
Title In Search of the ‘SME Ordinaire’ – Towards a Taxonomy
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Author(s):	University/Organisation:	Email:
1. <i>Tim Mazzarol</i>	University of Western Australia	Tim.mazzarol@uwa.edu.au
2. <i>Sophie Reboud</i>	Burgundy School of Business	Sophie.Reboud@escdijon.eu
3. <i>Delwyn Clark</i>	University of Waikato	dnclark@waikato.ac.nz

Abstract:

The majority of businesses within most economies are small to medium sized enterprises (SMEs). Academic and policy interest in SMEs has expanded over the past thirty years with small business research forming an important part of the development of entrepreneurship as a field of inquiry. However, much of the recent focus of small business research has been towards what might be described as a “high church” view, embracing the entrepreneurial SMEs that are high-tech, high growth “Gazelle” or “Born Global” firms, often supported by venture capital financing. This paper focuses on the “low church” view of mainstream SMEs and seeks to develop taxonomy for the classification of what we shall call the “SME Ordinaire”. We draw upon the work of Torres and Julien (2005), who recommended the need to denature the small firm and suggested the ‘small business concept’ and its antithesis the anti-small business concept.

INTRODUCTION AND PROBLEM FORMATION

It is widely acknowledged that the majority of businesses within most economies are small to medium sized enterprises (SMEs). For example, SMEs comprise 99 per cent of all firms in the OECD group of countries (OECD 2010a), around 98 per cent of all firms in the APEC group of nations (APEC 2003) and 99.8 per cent 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) – the majority of 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). In addition, the field of entrepreneurship has emerged significantly over the past thirty years. However, most of these scholars have focussed on what might be described as a “high

church” route – with an emphasis on 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; Baker and Nelson 2005). Much 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).

Tan *et al* (2009) note that the small firm has been at the centre of entrepreneurship research for much of the past 20 years, with many of the key theories now associated with that academic discipline have been developed via research into small firms. However, although SMEs have played an important role in shaping entrepreneurship theory, the theoretical contribution from those studying the small business as a sub-field has been limited. Much of the work that has been published in the academic literature in relation to SMEs has been focused on testing theory rather than developing it. One approach to addressing this problem suggested by Tan *et al* (2009) was the development of typologies, which while not being theories, are able to make a theoretical contribution by distinguishing between constructs and processes.

In this paper we seek to take up this challenge by providing some foundations to a classification system that might help to better define what we shall refer to as the “SME *Ordinaire*”, or the mainstream small firms that comprise the majority of all SMEs. Our approach is one of moving towards taxonomy rather than a typology. Doty and Glick (1994) note that while these two terms have been used interchangeably the “*taxonomy differentiates organisations into mutually exclusive sets using a series of hierarchically nested decision*

rules”, while the typology “refers to conceptually derived interrelated sets of ideal types” (p. 232).

The separate existence of the SME was acknowledged by Welsh and White (1981) who recognised that small business management: “is 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, much of the research into SMEs over past decades has focused on the theoretical foundations of entrepreneurship. To this 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.

Table 1: The Small Business Concept and its Antithesis, the Anti-Small Business Concept (Torres and Julien, 2005)

<i>The Small Business Concept (first defined in Julien 1990)</i>	<i>The Anti-Small Business Concept</i>
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

In this paper, we focus on the SMEs that *do not* fit readily into this dominant paradigm of entrepreneurship. We draw upon Torres and Julien (2005) who recommended the need to denature the small firm and suggested 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: *What is an appropriate taxonomy for the classification of (what we shall call) the “SME Ordinaire”?*

THE DIVERSITY OF SMEs

Beyond the quantitative limits of the concept of the small firm, there are numerous criteria aiming at better understanding the heterogeneity of SMEs. Julien (1990) mentions the diversity of SMEs with many differences existing between a neighbourhood corner store and the start up looking for venture financing or the subcontractor active in the car industry. This heterogeneity is not only a size issue or an industry issue. It is a much more complex question.

Typologies

Science likes grouping, as it is one of the first steps to clarifying otherwise complex and multidimensional concepts. As a result the small business literature is full of propositions of different typologies and classification systems aimed at identifying and describing different kinds of SME. 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). In their paper, they list ten areas where criteria have been identified by the literature to make distinctions between SMEs.

