy adopted by this restaurant was the use of fresh and locally grown foods that appealed to its customer base and also distinguished it from other less exclusive eating out options. The strategy proved to be successful. The hotel was located in a large city in a sub-Sahara African nation. Its owner had retired after a run of mismanagement and loss making of the property. At that time the owner transferred the property to his daughter who had taken control of its day-to-day management. The current owner was not highly trained in hotel management but was energetic and committed to making the property a business and financial success. However, given the already intense competition in the market she thought it was best to focus on certain untapped segments of the market. Her eventually adapted strategy was to focus on non-profit and non-governmental agency clients that were visiting the city and the country on development projects. As there were no hotels solely focusing on such markets and their needs, the strategy had begun to show success.

Given these two case studies and their contextual strategy choices, the two strategy models (Porter, 1985; Olsen *et al.*, 1998) were used to describe the hypothetical process that would eventually lead to the selection of respective strategies. This descriptive process was then evaluated using a framework to assess whether issues appropriate to small businesses were identified by the models as each of the businesses adopted their respective strategies.

The framework for evaluating the applicability of the two strategy models was adopted from D'Amboise and Muldowney (1988). The framework proposed evaluated small business management theories with the criteria that appropriate models should include certain constructs. According to this framework, theories to study small businesses must include constructs of environment, organizational configuration, managerial characteristics, success–failure criteria, evolution, behaviour of persons operating within that specific environment, and problem-orientation. Therefore, this framework was applied to the descriptive strategy process of each of the case study to assess whether each of the models possessed the required constructs to study small businesses. Results of the evaluation were coded as "yes" if the model had the appropriate constructs, "none" if the constructs were missing and "implicit" if the constructs were not explicitly defined but were inherent in the model. This evaluation helped identify constructs that were missing in each of the models to study small businesses. Results were discussed to assess implications for small business strategy result and development of appropriate theories and models for such studies.

Application of Porter's generic strategies (1985)

Porter (1985) proposed three generic strategies commonly used by businesses: market segmentation, differentiation strategy, and cost leadership. The selection of either of these strategies by the businesses, Porter suggested, will be based on *strategic scope* and *strategic strength* within the market. Strategic scope defined the size and composition of the intended target market and strategic strength comprised of the core competencies that the business possessed (Figure 19.1). This schema of the model was applied to each of the small business case studies under focus.

First the small restaurant's strategy was described using Porter's generic strategy model. The strategic scope of the restaurant would refer to its customer base, its size, and its composition. The target customer base in the restaurant's geographic area comprised of a near-by university town and increasingly aging population of baby-boomers. The composition of this target market would be described as high in education and disposable income level. The size of this target market would also be described as high for this restaurant especially due to the lack of other high-price eating out options. Therefore this model would describe the target market as broad on the strategic scope dimension. The chef and owner's core competencies were also relatively high and unique. Similarly, the level of core competencies required to prepare the exclusive meals were also relatively high. Therefore on the strategic strength dimension the core competencies would also be described as unique. Based on the matrix location of this business on both these dimensions (Figure 19.1) Porter's (1985) model could conclude that a differentiation strategy would be most suitable for the restaurant. The focus on using locally grown and fresh foods was a differentiation strategy that was eventually used by the restaurant.

Second, the small hotel's strategy was described using Porter's generic strategy model. Given the intense competition in the market place, the hotel was facing already narrow market segments. The high-priced hotels had already captured the top-end of the market leaving the rest of the hotels, including the smaller ones, with the more price-sensitive customers. Therefore, for the small hotel under focus, composition of the market would have been described as highly price-sensitive customers. The size of this market was also narrowing due to the increased competition in the market place. Therefore, this hotel's target market would have been labelled narrow on the strategic scope dimension. As the hotel had recently changed ownership, the current owner was attempting to make a financial success of the property. The current owner did not possess any specific skill set necessary to operate and manage a hotel, even though managing a multi-activity business like a hotel required certain level of competencies. Therefore, even though her strategic competency would have been labelled low cost, certain unique competencies were required to successfully manage the hotel property. On the basis of these two labels on the strategic scope and strategic competency dimensions, Porter's strategic model could also have concluded that the small hotel pursues a market segmentation strategy.

