

Small Enterprise Strategy Model: Conceptual Framework and Case Studies

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要 旨

本論文の目的は、中小企業戦略の概念的枠組みを提示することである。本研究は質的かつ記述的なものであり、中小企業戦略の動態的モデルを提示する。そこでは、戦略を「企業家」、「ビジョン、目標、目的」および「資源」が相互作用するプロセスとして把握する。これらが重なり合う部分が大きければ大きいほど、その戦略は洗練されたものと言える。戦略のすべての要素は、環境の文脈の中に組み込まれている。筆者が行った事例研究はこの枠組みの有効性を裏づけ、そして、中小企業においては学習し、自分の力量をさらに高める「企業家」の能力は、中小企業の成功に寄与する重要な資源だということを示唆している。この事例研究のデータは、中小企業をライバル企業から差別化してよりよい業績をあげるのを可能にするような連携関係はそれ自体、資源となりうることを示唆している。

Keywords: small enterprise, small firm strategy model, resource-based view of the firm, entrepreneurial learning and capabilities, partnership

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I. Introduction

Entrepreneurship and small business research has been attracting attention of scholars, practitioners, and government officials around the world. Entrepreneurs creating new jobs as well as self-enterprising individuals are considered equally important in societies with different levels of economic development and, therefore, small business is vital for developed, developing, and transitional economies. The level of research interest in the field of entrepreneurship and small business might be seen particularly in the increasing number of related journals and courses taught at the university level. It has also become evident that entrepreneurship is a complex phenomena and only broad interdisciplinary approach can yield better insights into it.

Hisrich and Drnovsek's review of 641 articles on entrepreneurship and small business published in 18 journals and three conference proceedings in the period from 1990 to 2000 suggests that this field of research is rich in terms of the diversity of themes covered and the scope of the methodological approaches used. They revealed a four component analytical framework found in the entrepreneurship and small enterprise research – the individual, the process, the environment, and organization dimensions (Hisrich and Drnovsek, 2002). Although the insistent call for interdisciplinary approach can be heard (e.g. Gibb, 2000), these dimensions are rarely reunified. The body of knowledge in this field has been created through research in diverse backgrounds and disciplines, i.e. has been observed from different perspectives, predominantly, economics and psychology (Deakins and Freel, 1999). Recently, however, the field has been also attracting scholars specializing in organizational behavior, management, and marketing research. The prove of this current tendency is the increasing number of articles focusing on various aspects of entrepreneurship and small firm published in non-related journals, for example, *Marketing Intelligence & Planning*, *Management Decision*, and *Journal of Management Development*.

The latter stream is more inward-oriented, as the researchers in this group emphasize the processes taking place inside a small firm and aim at providing better understanding of how entrepreneurs and small firms

develop over time and what makes them succeed or fail. This view seems relevant not only for policy makers providing support for small business but also for small businesses themselves as it generates knowledge on the better practices which need to be learned and adapted (see, for example, Greenbank, 2001; Blankson and Stokes, 2002; Glancey, 1998). Adding to their contention, Hisrich and Drnovsek (2002) also admit that the number of 'business oriented' articles providing both managerial and public policy implications is steadily increasing.

Despite the fact that a great body of the small enterprise research exists, studies on processes taking place inside 'the black box' of a small firm, i.e. writings within the above mentioned stream, are still in short supply. Until now, in particular, comparatively little attention has been paid to small firm strategy. According to Hisrich and Drnovsek's review, articles covering the process component of entrepreneurship and small firm represent only 24 per cent of all sources they analyzed. Moreover, the further analysis suggests that only 23 per cent of the latter were focused directly on strategy, so the presence of papers to some extent relating to the small firm strategy was made up of only about 5 per cent in the overall database. I realize that the mere dearth of such studies is not sufficient to give the solid ground to call for the necessity of further research in the field of small enterprise strategy. Therefore, the following reasoning would add to the contention.

As mentioned earlier, in small enterprise research there is a need to cover the multidimensional phenomenon in which an individual (an entrepreneur), process, environment, and organization are interacting. I presume that the concept of strategy by its very nature would be sufficient to meet this necessity as I view small enterprise strategy as an interactive process where all the variables listed above are involved. The concept of strategy to be further outlined will be used to support this argument.

Switching to the empirical part of the research, and, again, using Hisrich and Drnovsek's literature review as a reference, it should be admitted that still very few sources focused on small enterprise strategy had data from the service sector. The present research is also to fill this gap as its empirical findings are based on the cases of small IT-firms operating in the service sector.