Table 2: Theory building in Small business, area of classification (d'Amboise and Muldowney, 1988)

Main elements of the framework	Domain in which writers have contributed to the development of theory
Task Environment	Area 1: Classifications of small businesses in terms of their interactions with and vulnerability to the environment.
	Area 2: Interaction with the environment as a function of the owner-manager's personal traits
Organisational Configuration	Area 3: Classification of small businesses according to structure
	Area 4: The relationship between behavioral aspects of organisational design and the size of the firm
Managerial Characteristics	Area 5: The characteristics of entrepreneurs and the differences between the owner-manager and the entrepreneur.
	Area 6: The relationship between motivations and orientations.
	Area 7: Appropriate goals, objectives, and strategies for the small firm.
Success-Failure	Area 8: Success requires a preoccupation with the financial situation of the firm.
Evolution	Area 9: Growth models and corresponding management preoccupations
	Area 10: Global models that interrelate several variables

More simply, Julien 1990 proposes to identify four groups of typologies based on the firm's: i) governance, ii) strategy, iii) maturity and iv) sector of activity (Julien 1990, p. 416).

Governance: The first group would encompass typologies that differentiate SMEs managed by owner-managers, from those managed by executive managers, whether they are shareholders or not. This is consistent with Deeks (1973) who classified SMEs into the "monocratic" firms, the "oligarchic" and the "patrician"; and Barry (1978) who defined the "traditional family business" versus the "entrepreneurial firm". It would also encompass typologies differentiating family businesses from non-family businesses. This is similar to d'Amboise and Muldowney's (1988) "Area 3: Classification of small businesses according to structure".

Strategy: The second group is probably more directly linked to our main topic, as it uses the strategy implemented or the potential growth of the firm as the main criteria. There have been numerous attempts to develop classification systems for the strategic behaviour of firms and entrepreneurs. These include archetypes of strategic behaviour (Miller and Friesen 1977; 1978; Mintzberg 1978; Mintzberg and Waters 1985), and different approaches to strategic positioning (Chrisman et al 1988; Verreyne 2006). However these have mostly focused on large organisations or at least not specifically on small firms. Within the entrepreneurship literature the focus has been on the classification of the owner-manager or entrepreneur rather than the business. Most of these taxonomies have focused on the level of entrepreneurial orientation and growth focus of the firm's management team. Julien (1990) identifies several papers using such categorisation (see Table 3).

Table 3: typologies based on strategy and orientation (after Julien 1990 and D'Amboise and Muldowney, 1988)

Liles (1974)	Marginal (traditional)			Interesting (size and growth to come)			High potential (rapid growth)		
Stanworth and Curran (1976)	Craftwork (intrinsic satisfaction)			Classic entrepreneurial (profit)			Managerial (performance)		
Filey and Aldag (1978)	Craftwork (conventional, low risk survival strategy)			Promotional (entrepreneurial, technical, innovative, growth strategy)			Administrative (professional, structured, higher risk, planning)		
Dunkelberg and Cooper (1982)	Craftwork (autonomous)			seeking independence			Growth oriented		
Miller and Friesen (1982)	Conservative (traditional)				Entrepreneurial (looking for initiatives)				
Carland et al. (1984)	Small business venture (personal objectives)				Entrepreneurial venture (profit, growth, creativity)				
Marchesnay (1988)	PIC (perenity, independence, growth)				CAP (growth, autonomy, perenity)				
Gartner et al (1989)	Escaping to something new	Putting the deal together	Roll over skills/contacts	Purchasing a firm	Leveraging expertise	Aggressive service	Pursuing the unique idea	Methodical organising	
Thompson (1999)	'cowboy'	'adventurer entrepreneur'	'entrepreneur'		'entrepreneurial manager'		'bureaucratic administrator'		

D'Amboise and Muldowney (1988) also identified a group based on the interaction with the environment as a function of the owner-manager's personal traits and this group has much in common with Julien's group. Within this group, they associate for example Welsch

and Young (1982) who work on the basis of personal traits of the entrepreneur, like internal locus of control, openness to innovation, risk taking, self-esteem, rigidity, and economic optimism. They also identify an "Area 5. *The characteristics of entrepreneurs and the differences between the owner-manager and the entrepreneur*", where they count Toulouse (1979) who defined entrepreneurship in relation to three axes: values, risk taking, and action; the entrepreneur is individualistic, has a tendency to take considerable but calculated risks, and leans towards developing activities within the firm. In this area is also Laufer (1975), and his four groups of entrepreneurs:

1. The "*entrepreneur-manager and innovator*" who is motivated toward self-realization, favours growth, and places less importance on financial and personal independence.
2. The "*owner-entrepreneur*" who favours growth but is primarily interested in maintaining control and financial independence.
3. The "*entrepreneur technician*" who favours technical efficiency, profitability over growth.
4. The "*entrepreneur-craftsperson*" who does not consider himself or herself an entrepreneur *per se*, but aims at personal independence and survival. Working for their self is more important than economic success.

