

The Multiform Concept of the SME Ordinaire: A Literature Review

Sophie Reboud

Burgundy School of Business, Groupe ESC Dijon Bourgogne, Dijon, France

Email: Sophie.Reboud@escdijon.eu

Delwyn Clark

Waikato Management School, University of Waikato, Hamilton, New Zealand

Email: dnclark@waikato.ac.nz

Tim Mazzarol

UWA Business School, University of Western Australia, Crawley Western Australia

Email: tim.mazzarol@uwa.edu.au

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ABSTRACT

Research into entrepreneurship has grown significantly in the past decade with a focus on the individual entrepreneur, opportunity recognition and new venture creation process. Attention has also been given to the fast growth “Gazelle” firms in what has been described as the “Silicon Valley Business Model”. Yet the majority of businesses across the world are small to medium enterprises that are neither high-tech nor high-growth. Their management teams, while innovative, do not necessarily conform to the entrepreneurial stereotype. What is needed is a better understanding of these ordinary small businesses and to address this, a review of the literature was undertaken in order to develop a preliminary taxonomy of small firms which focuses on and characterises the majority.

Keywords: entrepreneurship, small and medium sized enterprises, category development analysis, entrepreneurship theory, methods in entrepreneurship research.

INTRODUCTION

The majority of businesses within most economies are small to medium sized enterprises (SMEs). For example, SMEs comprise 99% of all firms in the OECD group of countries (OECD 2010a), around 98% of all firms in the APEC group of nations (APEC 2003) and 99.8% of non-financial sector firms in the EU-27 in 2007 (EC 2010). Such firms are also major contributors to employment and employment growth, which has made the SME sector of interest to public policy makers since at least the 1980s (Birch 1987). Despite the importance of the SME – defined as a firm with fewer than 250 employees and annual turnover of below €50 million (OECD 2004) – most management theories and research still focus on large firms. Since the 1980s attention by the academic community has attempted to improve understanding of SMEs including their characteristics and dynamics (Storey 1982; 1994; Robinson and Pearce 1984; Gibb and Scott 1985; D’Amboise and Muldowney 1988; Julien 1990). However, the greatest part of this academic and policy focus has centred on what Cohen (2010) has described as the “Silicon Valley Business Model” (OECD, 2010a), namely a high-tech, high-growth “Gazelle” firm typically funded by venture capital and seeking to enter global markets as a “Born Global” (OECD 2010b; Knight and Cavusgil 1996). While these firms are exciting, they represent only a very small proportion of the total pool of SMEs (OECD 2010b).

Moreover, since the 1990s the general trajectory of academic research into SMEs has slowed or remained subdued, while that of entrepreneurship has expanded dramatically (Ireland, Reutzel and Webb 2005). Within the development of entrepreneurship as a field, the research has mainly focussed on the theory of opportunity recognition, understanding the psychology of the entrepreneur, and the development of theories associated with entrepreneurship as a behavioural process (Bygrave and Hofer 1991; Lumpkin and Dess 1996; Kirzner 1997; Venkataraman 1997; Sarasvathy 2001; Busenitz *et al.* 2003; Wiklund and Shepherd 2005; Alvarez 2006; Alvarez and Busenitz 2001; Alvarez and Barney 2004; Baker and Nelson 2005). While such work provides a valuable foundation of theory for understanding the factors that might trigger entrepreneurial activity and encourage new venture creation, it has not provided much of value towards deepening our understanding of the process of entrepreneurship within established organisations (Shane 2012). Others such as Zachary and Mishra (2011) have argued that the field of entrepreneurship has progressed to “*an eclectic and disjointed collection of research studies anchored in the individual and created business venture, but without rigorous theory building as a foundation*” (p.2). They suggest that the excessive focus on the individual entrepreneur as an agent of creative change is little more than a myth and that there has been too much focus on individual entrepreneurial orientation and psychology, opportunity recognition and exploitation. This risks the possibility that it will “*myopically cripple our field of inquiry*” (p.3).