The paper is organized as follows. Research design is briefly outlined and followed by a theoretical framework. Then, empirical evidence extracted from case studies of small IT-related service firms is presented. Conclusions and implications for theory and practice are suggested afterwards.

II. Research design

Given the fact that among recent publications on small enterprise and entrepreneurship the qualitative approach has been winning over more and more scholars in the field¹, the qualitative design has been given a priority. Following the recommendations of Hill and McGowan, 1999; Down, 1999; Beaver and Ross, 2000; Stokes, 2000; Hill and Wright, 2001 – who are among those advocating the qualitative paradigm in the small enterprise research – I attempted a subjective, exploratory study where flexibility in research procedures was encouraged.

Given that available contributions to the body of small enterprise research do not provide a consistent theoretical basis to generate hypotheses on small enterprise strategy, the study was exploratory and aimed at identifying ‘themes’ within which the findings could be generalized. Qualitative design is often considered theory-generating in contrast with theory-testing quantitative research. As Newman and Benz (1998) note, conventional views on qualitative-quantitative research dichotomy suggest that entering the fieldwork phase without a clear hypothesis based on theory is what is believed to fundamentally distinguish the qualitative design from the quantitative approach.

Although the current state of thinking regarding the small enterprise has certain taxonomy, it is still far from being a theory sufficient to hypothesize. Kogut’s comment on such situations seems appropriate here, “Taxonomies have their purposes; they give us a map of where we are, sometimes even direction” (Kogut, 1994). That is why, in searching for directions, formulating agendas and research topics and making general assumptions, an initial study of literature was unavoidable and necessary. In addition, since the existing studies do not provide a clear idea of what small firm strategy is, yet give some general view on other attributes relating to strategy, e.g. decision-making, I also allowed myself to refer to the results of previous empirical works *en route*. This was initially done to confirm how our findings correspond so as not to fall into mere observation, and subsequently to determine whether the findings of previous studies are repeatable.

The research included three main stages: first, finding theoretical framework for small firm strategy; second, collection and content analysis of case study data; third, further development of theoretical points grounded in the field data. In order to increase the internal validity of research, consistency between different sources of data was accurately verified.

The fieldwork stage involved a series of qualitative in-depth interviews with owners, managers and core employees of the small local IT-related service firms in the Russian Far East, followed by further

communication through Internet on-line sessions or via telephone to confirm the authors inferences and data validity.

For the interviews, small IT-related service firms were selected from the local business directory. Then, those firms existing less than 5 years and not belonging to the top 10 in the corresponding market segment of the local market were eliminated based on recommendations obtained through an informal network of sources, mainly in the local governments. Unavailability of data on local companies' performance, still common in Russia, made us rely upon the informal sources whose recommendations, however, usually corresponded to the comments and appraisals found in the local press. Finally, six privately owned small firms located in two major cities of the Russian Far East, Vladivostok and Khabarovsk, were targeted.

Since there is no any universally accepted statistical definition of a small firm and the one used in Russia remains questionable, for the purpose of this study the author defined a small firm as a firm that is operated and controlled under the direct supervision of the owner.

Case study data included tape-recorded interviews, from 65 minutes to 3 hours in duration; reports and internal documentation obtained from the firms, and documented records of Internet communication.

III. In search of a theoretical framework for small firm strategy

A Small enterprise strategy characteristics: previous research overview

There are literally dozens of different definitions of strategy. Literature on strategy is both vast and diverse, though very little attention has yet to be paid to the concept of strategy in a small firm. Studies that provide a process analysis of the small firm and that seek to reveal how ideas and strategies are legitimated and justified are difficult to find. However, a full review of available literature is neither possible nor necessary within the scope of this paper, especially since I have already published such a review (Tarassova, 2003).

McCarthy (2003) found that the planning or prescriptive model of strategy is dominant in the small business literature. Proponents of planning stress its value, especially when it comes to business plans, since it might help entrepreneurs deal with investors and attract funds (e.g. Hannon and Atherton, 1997; Hormozi *et al.*, 2002; Stonehouse and Pemberton, 2002). Planning is highly promoted by agencies providing small businesses with support. At the same time, some empirical studies suggest that in small firms plans of any

kind, needless to say, strategies are rarely written down and reside mainly in the mind of owner-managers (Greenbank, 2001; McCarthy, 2003). It is generally agreed that small firms typically lack formality in their decision-making processes especially at the early stages of business (Perren, Berry and Partridge, 1998; Beaver and Ross, 2000).