Growth: The third group is based on the growth cycle of the SMEs, and as Julien (1990) notes, on the implicit hypothesis that all the firms are going to grow. One of the best known of these typologies is by Greiner (1972) which follows the succession of steps and crises along the maturation path of the firm. In this group Julien mentions two other classifications: one by Basire (1976) based on the degree of formalisation and planning which grows when the SME is maturing: from step 1 where the priority is on production, to step 5 when a Director of Human Resources is hired, with intermediate steps being the development of planning, or the hiring of a director for finance and prevision.

An interesting classification in this group, made by Churchill and Lewis (1983), is based on the strategic objective evolving along the firm's development: from existence or even survival to success and growth. However as many SMEs never really seek to grow, this type of classification is difficult to use in general.

Market: The last group is based on the sector of activity and the type of market addressed by the SME. The criteria here are very diverse, but the group is similar to the one identified by d'Amboise and Muldowney (1988) as *Area 2: "Classifications of small businesses in terms of their interactions with and vulnerability to the environment."*

Table 4: Typologies based on the specificities of the market addressed by the firm (adapted from Julien, 1990)

Preston (1977)	the rare successes that have evolved from the small business and are still operated by the owner-manager	firms in small business industries in which the firm's optimum scale is small	firms built on successful specialisation that is based on innovation and patent control	satellite firms that are dependent on either a single large firm or a group of large firms in a major industry	turnover firms that operate in sectors in which entry and exit are relatively easy	
Rizzoni (1991)	Static small firms, sheltered from competitive pressures	Traditional small firms, in mature, non-capital intensive sectors	Dominated small firms, producing on behalf of larger firms on sectors with high barriers to entry	Imitative small firms, covering interstitial spaces and occupying small niches	Technology-based small firms, in rapid growth sectors, where technology is not stabilised	New technology based small firms active in new tech sectors
Huppert (1981)	SME sheltered from international competition			SME exposed to international competition		

Innovation: Relatively few typologies have focused on innovation within small firms. It is however one of the areas where governments try to help SMEs, but as mentioned earlier the principal focus has been on the high-tech "Silicon Valley Business Model" as the primary source of SME innovation. Most existing classifications appear to consider that low to mid-tech SMEs do not innovate, with the result that many government support programs orient towards these entrepreneurial "high church" SMEs while generally ignoring their more numerous but less R&D intensive "low church" counterparts.

As listed in Table 1, Rizzoni (1991) provided taxonomy of six types (static, traditional, dominated, imitative, technology-based, new-technology based). Tidd (2001) and Mazzarol and Reboud (2009) have offered four types, using complexity and turbulence as the main discriminant axes (see Figure 1).

Tidd (2001) observed that despite several decades of research into the management of innovation there remained no clear or consistent findings or even a coherent set of advice for managers. Seeking to go beyond the classical opposition traditional (low tech, non-innovating) / modern (high-tech innovating), he proposed a matrix model comprising four quadrants that were defined by the two primary dimensions of uncertainty and complexity. The four organisational structures that emerged from this framework were:

1. *Differentiated* (low uncertainty and low complexity): in which the key competitive advantage comes from product and service differentiation, marketing competence and the formation of a structure that is focused on product or market divisions.
2. *Innovative* (high uncertainty and low complexity): here the key competencies required are scientific or technological in nature and organisational structure is likely to be functional.
3. *Networked* (low uncertainty and high complexity): this requires competence in project management and organisational structure focusing on professional skills and knowledge.
4. *Complex* (high uncertainty and high complexity): this requires a range of competencies as well as adaptive learning.

This interplay between the complexity of the firm's organisational configuration and the uncertainty of its task environment has been identified by earlier researchers (Lawrence and Lorsch 1967; Duncan 1972). It was Gibb and Scott (1985) who applied this strategic framework to small firms. Their analysis proposed four market conditions comprising the same combinations as identified by Tidd (2001). As discussed below, Mazzarol and Reboud

(2009) developed this complexity-uncertainty trade off into a model of strategic innovation management which is illustrated in Figure 1.