Application of Olsen *et al.*'s (1998) co-alignment principle

The co-alignment model (1998) was presented earlier. Its key components include: environmental scanning, strategy choice, resource allocation, and performance evaluation (Figure 19.2).

The restaurant case study could be described using each of these components of the co-alignment model. *Environmental scanning* stage of the process would require the restaurant to effectively scan its environment to assess opportunities, challenges, and other characteristics of its business, task, and remote environments that would eventually help shape *strategic choices*. These components of the environment would help the restaurant describe its target market, competitive environment, supplier environment, and other remote aspects of the environment that may influence strategic choices. Given the previously described geographic location of the restaurant, the owner's exclusive skill set, the target market's description and its composition as high in education and disposable income levels would be included. The lack of restaurants catering to such a clientele would also be noted. Therefore, the transition from environmental scanning to strategy choice stage would guide the owner to consider an exclusive product/service mix that would cater to such a consumer. At the strategy choice stage the owner could have the choice to consider an exclusive product/service mix as a competitive method to create that competitive advantage. If this strategy is pursued, the next stage, *resource allocation*, would aid the owner to evaluate the resources required to implement such a competitive method. Among the resources required would be production and service skills needed for developing an exclusive product/service mix. Given that these skills existed, and if others were found to be present too, the owner could proceed to evaluate the *financial performance* of the competitive method in the last recommended stage of the co-alignment principle.

A similar hypothetical description could be developed for the hotel case study using these components of the co-alignment principle. In the *environment scanning* stage, the owner would scan its business, task, and remote environments to identify opportunities and challenges for developing effective competitive methods. Among most obvious characteristics of the environments would be the increased presence of international hotels, low level of tourist traveller market in the city, high volume of development-aid related market, and lack of good quality low-priced accommodations. Within the growing development-aid traveller market, another observation would be that while most aid-agencies provided lucrative contracts to hotels and paid close to rack-rates, the smaller non-profit and non-governmental agencies (NGOs) supported largely by volunteers were unable to pay these high room rates of international standard hotels. This then could be recognized as a logical opportunity to pursue in the demand side of the market. Given a lack of quality accommodation in the small hotel sector, the owner could consider this as a viable competitive method to pursue in the short to medium term, especially when government's need for support from such NGOs was not expected to diminish. Such could be the hypothetical description of an environmental scan leading to a *strategy choice* for creating a quality product/service mix for price-sensitive NGO travellers to the city. If this choice of a competitive method was eventually selected the *resource allocation* stage would help the owner evaluate the resources required for implementing such a competitive method. Two obvious resource requirements would be the development of appropriate quality product/service mix that would appeal to the price-sensitive NGO traveller and developing relationships with appropriate NGOs so that they may consider this hotel as their preferred accommodation in the city. Given the low level of professional skill required to develop relationships with appropriate NGOs, and the possibility of hiring a skilled manager to develop the product/service mix the owner could proceed to the next stage of *evaluating* this competitive method's *financial performance*.

These then would be the hypothetical applications of both the leading strategy models in context of two selected actual case studies and the actual strategies that were eventually pursued by these businesses. The next task was to evaluate these descriptions to assess how well models performed in their description of strategy process of a small business.

Evaluation of strategy models to assess small business fit

The evaluation framework used in this paper suggested that small businesses strategy models include constructs of environment, organizational configuration, managerial characteristics, success–failure criteria, evolution, behaviour of persons operating within that specific environment, and problem-orientation. This framework was used to assess whether the applied description of the two selected strategy models these various constructs or not. If the constructs appeared in each models' application to the case studies then the observation was coded "yes." If the constructs did not appear in the description of models' application then the observation was coded "none." Where the construct was not explicitly defined but inherent the observation was coded "implicit."