Some recent research, however, found evidence that the lack of formality in itself does not automatically imply the non-existence of strategy. Perren, Berry and Partridge (1998) proposed that even informal approaches to decision-making could be sophisticated though not always deliberate. They also believe that although entrepreneurs might lack management vocabulary, they may still understand and employ the underlying concepts. In other words, small enterprises might employ strategy without articulating the word 'strategy'.

My previous work on the literature, aiming at identifying the theoretical basis for small firm strategy (Tarassova, 2003), led to the formulation of the following basic assumption: "Small firm strategy might be generally described as:

- (1) adaptive process;
- (2) influenced by the personality of the owner-manager/entrepreneur;
- (3) having a strategy formulation that is often not distinct from its implementation;
- (4) "bottom-up" featured; and
- (5) not necessarily "growth-oriented".

The adaptive process is defined as an interaction of the environment, the individual, and the organization, taking into account the great deal of personal influence exerted by the owner-managers. Since strategy in small firms rarely takes a shape of any formal statement and is often born *en route*, in addition to being context and time specific, it is much more *a process* than a series of formal procedures and, therefore, strategy formulation and implementation might be hard to distinguish or separate. The "bottom-up" featured strategy reflects the entrepreneurial reliance on a chance in the targeting process in which the entrepreneur usually begins serving the needs of a few customers and then expands the base gradually as experience and resources allow. The last characteristic, relating to growth, has its foundation in empirical findings suggesting that, on average, less than half of small firms are found to be growth-oriented while the majority of entrepreneurs have non-business motivations (Hankinson, Bartlett, and Duchenaud, 1997; Gray, 2002).

The question is how to embed these features, peculiar to small firms, into existing concepts of strategy, most of which were developed for the larger firms? The essence of strategy seems to be accepted by different

schools of thought in a very similar way: choosing to perform activities differently from rivals in order to create economic value. One might then assume that the discussion should stop right at this point since the majority of small firms are not growth-oriented. Gray (2002), for example, when providing figures for the UK, found that only 17 per cent of the small firms there stated increasing profits as part of their strategic objectives. Although this type of small firms is in the minority, they should not be excluded from small enterprise research.

B Resource-based view on enterprise strategy: can it be applied to a small enterprise?

The resource-based view on a firm's strategy is taken into consideration within this paper. At the very first glance, it does not seem appropriate in relation to a small enterprise. Indeed, Barney's concept (Barney, 1991) of valuable, rare, imperfectly imitable, and imperfectly substitutable resources providing a firm with competitive advantage which, in turn, results in rent or above normal economic return, seems to have nothing to do with a small enterprise. Although economic theory suggests that entrepreneurship implies rent-seeking by nature (Baumol, 1993), the empirical studies, as has been already mentioned, show that growth-oriented and/or rent-seeking, firms are in the minority among small enterprises. In contrast, the main motive found behind a venture is usually self-support and/or survival.

Within their concept of resource-based strategy, Fladmoe-Lindquist and Tallman (1994) argue that only some attributes of a firm qualify as rent-producing resources, while other attributes may be needed to conduct business, but cannot provide competitive advantage, mostly because of their availability or ease of substitution. This seems particularly true for the small firms whose owner-managers are initially oriented to 'conduct business' in order to provide a certain standard of living for the stakeholders within the average level for that industry, usually local in the majority of cases, and have no motivation to grow, and needless to say, create competitive advantages. However, history is full of examples where some small firms eventually grow beyond the average and become leaders in their industries.

At this point, discussion switches to the small firm typology debate, which has been given much attention in my previous literature review (Tarassova, 2003). According to the typology of small enterprises, which distinguishes "mom and pops" from entrepreneurial small firms, their attitude to future growth differs depending on the personal motivations of the owner-manager/entrepreneur. It is logical to assume that small start-ups oriented to grow, i.e. entrepreneurial small firms, are more likely to have strategies than those that

are not. Then, the concept of strategy applicable for a small firm would be narrowed to the minority of entrepreneurial small firms that are not limited to mere survival. Consequently, the first assumption would be formulated as follows:

Assumption 1: Strategy might be found in growth-oriented (entrepreneurial) small firms

Leaving the multinationals (companies that were formerly small ventures) behind, why not shift to the local level? The small firms compete at the local level, sometimes, directly with each other, sometimes, as parts of complex inter-organizational structures. At this level too, some small firms remain average forever or simply disappear, while others continue to grow and become noticeable, at least, in their local markets. Therefore, why not include them within the conceptual framework?