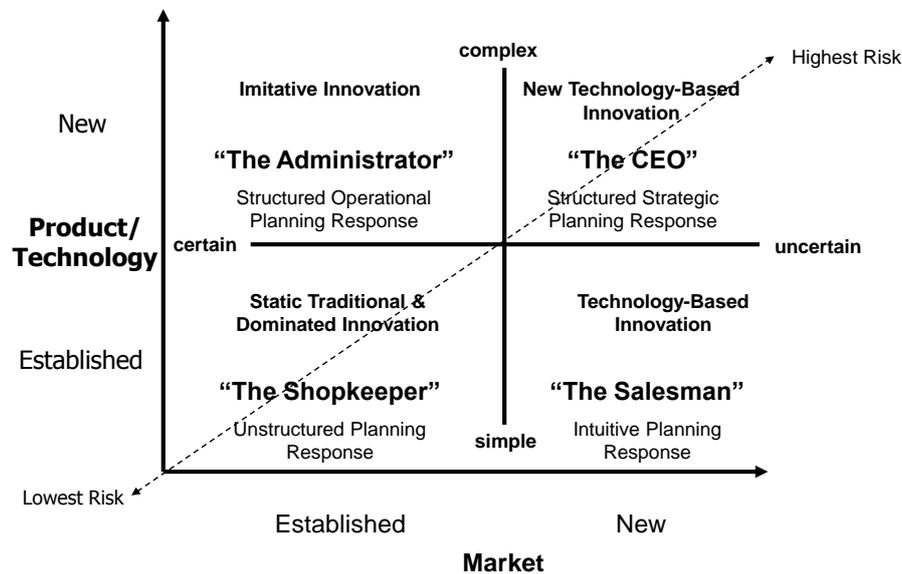


Figure 1: A Model of Strategic Innovation Management Mazzarol and Reboud (2009)

Jones-Evans (1995) sought to classify entrepreneurs from technology-based firms into four types known as: ‘researcher’, ‘producer’, ‘user’ and ‘producer’ with some sub-categories. Autio and Lumme (1998) also proposed a four-part typology for new technology-based firms that included: i) ‘application’; ii) market’; iii) ‘technology’; and iv) ‘paradigm’ innovators. While each of these various typologies are useful they are either focused at the individual or entrepreneur level, or have a focus on a relatively narrow range of ventures, such as new technology-based enterprises.

Moreover, despite the usefulness of this work, typologies are not enough. As stated by D’Amboise and Muldowney (1988): *"There is the lack of common terminology for many major concepts: small business, small businessperson, success, failure, and so forth. Until agreement is reached, efforts to synthesize concepts into theories will be complicated, if not*

impossible. (...). It is therefore difficult to formalize hypotheses into empirically proven theories. Many theoretical propositions are not entirely generalisable. Often, the orientation is too problem-specific to allow wide applicability (...). Some theoretical propositions will never meet the requirements for generalization; again, the problem of heterogeneity of small firms arises" (p. 12).

Other Types of Classification

Mapping: Tan *et al.*, (2009) have offered an even more complex classification system for new ventures that maps the business on two dimensions with key questions of “is it a business?” and “can you keep it?” A “model venture” would have high “B” (Business) and high “K” (Keep) scores, while a “research project” would have low “B” and “K” indices. The “lifestyle small business” venture falls somewhere in the middle of this matrix, while the “hobby” has high “K” but low “B” scores. As a venture screening tool this is potentially useful, but less so for a general classification system for innovative SME.

Continuums: Another attempt to overcome this issue of typologies has been made for example with the use of continuum instead of separate categories. In his paper Julien (1990) proposes such an approach, noting however that this is still too simple as the continuums are not always linear and as there are thresholds along the evolution of the SME and sectoral differences. The continuums noted by Julien (1990) as having an influence on the type of SME would be:

- The size, from 0 employee to 250;
- The sector of activity, from traditional B to C to high-tech B to B;
- The exposure to international competition, from low to high;
- The management from centralised to decentralized;
- The formalisation of strategy, from intuitive aimed at surviving, to formalised aimed at growing; and

- The technology used, from mature and traditional to high tech.

From this he proposes to define an SME as exhibiting 6 main common characteristics (see Table 1 and below, Figure 2) as opposed to what Torrès and Julien (2005) call the anti-small business (right end of the continuum).

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, informal, internal and external IS -----Complex, formal internal and external IS
 Local market -----World market

Figure 2. Typology based on continuum (Julien, 1990)

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 20 classification systems that were potentially useful in examining the SME. Some of these were generic strategy taxonomy, while most of those in the entrepreneurship and small business management area were focused on the classification of the entrepreneur rather than the firm. Some also were attempts at classification of SME in relation to innovation. While each of these taxonomy/typologies was useful in identifying specific aspects of the nature of SMEs, none were sufficiently comprehensive to encompass all possible attributes. To address these shortcomings our approach was to examine what the definition of the “SME Ordinaire” should not include. For example, it should not encompass attributes that would classify it within such categories as “Gazelle”, “Born Global” or “Silicon Valley” high-tech firms.