This focus of entrepreneurship has taken what might be described as a “*high church*” route as compared to the more applied “*low church*” field of small business management. This area has been given significantly less attention by academic researchers over the past decade, with few papers that seek to develop theory relevant to SMEs (Tan et al 2009). What is needed is a renewed focus on the small business as a unit of analysis, and to develop typologies that can help form the foundation for better definition, measurement and ultimately theories about these firms and how they can be managed. In this paper we identify and analyse the papers that have been dedicated to the construction of such typologies of SMEs and entrepreneurs in order to better understand how they help to distinguish what we shall refer to as the “*SME Ordinaire*”, or the mainstream small firms that comprise the majority of all SMEs.

THE HETEROGENEITY OF SMES

Welsh and White (1981) defined small business management as “*a distinct discipline characterised by severe constraints on financial resources, a lack of trained personnel, and a short-ranged management perspective imposed by a volatile competitive environment*” (p. 32). However, as noted above, at the other end the focus has been placed on what Carland et al. (1984) defined as “*entrepreneurial ventures*” as opposed to “*small business ventures*”. The former being characterised by an emphasis on growth, profitability, innovation and the use of strategic management practices. Torres and Julien (2005) have synthesised this approach in Table 1.

<INSERT TABLE 1 ABOUT HERE>

We draw here upon Torres and Julien (2005) who recommended the need to consider the “*small business concept*” and its antithesis. As shown in Table 1, the “*anti-small business concept*” is more akin to the “*high church*” paradigm, while the “*small business concept*” typifies a traditional and ordinary SME that might be viewed as representing a “*low church*” paradigm. We propose that it is these “*low church*” SMEs that comprise the majority of all such firms. Although the “*small business concept*” potentially encompasses the majority of SMEs, by their nature they are highly idiosyncratic and heterogeneous in nature. This creates difficulties in seeking to do research and theorise as such variety in the absence of clear definitions leads to problems with subsequent measurement, as well as lack of comparability. As noted by Bygrave and Hofer (1991) “*Good science has to begin with good definitions*”. Further, despite three decades of entrepreneurship research, the field of small business management continues to be plagued by problems of definition and measurement (Bouckennooghe *et al* 2007; Tan *et al* 2009). The over-riding question addressed in our study is: *How has the “SME Ordinaire” been studied and specified in the Small Business literature?*

Typologies

One of the first steps to clarifying otherwise complex and multidimensional concepts is the grouping of elements presenting common characteristics. Entomologists or botanists first try to describe, group and compare before they analyse and understand the dynamic of the individuals and groups. This has also led management researchers to widely study and map the complex diversity of SMEs since Julien (1990) noting the differences existing between a neighbourhood corner store and the start-up funded by venture capital or the subcontractor active in the car industry. D'Amboise and Muldowney (1988) acknowledged the necessity of such classifications: "*The typologies developed aid understanding by ordering information. Generally, the variables are observable, testable, and measurable, at least to the same extent as they are in other social sciences. In many cases, the behaviour of persons who operate within specific organisational environments is taken into account.*" (p. 12).

Heterogeneity is not only a size issue or an industry issue. It is a much more complex question and the criteria that scholars have selected to depict the picture of the ordinary SME usually depend on the questions studied. For example, this can relate to strategic issues such as the firm's rate of growth, or the market or industry in which it operates. Also of relevance may be whether it seeks to internationalise, the firm's organisational configuration and governance (e.g. share structure, use of venture capital financing). The capabilities, psychology and entrepreneurial orientation of the firm's leadership are also of importance.

Systematic literature review

The other recognised way to further explore concepts is the systematic literature review. As Webster and Watson (2002) state: "*A review of prior, relevant literature is an essential feature of any academic project. An effective review creates a firm foundation for advancing knowledge. It facilitates theory development, closes areas where a plethora of research exists, and uncovers areas where research is needed*" (p. xiii). The reason why Webster and Watson (2002) advocate literature reviews is as they explain: "*One reason we see so few theoretical articles in IS relates to the youth of the field. Another concerns the complexity of assembling a review in an interdisciplinary field. That is, constructing a review is a challenging process because we often need to draw on theories from a*

variety of fields. Moreover, we have so few theories of our own.” These characteristics of IS as a field make it very similar to Entrepreneurship and Small Business as a field. Webster and Watson conclude that “*nevertheless, the literature review represents the foundation for research in IS. As such, review articles are critical to strengthening IS as a field of study.*” These comments can also be applied to the field of small business management.