Assumption 2: Small firm strategies might be identified at the local level of competition

Empirical research focused on strategic management and planning issues in small firms also uses the term ‘outperforming competitors’ when describing successful stories. At this point, additional questions arise. ‘Outperforming competitors’ and ‘being successful’ are the expressions used in empirical research (e.g. Perren, Berry and Partridge, 1999; Schindenhutte and Morris, 2001) to describe the small firms without, actually, giving any clear definition of ‘success’. Typically, the small businesses that break through the micro-enterprise barrier or manage to survive after their first 5 years of operation are considered successful. The main reason why the measurements of success in small firms seem so vague is that most of small businesses are usually not transparent in terms of performance and disclosure of their internal data. Financial data is typically very difficult to obtain for research purposes. Thus, the appropriate measurement of ‘superior performance’ of any given small firm is difficult to identify.

Indeed, even theories of competition, competitive advantage, and superior performance, focused on the larger corporations, where performance data is much more transparent, still leave much room for debates. For example, Brumangim (1994) points out the following question, “How large must abnormal returns be in order to be considered evidence of superior performance?” Winter (1995) also comments on the lack of terminological clarity, “The idea of superior performance may be evoked by a range of phrases like “above normal returns”, “high quasi-rent”, “value creation” and other near-synonyms for “making money”.

Barney (1994), commenting on Brumangim’s paper, clarifies the confusion about what constitutes ‘superior performance’ as follows: “A firm earns an economic rent when it earns a rate of return on the resources and capabilities it controls *greater than* what is needed to attract those resources and capabilities to the firm...A firm earns a normal economic return when actual performance equals expected performance. A

firm earns a below normal economic return when actual performance is less than expected performance. Finally, a firm earns an above normal economic return (rent) when actual performance is greater than expected performance...Economic rents are created when firms discover (on purpose or accidentally) more valuable ways of using their resources and capabilities than what was expected by their owners.”

Moving further, Barney proposes a model of two firms both having achieved an ‘A’ level of performance. Firm I had ‘A’ level engineers, the best ones, while firm II had ‘B’ level engineers, which initially made this firm expect only a ‘B’ level of performance. However, firm II also developed a team-based engineering management system, where the ‘B’ level skills of its engineers were combined in very valuable ways, which resulted in an ‘A’ level of performance. Then, according to Barney, firm II outperforms firm I, since firm II expected level of performance, given the kinds of engineers it was attracting, was lower than firm I level of performance (Barney, 1994). To some extent, his definitions are close to what economists call ‘normal profit’ and ‘economic profit’.

In case of small enterprises, where actual data on economic return is very difficult to obtain, perhaps, some indirect signs of evidence of above normal economic rent and, consequently, superior performance might be observed through the qualitative research. Consider, for example, two small local firms established at the same time intending to operate in the same market. Initially, the two are equally balanced in terms of the resources they possess, employees they attract, and services they provide. They are thus hard to distinguish. However, with the passage of time, one firm might enter the top 10 of its market segment and occupy a nice office in the downtown business district where its nicely dressed employees park their cars every morning. The owner-manager might deal with international clients and, perhaps, the manager’s daughter is enrolled at a graduate school overseas. The second firm, in contrast, remains a small office with plywood partitions, is located in a nondescript area, produces only just enough revenues to provide a living for the owner-manager, and has employees who come to work each day using crowded public transportation. For the sake of simplicity, imagine that the owner-managers of both firms were initially growth-oriented and dreamed about their firms to become successful and noticeable in the local market. I believe that the first case might be considered more successful and this firm is likely to have reached superior performance. Why then, placed in the same context and initially having the same resources, did one firm outperform the other? Below are the third and fourth assumptions:

Assumption 3: A small firm might be considered successful if the owner-manager expectations are met or exceeded².