Porter's generic strategies

The generic strategies model proposed by Porter was applied to the two small businesses case studies. The hypothetical description of this application suggested how this strategy model would be implemented in an actual scenario. This description could be evaluated to assess whether the model included constructs of environment, organizational configuration, managerial characteristics, success–failure criteria, evolution, behaviour of persons operating within that specific environment, and problem-orientation.

The construct of environment was included in the description of this model's application as the two dimensions of *strategic scope*. Similarly organizational configuration was summed up in a single dimension labelled *strategic strength*. There appeared to be no description of managerial characteristics other than those required in strategic strength dimension. There was also no success–failure criteria included in the implementation description. Similarly, there was no reference to evolution of the business in the implementation of the model. Behavioural aspects of the owner/manager were also not included in implementation of this model. Finally, the model was oriented towards solving an inherent problem of developing competitive advantage.

The co-alignment principle

The co-alignment principle proposed by Olsen *et al.* (1998) was applied to the two small businesses. The hypothetical description of this application suggested how this strategy model would be implemented in an actual scenario. This description could be evaluated to assess whether the model included constructs of environment, organizational configuration, managerial characteristics, success–failure criteria, evolution, behaviour of persons operating within that specific environment, and problem-orientation.

A well defined and developed construct of environment was included in the model. Organizational configuration was also included and highlighted at the *resource allocation* stage. Managerial characteristics did not appear in the hypothetical description. The model clearly referred to success–failure criteria during its final stage *performance evaluation.* There was no description of evolutionary aspects of the business. Behaviour of persons operating with that specific environment was not explicitly observable. However, *environmental scanning* and *strategy choice* stages did provide observable managerial characteristics of perception and choice. If such perceptions towards the environment and strategic choices could be observed longitudinally they have the potential of sketching strong behavioural patterns of individual managers and owners. Finally, there was an inherent problem orientation, that of developing a competitive advantage.

Table 19.1 Strategic Evaluation of Small Businesses

Criteria	Generic Strategies (Porter, 1985)	The Co-Alignment Principle (Olsen *et al.*, 1998)
Constructs of environment	Yes	Yes
Organizational configuration	Yes	Yes
Managerial characteristics	None	None
Success–failure criteria	None	Yes
Evolution	None	None
Behaviour of persons' operating within that specific environment	None	Implicit
Problem-orientation	Implicit	Implicit

Gaps in strategy models

On the basis of the above evaluation of the two strategy models under focus, some interesting gaps were identified. Porter's (1985) generic strategies model, while clear in describing many aspects of the strategy process, was unable to identify managerial characteristics, clearly defined success–failure criteria, evolution of the business, and behaviour of persons operating within that specific environment. There also existed an inherent problem-orientation in the model of developing a competitive advantage. The Olsen *et al.*'s (1998) co-alignment principle did better than the Porter's model in that it defined clear success–failure criteria and had certain implicitly described behavioural aspects of persons operating within that specific environment. However, it too was unable to identify managerial characteristics and evolution of the business.

To summarize, both models while included certain key constructs to study small businesses, they also fell short of studying managerial characteristics, individual behaviours, and business evolution that would be useful in strategic evaluation of small businesses (Table 19.1).

Gaps and missing case study information

Given these gaps identified in the strategy models, how critical or essential is the information that would be considered lost? Let us take the example of managerial characteristics and individual behaviours in the case of both the small business case studies: the North American restaurant and the sub-Saharan Hotel. Both owners of these establishments had strikingly different managerial characteristics but could be said to demonstrate similar individual behaviour towards such decisions as taking risks. The restaurant owner appeared to be more "hands-off" in his management technique towards his subordinate staff members in the kitchen, whereas the hotel owner tried to overlook every aspect of day-to-day management of the hotel. However, both were willing to take the risk to commit resources to a strategy that was relatively different than that being pursued by competitors. The restaurant owner committed time and resources to develop relationships with local farmers to develop reliable supply chains of various food products. As the success rate of developing these relationship was less than 100% this process was a continuous one. Furthermore, the initial stages of local farm relationship development included a lag time—before farmers could respond to specific product/quality needs of the owner. Similarly, the hotel owner had to commit competitive prices for developing the new market segment of price-sensitive NGO travellers. This was in spite of her stressed financial resources partly due to the recent renovations to the existing establishment and in part due to committing resources to re-establishing the image and presence of the property since it is "close to financial and market ruin" with the previous owner.