METHODOLOGY USED FOR THE LITERATURE REVIEW

Our study followed the same three-step process originally outlined by Webster and Watson (2002) for building a literature review. In the first step, *Google Scholar* and databases like EBSCO were used to identify relevant papers in leading journals. This first list (see Table 2) includes papers presented at leading conferences when the topic was highly relevant and when the paper had not been published in a journal after the conference. This generated a list of 161 papers dealing with SMEs and their typologies, innovation, strategy, organization and management (152 journal articles and 9 others) dating from the 1970s (e.g. Duncan 1972; Liles 1974; Laufer 1975; Miller and Friesen 1977, 1978; Preston 1977; Mintzberg 1978; Filey and Aldag 1978; Toulouse 1979; Huppert 1981; Dunkelberg and Cooper 1982; Mintzberg and Waters 1985; Marchesnay 1988; Gartner et al 1989; Rizzoni 1991; Jones-Evans 1996; Tidd 2001; Verreynne 2006).

<INSERT TABLE 2 ABOUT HERE>

In the second step, citations of these papers were examined and mapped back to the journals in which they were cited. This process gave us an additional 114 papers (the count per journal is listed in

Table 3).

<INSERT TABLE 3 ABOUT HERE>

In the third step, citations inside these papers gave an 20 additional references (the count per journal is listed in

Table 4)

<INSERT TABLE 4 ABOUT HERE>

TOWARDS A TAXONOMY

Torres and Julien (2005) caution those seeking to generate better definitions of SMEs to avoid what they identified, following Popper (1963), as the “black swan” problem – in which the existence of a single black swan is sufficient to refute the theory that all swans are white. This is a critical issue for the development of classification systems that will assist in enhanced definition and measurement of SMEs. The development of a classification system can be approached from a pre-existing set of criteria based on an established theory or paradigm of the phenomena that you wish to classify; this is called a “Typology”. An alternative approach is to develop a classification system that seeks to identify the most significant characteristics of the phenomena that is to be classified; this is called “Taxonomy” (Doty and Glick 1994). For our study, a taxonomic approach is appropriate and we began with a review of the existing taxonomy and typologies. As outlined in the earlier sections of this paper, our review of the literature identified around 290 papers dealing with small businesses, their innovation, their strategy and their managers.

The Importance of the “SME Ordinaire”

What our overview of some of the key SME typology/taxonomy within the literature reveals is the lack of any satisfactory system of classification for small firms and innovation. While there has been a substantial focus on the high-tech, high-growth entrepreneurial firms, there has been little attention given to the low to mid-tech firms that comprise ventures that invest less than 5 per cent of annual turnover into R&D, but which make up many of the most prolific industries such as the manufacture of plastics, chemicals, furniture, clothing and footwear, automotive parts and equipment, electrical appliances and white goods, as well as most services, retailing and construction firms (Hirsch-Kreinsen *et al* 2008). Despite their low tech status, such firms can still engage actively in

innovation (Vernay and Mabile 2004; OECD 2010a). Attention has been also given to those high-growth enterprises or “Gazelle” firms. These firms are defined by the OECD and Eurostat as follows (OECD, 2010b): “*All enterprises up to five years old with average annualised growth greater than 20 per cent per annum, over a three-year period, and with ten or more employees at the beginning of the observation period*”.

There is however a high level of innovation activity taking place among small firms that may not be “Gazelles” or associated with traditional high-technology sectors. Many small innovative firms are growing without major external funding and this is the sign of the importance of other models of innovation for SMEs. Indeed, there is a strong case for the low and mid-tech SMEs to innovate with more modest, self-funded innovations and still make a sound contribution to the national economy. To date, this group of SMEs, which potentially represents a significant proportion of SMEs globally has not been examined in depth or profiled. Hence, our project seeks to develop a robust and universally applicable taxonomy for small firms engaged in innovation. Specifically, we propose a new taxonomy for the “*SME Ordinaire*”.