Assumption 4: Successful small firms might have something (a kind of resource) or do something (use the available resources in a certain way) so that to become successful

At this point, the speculation eventually turns to the resource-based view on the firm's strategy, which, according to Collis and Montgomery (1997), suggests that strategy rests on the resources, the assets, skills, and capabilities of the firm and aims at creating value for the firm. In case of a small enterprise, where the central figure is an individual (entrepreneur), value creation does not automatically mean 'economic value'. Entrepreneurs and enterprising individuals might consider physical value (well-being, comfort), emotional value (security, contentment, excitement) or social value (effective relationships among people) among their priorities equally or even above the economic value *per se*. In this study, 'value' is taken to mean 'economic value', since it is unavoidable in the context of competition. One must keep in mind, however, that in small enterprises this definition does not exclude other dimensions of 'value'.

Barney (1994), warns that 'success factors', i.e. certain resources the firm might possess, are "sources of competitive advantage *because* they are difficult (for outsiders) to identify, because they lack generality (are highly firm specific), and not very concrete and, thus, invisible". Nevertheless, classifications of the firm resources provide a general view on what, in principle, 'success factors' might be. Conventional studies suggest that a firm might possess three broad categories of resources: tangible assets, intangible assets, and organizational capabilities. Tangible resources are rarely considered as success factors because of their standard nature, with certain exceptions made for real estate locations, for example (Collis and Montgomery, 1997). Applied to the small enterprises, favorable location of a restaurant, shop, office, or other real estate, appearing on a firm's balance sheet, might be taken into consideration.

Intangible assets include such things as company goodwill, brand names, cultures, technological knowledge, licenses, patents and trademarks, and accumulated learning and experience (Collis and Montgomery, 1997). Only a few types of assets seem to be applicable to the small firm. Technological knowledge, licenses, trademarks, and patents are restricted to industries that are technology or science-based and, therefore, play a negligible role in most small enterprises, except for licenses. Branding is usually not a priority for the small firms either, as most of them are rather weak in terms of marketing. Then, learning and experience are the more appropriate variables to consider as possible success factors that are likely to be found among the small firm intangible resources.

Collis and Montgomery (1997), point out that "organizational capabilities are not factors like tangible or intangible assets; they are complex combinations of assets, people, and processes that organizations use to

transform inputs into outputs.” In further explanations they suggest that organizational capabilities include a set of abilities describing efficiency and effectiveness – speed, responsiveness, quality, and so forth – that can be found in any one of the firm’s activities. This type of resources seems to be the most difficult to identify, especially in the small enterprises where most processes and procedures are informal and, therefore, hard to observe unless a researcher conducts a deep and thorough investigation of the firm.

However, it should be taken into consideration that the role of an individual, the owner-manager/entrepreneur in the small firm context, is traditionally highly emphasized in small enterprise research. Then, for simplicity, ‘organizational capabilities in the small firm’ might be considered as ‘entrepreneur’s capabilities’ to transform inputs into outputs. Indeed, in a small firm an entrepreneur is ‘a resource allocator’ enabling efficiency, and, simultaneously, ‘an allocated resource’. A small firm is certainly less complex than a large corporation but it still requires management.

To sum up, although the resource-based view on the firm’s strategy has certain limitation when applied to the small enterprise context, no theoretical evidence is found that this approach cannot be embedded into the latter. The emphasis, however, should be made on entrepreneurial learning and entrepreneurial capabilities as resources, the most likely to be significant in providing value in growth-oriented small firms. At this point, the discussion leads to the fifth assumption.

Assumption 5: Entrepreneurial learning and entrepreneurial capabilities are likely to be significant variables (resources) leading to success in growth-oriented small firms.

C Dynamic model of small firm strategy

In the first part of this section, small firm strategy was considered as an interactive process whereby the individual, organization, and environment are involved. The second part of this section was focused on the small firm resources where the entrepreneur with his/her capabilities is the key one. Below, the dynamic model of small firm strategy will be presented.

It has recently been well established that strategy should not be viewed as a stand-alone phenomenon since it is multidimensional and causally linked. It is also generally accepted that there is no one right strategy, though some attempts to identify a limited number of generic strategies leading to success have been made. In case of a small enterprise, where the individual is the central figure influencing everything that is going on inside the firm, the dynamic concept of strategy seen as a process seems to be particularly appropriate.