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 of such small innovative firms are growing without major external funding and this is the sign of the importance of other models of innovation for small firms. 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 significant proportions of SMEs in countries around the globe 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*”.

DIMENSIONS OF A NEW TAXONOMY FOR THE “SME ORDINAIRE”

Building on the extant literature relating to SME classification systems we identified the dimensions of a new taxonomy to differentiate groups of SMEs. All of the dimensions are empirically observable and measureable characteristics and they have been grouped into seven categories which cover size, managerial characteristics, organisational configuration, governance, strategy, market and growth factors. As the basis for the “*SME Ordinaire*” application of this taxonomy, we draw upon a major study of innovative firms conducted in 11 OECD countries (Mazzarol and Reboud 2011). As shown in Table 5, this taxonomy allows each of the dimensions to be represented using a (shaded) continuum or a multi-point scale. Note, as not all of the dimensions of the new taxonomy were examined in this SME innovation study, some of the items will not appear shaded.

Firm Size

Although this taxonomy is customised for SMEs (rather than large firms), size is included as a key dimension to reflect the range of firms encompassed in this predominant category of enterprises. The OECD (2004) provides definitions of SMEs in terms of

employees and revenue. Prior research has shown that a firm’s size matters (Mazzarol *et al.* 2010) and size has been used as a differentiating characteristic in other SME categorizations (e.g. Gazelles). The shading in Table 5 indicates that the “*SME Ordinaire*” includes firms of all sizes, in terms of both people and annual revenue.

Table 5: Taxonomy SME Ordinaire (using SME innovation study, Mazzarol and Reboud 2011)

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

Managerial Characteristics

Given the importance of the owner-manager in an innovative SME, our taxonomy incorporates some of the key managerial characteristics that underpin the performance of

SMEs. These attributes of SME leaders, which have been extensively studied as drivers of innovation and entrepreneurial activities, include intrinsic motivation, risk taking propensity, optimism, and openness to innovation, independence and locus of control. Our SME innovation study found that managers in the “*SME Ordinaire*” firm demonstrated moderate risk taking propensity, were relatively open to new ideas and innovation, and preferred to operate with a high level of independence.

Organisational Configuration

The characteristic features of the organisational configuration also potentially contribute as determinants of innovative activities and differentiators of SMEs. This taxonomy recognises and incorporates the extent to which labour is specialised, the type of organisational structure, the level of centralization, as well as the nature and formality of organisational systems in SMEs. The SME innovation study found innovative SMEs were operating with informal, manual and relatively low-technology systems; however they were highly networked in terms of the connectivity of the business structure.

Governance

In addition, the role of governance in shaping SME characteristics and innovative behaviour is included by evaluating the type of management employed, the nature of the firm ownership, and the source of financing and investment in the firm. In the OECD innovation study, SMEs were primarily using internal sources of financing to fund their innovation activities rather than looking for external funds including venture capital. This is a key differentiator for the “*SME Ordinaire*” which contrasts with the high-tech “Silicon Valley Business Model” in relation to innovation.

Business Strategy

The nature of the strategy processes implemented by SMEs provides another group of significant differentiating factors. The taxonomy includes five potentially important strategy

dimensions including the style of strategy making (intuitive to formalised), the planning horizon (short to long term), and the formality of the strategic planning process (informal to structured). Also, the basis of the competitive strategy (niche to differentiated) and the underlying type of innovation (incremental to radical/disruptive) are considered as key dimensions. In the case of the “*SME Ordinaire*”, intuitive strategy making processes are more likely, with a series of smaller, incremental innovations providing the basis for growth.

Market Orientation

Further, the taxonomy recognises and reflects the importance of key dimensions of the market as determinants of SME innovations and performance. A series of market-related characteristics include the geographic scope of sales (from local to global), the industry sector, and the length of the product life cycle. Also, the underlying nature of the technology involved in the products and processes, and the levels of capital intensity are important for innovation. In the SME innovation study, SMEs were found to be using relatively low-moderate technology platforms for their innovations and business operations.

Firm Growth

Finally, the taxonomy includes a set of characteristics that incorporate the growth status of SMEs. The sales growth is evaluated using a multi-point scale (from declining to fast growth). The mode of growth is considered in terms of the source of resources (from internal to external). In addition, reflecting the age of the firm, the stage in the life-cycle from start-up to mature is included. From the SME innovation study, innovative SMEs were utilizing internal modes of growth for their innovations, and they were generally operating as established firms.

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).

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 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 a work in progress and an initial 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, and 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 (Bouckenooghe *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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