The “SME Ordinaire” and the “SME Entrepreneuriale”

What emerges from our analysis is a new taxonomy that identifies the “*SME Ordinaire*” against criteria associated with these eleven key variables: technology, growth, internationalisation, financing, governance, innovation, alliances and networks, formality, complexity, strategy and resources. At this stage we feel it safe to use a two-part taxonomy in which we classify firms into what we describe as the “*SME Ordinaire*” and the “*SME Entrepreneuriale*”.

SME Ordinaire:

This first category comprises the vast majority of small firms that are capable of innovation – as we have shown in this work – but not necessarily strongly focused on growth or engaged in high-tech, R&D intensive new product development (NPD) and its related commercialisation. Such firms do not conform to the popular “Silicon Valley Business Model” that has captured so much attention in recent decades. However, they comprise the bulk of many key industry sectors and generally employ significantly more people than their high-tech, entrepreneurial counterparts. For example, across the

34 countries that make up the OECD, SMEs comprise 99 per cent of all business enterprises, account for approximately two-thirds of all employment and over half the value adding, the majority of these firms are *SME Ordinaire* (OECD 2010a).

<INSERT TABLE 5 ABOUT HERE>

The preliminary taxonomy we have developed from this analysis so far is outlined in Table 5. As can be seen this characterises the *SME Ordinaire* as being a firm that is micro, small or medium in size, with revenues commensurate with its relative size and payroll. In general, it has relatively low to medium levels of risk taking proclivity, and medium to high levels of openness to innovation. However, the majority of innovation in which the firm is engaged is predominately incremental rather than radical in nature. Its managerial characteristics and task environment are associated with high levels of independence with a networked structure built around the owner-manager or key directors. The management's approach to strategy and decision making is intuitive rather than formal or structured. Management and control systems are generally less formal and the firm's investment in R&D and NPD, while potentially high, is not 'high-tech'. In fact most technology associated with the business is low to medium tech in nature. These firms are generally established and stable rather than start-ups, regardless of their size. They also finance their operations and the R&D, NPD and commercialisation processes via retained profits rather than seeking external financing from banks or venture capital providers. There is also a preference in such firms for internally generated "make" rather than outsourced or external "buy" solutions, which reinforces the firm's desire for autonomy and independence.

SME Entrepreneuriale:

The second category is comprised of the more growth focused, firms that are likely to seek venture capital investors and are likely to be, although not necessarily, technology-based and R&D intensive, globally focused businesses. Such high-growth firms make up only 2 per cent to 8 per cent of all businesses within the OECD and the true "Gazelles" only 1 per cent (OECD 2010a). We note that these two types of firm (e.g. the *SME Ordinaire* and *SME Entrepreneuriale*) should not be

viewed as two ultimate choices. They are not mutually exclusive constructs. It is more appropriate to view them as the *end points of a continuum* and perhaps to be strategic choices that an entrepreneur or small business owner-manager can select from at given points in time.

CONCLUSIONS AND FUTURE RESEARCH DIRECTIONS

This paper represents an initial set of findings from an ongoing study aimed at the development of a new taxonomy designed to recognise the characteristics of the mainstream “*SME Ordinaire*”, and to hopefully demonstrate that it can be both an innovator, creator of wealth and jobs. As noted above, these firms are a foundation stone upon which the majority of the world’s economies are built. While we do not seek to detract from the importance of the more popular “*SME Entrepreneuriale*”, we note a recent call by the OECD (2010a) for a greater recognition of the “*latent potential of the bulk of SMEs, which could contribute more to the economy if they begin to innovate incrementally and strengthen their non-technological innovation*” (p. 39).

Our proposed taxonomy seeks to classify SMEs according to at least eleven points of measurement. Future research will need to examine each of these in depth with a view to determining the points of demarcation between the “*SME Ordinaire*” and its less common, but more popular, “*SME Entrepreneuriale*”. As with most classification systems, it is unlikely that these elements will be dichotomous variables, instead we anticipate that they will be mostly continuums with various levels of low to high technology, growth, internationalisation and use of venture capital financing, As well as increasing levels of formality, complexity and sophistication with respect to innovation, corporate governance, use of alliances and networks, strategy and resources.