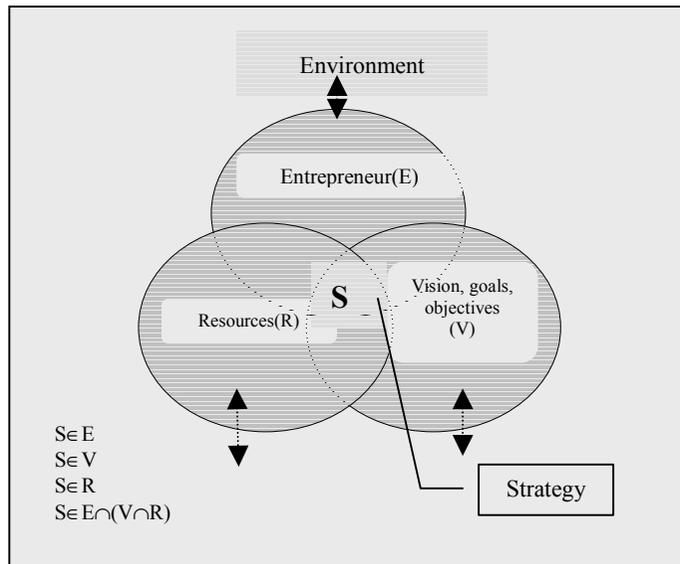
In searching for an understanding strategy, Davies (2000) suggests that strategy is not separate from but is embedded with policy and resources. Policy in his model is described as the principal goals and objectives of the firm and the domain in which it will operate. Vision is another word used with a similar meaning, but Davies articulates vision as a conceptual basis for policy. The resource component in his model is described similarly to the resource-based view of the firm's strategy.

Collis and Montgomery (1997) present another triumvirate, which they called 'the triangle of corporate strategy'. In their model, resources, businesses, structure, systems, and processes, all aligned with a vision and motivated by goals and objectives, are the foundations of corporate strategy.

In his contribution to the resource-based view on the firm's strategy, Brumangim (1994) extends the traditional framework by offering a hierarchical model of resources. In his hierarchy, there are four levels of resources: (1) production/maintenance resources (the lowest level), (2) administrative resources, (3) organizational learning resources, and (4) strategic vision resources.

As can be seen from above, external environment is extracted from the strategy model, while internal attributes of the firm, though named in different way, are emphasized. In the small enterprise context, however, the environment should not be completely ignored. Firstly, because the very nature of entrepreneurship implies an individual's ability to identify specific, attractive business opportunities within environments, either that is a choice of product, market segment, and a channel or their combinations. Secondly, simply because they are less powerful and more vulnerable, in comparison with their larger counterparts, the small firms are usually less diversified and, hence, their dependence on external influence is higher and certain changes in the environment might put them out of the market³. Besides, I believe that the environment for any organization is not something 'out there', but it is situated where the firm is 'in' as a part of it. Therefore, a model where environment is included as an influencing element is proposed (Figure 1).

Figure 1 Dynamic model of the small enterprise strategy



The model outlined above is simplistic and, hence, should be given some explanation. It is presented as a Venn diagram in order to demonstrate that small enterprise strategy is not static but rather a flexible overlap between a powerful individual (entrepreneur/owner-manager); general entrepreneurial vision (a wish to become something in the future) and a set of shorter-term goals and objectives (milestones or shorter-period outcomes), both of which are the entrepreneur's *want to do*; and resources (assets, skills, and capabilities) determining what the entrepreneur *can do*⁴. All elements are embedded into an environment context and constantly interact with the latter as well as with each other. The overlapping area might change over time in the following way: the more the entrepreneur's *can do* coincides with his/her *want to do* in a given environmental context, the fuller the overlapping area is.

The environmental context in this model is consistent with the conventional models of Porter's competitive forces and Kotler's marketing environment and is therefore well known and needs no additional comments. The area labeled 'entrepreneur' includes the entrepreneur/owner-manager with all his/her own characteristics (principles, bias, perceptions etc.), and certainly might overlap with his/her vision, goals, and objectives. When it overlaps with the area labeled 'resources', it means that entrepreneurial characteristics (knowledge, skills, capabilities) become resources that might be used to provide value for the firm. The area of resources indicated on the diagram, in addition to the entrepreneurial characteristics includes other assets, skills, and capabilities peculiar to the firm.

Finally, the small firm strategy appears where all three areas (‘entrepreneur’, ‘vision, goals, and objectives’, and ‘resources’) overlap. The fuller they overlap, the more sophisticated the strategy is. That could be summarized as follows: *small firm strategy is a dynamic process driven by a powerful individual, who is a resource allocator and an allocated resource along with other firm’s resources, helping to achieve the entrepreneurial goals and objectives within changing environment in accordance with general entrepreneurial vision*⁵.