The evolutionary aspect of both businesses was also not highlighted in the strategy implementation description through the two models. For instance, the growth objectives of both owners were strikingly different. The restaurant owner was not interested to expand beyond the current premises or even increase its capacity, while the hotel owner had already increased capacity of its accommodation and was working on increasing the capacity of its conference and banqueting services. She was also open to consider future possibilities of additional properties but was realistic to continue focusing on making a success of the current property.

Finally, while both models had an implicit problem orientation it is not clear whether either of the models would have successfully identified the reasons why respective strategies were chosen. That is, the real issues that motivated these individuals to select their respective strategies would probably not be explicitly identified. Both the restaurant and hotel owners were new entrepreneurs trying to establish themselves in their relatively new working environment. While the restaurant owner had required technical skill levels, he lacked experience of owning and managing a business. The hotel owner, on the other hand, did not posses any technical knowledge of managing the hotel but had the general sense of business ownership by association to her father, the previous owner of the hotel. Therefore, while both owners were new entrepreneurs they were both facing strikingly different challenges.

The question is whether ignoring this information would have been critical in understanding the strategic process of both these small businesses. Referring back to literature on small businesses, the most critical aspect of small businesses are the owners that create, lead, manage, and grow the businesses. All the information that was missing in the strategy description through the two models pertains to the owners and their behaviours. Therefore trying to understand the strategic process of small businesses without an in-depth understanding of owners could have provided only a limited view of how they selected strategies and why these strategies were successful (or not).

Then how do we study small business strategy?

Clearly neither of the two strategy models evaluated in this research yielded a perfect fit for small business strategy. Yet the two together show promising signs of studying small business, and above all, depict an evolutionary process in strategic management thinking. Porter's (1985) generic strategies included the building blocks of an organization, that is, organizational configuration and environment. Recent studies of small businesses have tried to explore various aspects of organizational configuration. Still more work is required to open in this black box to understand how businesses configure themselves in bringing together resources critical to developing a competitive advantage. Such applications of the model will clearly enhance our understanding of the underlying principles of small businesses. Olsen *et al*.'s (1998) co-alignment principle added important elements of success–failure criteria, behaviour of persons' operating environment, and problem orientation, all critical constructs to study small businesses. Some of these constructs appeared implicitly in the model further allowing flexibility in their application to study small businesses. The behavioural environment of persons as a construct has the potential of incorporating managerial characteristics and the relationship of these characteristics to other aspects of the strategy process. Similarly, if this process of co-alignment can be studied over time it could add an evolutionary dimension to study small business behaviour. The two models together show an evolutionary process of strategic management thinking as successive models enhance our understanding of phenomenon less emphasized in previous ones. Future strategic management models for small businesses would not only benefit from incorporating existing constructs but could also extend their conceptualization and operationalization to incorporate additional dimensions.

Implications

So where does this all lead us in trying to understand why hospitality strategic management literature has continued to lack focus on small businesses? The purpose of this paper was to understand why strategy theories and models are not commonly applied to small businesses? To answer this question, two leading strategy models were applied to two small business case studies.

The descriptive strategy implementation process was evaluated using a framework to assess whether strategy models would be appropriate for small businesses. It was found that while these two models would be appropriate to study certain aspects of small businesses, issues pertaining to characterizing the business owners or the entrepreneurs would be less effectively understood using either of the two models. More specifically, the aspects of small businesses that require further explicit elaboration as constructs were managerial characteristics, behavioural aspects, business evolution, and problem-oriented strategy processes. The potentially missing information from the descriptive implementation of the two models was also evaluated for its importance. It was suggested that this information would have been critical in understanding the strategy process of these small businesses.