We also note that while the entrepreneurial firm has been the key focus for much of the academic literature within the entrepreneurship discipline, this has contributed relatively little to the development of theory within the related, but separate, discipline of small business management. A point observed by Tan *et al* (2009) who suggest that: “*Although some may favour promoting small business research as a distinctive field of study that is isolated from companion disciplines, it is clear to us that what is needed instead is to draw from various disciplines and research traditions where*

theories and research methods have been more developed, and utilize small business as a context on which to test existing theories and to build new ones” (p. 240).

There is a need for better definitions and measures in the field of small business research (Bouckennooghe *et al* 2007). The entrepreneurship thread within the research literature has gained much from its study of SMEs and represents the “high church” within the entrepreneurship and small business management domain. However, it is now distinctively different from its small business management cousin which represents the “low church”, with only the “SME Entrepreneuriale” ventures featuring prominently within the Eucharist of the “high church” of entrepreneurship. Yet the value of the “SME Ordinaire” cannot be denied and future research needs to focus on classifying them, and both testing and building new theories about how best they might be managed for the overall benefit of the majority of SME owner-managers and their millions of employees throughout the world.

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Table 1: The Small Business Concept and its Antithesis, the Anti-Small Business Concept

The Small Business Concept (first defined in Julien 1990)	The Anti-Small Business Concept
Small size	Small size
Centralised management	Decentralised management
Low level of labour specialisation	High level of labour specialisation
Intuitive and short-term strategy	Explicit and long term strategy
Simple and informal internal and external information systems	Complex and formal internal and external information systems
Local market	World market

Source: Torres and Julien (2005)

Table 2: Journals in the database and number of papers per journal – Step 1

Journals	Count	Journals	Count
Journal of Small Business Management	14	International Business Review	1
International Small Business Journal	12	International Entrepreneurship and Management Journal	1
Small Business Economics	11	International Journal of e-Business Strategy Management	1
Entrepreneurship Theory and Practice	8	International Journal of Entrepreneurship & Innovation Management	1
International Journal of Entrepreneurial Behaviour & Research	6	International Journal of Operations & Production Management	1
Management Decision	6	International Journal of Productivity and Performance Management	1
Regional Studies	5	International Journal of Quality & Reliability Management	1
Entrepreneurship and Regional Development	4	International Product Innovation Management	1
Research Policy	3	International Small Business Journal;	1
Academy of Management Review	2	Irish Marketing Review	1
Benchmarking: An International Journal	2	Journal of American Academy of Business	1
California Management Review	2	Journal of Business Finance & Accounting	1
Employee Relations	2	Journal of Business Strategy	1
European Journal of Marketing	2	Journal of Enterprise Information Management	1
European Planning Studies	2	Journal of Enterprising Culture	1
Journal of Business Venturing	2	Journal of Entrepreneurship	1
Journal of European Industrial Training	2	Journal of International Marketing	1
Long Range Planning	2	Journal of Management and Organization	1
Management Science	2	Journal of Management Studies	1
Qualitative Market Research	2	Journal of Marketing Practice: Applied Marketing Science	1
R&D Management	2	Journal of Small Business and Enterprise Development	1
Small Enterprise Research: The Journal of SEAAANZ	2	Journal of Small Business and Entrepreneurship	1
Technovation	2	Journal of Strategic Marketing	1
Total Quality Management	2	M@n@gement	1
Australian Journal of Management	1	Management Education and Development	1
British Journal of Management	1	Management International Review	1
Economics & Management:	1	Managerial and Decision Economics	1
Economies et sociétés	1	Marketing Bulletin	1
Electronic Markets	1	Marketing Intelligence & Planning	1
Enterprise and Innovation Management Studies	1	Measuring Business Excellence	1
Entrepreneurship & regional development	1	Production Planning & Control	1
European Journal of Innovation Management	1	Revue Française de Gestion	1
Finance Contrôle Stratégie	1	Small Business Institute	1
Harvard Business Review	1	Strategic Management Journal	1
Human Systems Management	1	System Dynamics Review	1
Industrial and Commercial Training	1	Technology Analysis & Strategic Management	1
Industrial Management & Data Systems	1	The Learning Organization	1
Innovation: management	1	Urban Studies	1
Integrated Manufacturing Systems	1	Total General step 1	152