In the following section of the paper, the case studies - which mainly aimed at identifying theoretical points grounded in actual data - some elements of the theoretical framework outlined above will be tested. Basic assumptions made in part B - as well as the model presented in part C - might be confirmed and complemented or rejected.

IV. Research findings

All companies included into the sample were comparatively young with the majority of them being established between 1993-95. Their profiles are provided in Table 1.

Table 1 Overview of cases

<i>Case code</i>	<i>Business description</i>	<i>Size*</i>	<i>Founded</i>	<i>Area of activity</i>
D	Full service software development, import of peripheral devices	12	1987	The Russian Far East and Siberia
R	Offshore software development, software services for local government	90	1995	International, lately focused on the Russian Far East governments
M	Full service reseller of imported computers and peripheral devices, software services	66	1994	The Russian Far East, branch in Moscow
K	Full service reseller of legal system databases for businesses	92	1994	Local, mainly in Vladivostok
P	Full service reseller of software solutions for businesses and government	23	1994	The Russian Far East
S	Computer manufacturing, reseller of peripheral devices, software services for banks and financial services	45	1993	Local for computers and peripherals, the Russian Far East for software services

* - Size refers to number of employees

A Environment context

Owing to its geographical position, the Russian Far East is a very remote area. Located in the very easternmost part of the country, it occupies 36.4 per cent of Russian territory although its population is less than that of Moscow. In 2002, it was 6.7 million, only 4.6 per cent of the Russian population and according to statistics this number is steadily decreasing⁶.

Since the collapse of the Soviet system, the industrial structure of the region has changed and the economy has stagnated. Although the regional authorities have been endeavoring to force its development through restructuring economic priorities and creating modern infrastructure the situation is still worse than in other parts of Russia. The central government treated the area in a paternalistic way during the Soviet period. This was done in order to establish a system of primary industries, supplying natural resources to other parts of the country, and a military shield was established to protect the country's Pacific flank. However, as soon as Russia began market transitions, the state has stopped patronizing the area. Located far from the major industrial centers of the country, it no longer had any advantages and failed to become fully integrated into the new Russian economy and very soon the area fell into near-autarchy. Stagnation in nearly every local industry has made the area economically depressed and socially unstable.

In pre-transitional industrial structure of the region, the industries related to the military-industrial complex were a trust territory of the state (Zausaev et al, 2001). However, market reforms played a fatal role for a vast majority of them and the intensive flow-out of the skilled workforce was one of the consequences of their virtual decline. In all cases that we observed the small enterprise owners had a background in these types of industries.

Although the Russian market for information and communication technologies is estimated to be rapidly growing (Krasnov, 2003), typically, the Russian Far East is not considered as an attractive area for investment. The size of the local consumer market is strictly limited demographically due to the low population density. Besides, the demand for IT products and services has been taking shape mostly in the few cities with comparatively large populations, while rural areas remain dormant. Although data on the IT market in the Russian Far East is in short supply, I can presume that the situation is even worse than it is in Russia. For example, recent survey of internet users in Russia shows that in the Russian Far East, only 6 per cent of adults older than 18 have internet experience and only a quarter of the latter have computers at home, while average figures for Russia as a whole are 8 per cent and 32 per cent respectively⁷. Personal computers still have not

become an essential part of life for many people living in the Far East, as their basic needs have not been fully satisfied yet.

Additionally, the local market has certain features based on its geographical position. I would emphasize two of them. Firstly, it is located near the Asian centers of electronics manufacturing. The local companies might, therefore, have a certain advantage over their counterparts in other parts of Russia in terms of a better knowledge of Asian markets and business traditions in the region. Historically, the Russian Far East had close cultural connections with Asian countries, particularly Japan, China, and South Korea. Traditionally, Japanese, Chinese, and Korean are the most popular foreign languages that university students choose to learn. As a result, it is not surprising to meet an IT professional fluent in one of those languages in the Russian Far East.

Second feature is the long distance between the inhabited localities. The average distance between localities in the European part of Russia is calculated in tens of kilometers while in the Russian Far East it might be hundreds of kilometers. As a result, a distance between an IT service company and its customer of up to 300-500 km does not seem extraordinary and is instead considered to be a natural part of doing business locally.

To summarize, the external environment, which the small IT-related service firms in the Russian Far East cope with, might be considered as challenging especially in terms of serious socio-economic and market constraints. A depressed economy, social instability, and limited market with highly dispersed clientele have been the reality surrounding the small IT enterprises emerging in the area. An advantage, however, is their geographical closeness to the Asian IT clusters.