This short fall of current strategy models to effectively study small businesses could be one of the reasons why small business strategy literature, especially in hospitality industries, has lagged behind other mainstream studies. This has obviously led to the development of a parallel literature on small businesses. While that in itself is not of concern, the parallel literature continues to be anecdotally labelled as "non-mainstream." This could have and may continue to discourage researchers to pursue investigation of small businesses. While none of the two models studied in this paper appeared to be a perfect fit to study small business, together the two provided insights into how these models can be further extended in their conceptualizations to study small businesses or to develop extended models.

Another dimension that must be considered is can the current state-of-the-art of research support small business studies. In view of the conceptual gaps identified in the two models, constructs characterizing individuals, particularly owners or the entrepreneurs would need to be studied. Such characterizations would include managerial and behavioural aspects of the individuals, evolution of the businesses, and studying-specific problems. In essence this would require longitudinal, sample specific, possibly even context- and time-specific research. The analytical techniques required for some of these investigations may not necessarily be driven by probabilistic models but non-probabilistic, computational mathematical and statistical models, and may be even largely descriptive case study type approaches. This then highlights another challenge that exists in state-of-the-art of current research: the limited application of wide variety of methodological designs available to study the nature of problems and challenges facing small businesses. Several issues will need to be addressed in this context. Primarily, small business studies may not be large data driven analytical investigations but small sample specific analyses. Longitudinal study designs may imply larger resource commitment in terms of time and financial resources. This may discourage the use of large mail survey driven research and longer and in-depth commitments from the research teams. Such resources will need not only in-house commitments but also possibly external research funds. If external research funds are to be acquired for such studies it would automatically imply that studies are designed to provide solutions to problems that are not only context specific but applicable to business and society in general. Therefore, while at one-level investigations will need clear problem-orientation at another level research may still strive to be generic in nature. Implications of such research strategies will be on the choice of statistical methods, research designs, and most importantly reporting and application of solutions and results.

To summarize, the investigation through this discussion suggested that one possible reason strategy literature for small businesses is limited and fragmented is that leading models and theories may require additional constructs and conceptualizations to study small businesses. If the models focused in this investigation were found to be short of certain constructs to study small business, then it is also likely that other strategy models and theories may have limited conceptualization of the small business phenomenon. A related implication discussed was that methodological variety has and remains limited to study small businesses. Descriptive, case study-based research, and small sample datasets continue to be frowned at. Unfortunately these remain the leading modes to conduct small business research. This limitation may also have contributed as an obstacle in furthering small business strategy research. Finally, hospitality small business strategy literature continues to be nascent particularly because the limited application of mainstream models have been used for these studies. Yet, this investigation found that the co-alignment principle, based in hospitality context, could be an appropriate model to study small business strategy with minor extensions of its conceptual boundaries. However, as stated earlier, this must also be coupled with a broadened scope of methodological variety in the study of small businesses. At the least, this investigation should provide researchers with the conscious knowledge and tools to assess mainstream strategy models and theories for their appropriateness to study small businesses. If gaps in other models can be identified researchers could fill these gaps and still try to investigate small businesses. This would hopefully not only increase the incidence of small business strategy research, but may also bring it closer to "mainstream strategy literature."

Conclusions

Small businesses are critical for economic growth, innovation, and entrepreneurship, yet literature to study strategic processes of these businesses remains limited. The fragmented state of small hospitality business strategy literature is of concern. One of the possible reasons why strategy studies in context of small hospitality businesses are few could be because leading strategy models and theories may require conceptual extension of their current constructs required to study small businesses. Another possibility suggested was that methodological variety has also been limited. Therefore, if hospitality strategy literature is to be strengthened to include small business studies, then a conscious effort needs to be made to increase conceptualizations of small businesses when using current models and theories, in addition to exploring new models. Methodological variety must also be explored as small businesses studies are not without special challenges. Given that a large share of worldwide hospitality industries is comprised of small businesses, efforts to strengthen this line of research will yield fruitful results to understand hospitality business phenomenon.

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