Table 3: Journals in the database and number of papers per journal – Step 2

Journals	Count	Journals	Count
Journal of Small Business Management	20	Growth and Change	10
International Small Business Journal	10	Industrial and Commercial Training	5
International Journal of Entrepreneurial Behaviour & Research	5	Information & Management	4
Employee Relations	4	Innovation: Management, Policy & Practice	4
Small Business Economics	4	International Journal of Entrepreneurship and Innovation Management	4
Strategic Management Journal	4	International Journal of Entrepreneurship and Small Business	3
Entrepreneurship Theory and Practice	3	International Journal of Logistics Management	3
Qualitative Market Research	3	International Marketing Review	3
Research Technology Management	3	Journal of Consumer Marketing	2
European Journal of Marketing	2	Journal of Developmental Entrepreneurship	2
International Journal of Innovation Management	2	Journal of Enterprising Culture	2
International Journal of Technology Management	2	Journal of Small Business Strategy	2
Journal of Business Venturing	2	Journal of Strategic Marketing	2
Journal of Management Studies	2	Long Range Planning	2
Management Decision	2	Management Accounting Research	2
Qualitative Market Research An International Journal	2	Management International Review	2
Technovation	2	Management Science	1
Administrative Science Quarterly	1	Nation's Business	1
American Journal of Small Business	1	People Management	1
British Journal of Management	1	Property Management	1
Business and Economic Review	1	Regional Studies	1
Business Economics	1	Research Policy	1
Business Horizons	1	Revue d'Economie industrielle	1
Cahiers de Recherche de l'EM Lyon pages	1	SAM Advanced Management Journal	1
Creativity and Innovation Management	1	Small Enterprise Research	1
Economic Development Quarterly	1	Small Enterprise Research The Journal of SEAANZ	1
Economics of Innovation and New Technology	1	Strategic Change	1
Education & Training	1	Technology Analysis & Strategic Management	1
Employee Counselling Today	1	The Journal of Management Development	1
Entrepreneurship and Regional Development	1	Total General – step 2	114

Table 4: Journals in the database and number of papers per journal – Step 3

Journals	Count
Research Policy	5
Small Business Economics	4
Journal of Small Business Management	3
International Small Business Journal	2
Journal of Business Venturing	2
Entrepreneurship Theory & Practice	1
Journal of Research in Marketing and Entrepreneurship	1
Long Range Planning	1
The American Economic Review	1
<i>Total General - step 3</i>	20

Table 5: Taxonomy SME Ordinaire

Size					
People	Micro		Small		Medium
Revenue	Micro		Small		Medium
Managerial Characteristics					
Intrinsic motivation	Low				High
Risk taking propensity	Low				High
Optimism	Low				High
Openness to innovation	Conservative				Entrepreneurial
Independence	Low				High
Locus of Control	Internal				External
Organisational Configuration					
Labour specialisation	Low				High/Functional
Structure	Stand alone		Satellite		Networked
Centralisation	Centralised				Decentralised
Systems	Informal/manual				Formal/tech
Governance					
Management	Owner-manager				Executive
Ownership	Family				Shareholders
Financing/investment	Internal				External
Strategy					
Style	Intuitive				Formalised
Horizon	Short-term				Long-term
Planning	Informal				Structured
Competition	Niche				Differentiated
Innovation	Incremental				Revolutionary
Market					
Geographic scope	Local	Regional	National	Internat'l	Global
Sector	Manufacturing				Service
Product life cycle	Long				Short
Technology	Low Tech				High Tech
Capital intensity	Low				High
Growth					
Sales	Declining	Static	Slow growth	Medium growth	Fast growth
Mode	Internal (make)		Outsource		External (buy)
Life cycle	Start-up		Established		Mature