B Small local IT enterprise strategy

As it turned out in five cases, the skilled workforce once freed from the industries that had failed, eventually produced entrepreneurs forced to support themselves. In all cases, the decision to start up a firm was crucial, as the entrepreneurs did not have any business experience, but put into the context of the reality of either leaving the Far East or establishing a venture for self-support, they chose the latter. In five cases, the necessity for self-support was a driving force while only one entrepreneur established a firm with an initial ambition to grow and become noticeable in the IT industry.

The entrepreneurs in the sample admitted that at the time their firms were established they would not describe themselves as risk-takers willing to be one's own boss. One entrepreneur said that he "would prefer

to do some routine in a lab and read books given another set of circumstances”, another noted that he was “happy with his previous position but was forced to do something to support his family”. Another entrepreneur added that although he was not prepared to start up a firm, there was always a great deal to be learned from foreign partners and the more they “were getting involved the more interesting it was becoming”.

Therefore, the study supports Deakins and Freel’s idea that along with possessing certain characteristics predisposing one for establishing one’s own business, individuals can “acquire skills and abilities, which are learned from the very process of entrepreneurship, as much as from innate abilities” (Deakins and Freel, 1999). Although the entrepreneurs in the sample did not consider themselves venturesome and looking for independence and great commercial success at the beginning, they admitted that these characteristics were obtained along the way. The component of learning will be later discussed in the following section.

In the early 90’s, the IT market in the Russian Far East was only beginning to take shape. It was filled with comparatively equally balanced competitors represented by either micro-firms, whose operations might have included a bit of everything related to IT – from computer manufacturing to software development, or spin offs from the former state-owned entities that were a bit stronger in terms of resources but still inexperienced in terms of market expertise. The products and services they provided were poorly differentiated since most of them were simply taking an advantage of the moment by selling either ‘just a computer’ or ‘software for accounting’. What caused the firms in the sample to excel?

As the entrepreneurs themselves recalled, they reconsidered their attitude of capturing short-term advantages and concentrated on the search for the opportunities enabling them to outperform their competitors. They also admitted that a turning point was their concentration on long-term prospects. This is precisely what is known as ‘visualizing opportunities’, or ‘vision’. In searching for differentiation from the other firms, all the firms in the sample preferred to initiate cooperation with the more powerful players so as to get a bit of their power.

One might object that there is nothing particular about that since this seems to be how large firms, by building regional networks, typically develop their market channels. Indeed, this process is well researched from the ‘top-down’ point of view. However, in our cases the cooperation was initiated from the ‘bottom-up’, and, consequently, why not consider it as a strategic choice from the opposite side, i.e., the small firm to close the market channel? Some entrepreneurs could see an opportunity in integration while others could not. The former demonstrated willingness to learn from stronger partners while the latter remained in inertia.

The limitations of local markets make the area unattractive for the larger firms primarily because of high transaction costs in comparison with possible outcomes. For example, the high dispersion of both actual and potential customers having area specific needs makes it costly for the national or international companies to operate directly in the area though they might have had a desire to extend their presence in the Russian regions.

Being conscious about that, two entrepreneurs (cases D and M) concentrated on developing partnerships with the Asian suppliers and have eventually won a status of regional distributors over other firms with all the consequences ranging from favorable terms of payment, enabling to provide value downstream, to training programs organized by the manufacturers and aiming at improvement of the processes and managerial practices of their agents. Step by step, these two firms each became noticeable in their segments with both of them currently among the top 5 in the local market.

In addition to the subjective assessments, such as rankings, the following quotation can provide economic insights in support for the idea of above normal returns that was outlined earlier in this paper. The entrepreneur in case D noted, “The normal level of profit margin in our market segment is about 5-8 per cent. Direct partnerships with Korean and Taiwanese firms makes out profit margin 10 per cent higher than on average. Therefore, our pricing strategy is very flexible, since there is always some reserve we can operate within. As a result of flexible pricing and favorable conditions of payment that we can provide (buy now - pay later, for example), our customer base increases, we order more from the partners, and eventually, both sales and profits grow. Yes, we are a growing firm.”

Three other firms in the sample (cases K, P, and S) initiated cooperation with the Moscow-located leading firms and were the first to locally represent the interests of the latter as full service resellers. They also have become involved in productive relationships similar to those just mentioned above. As a result, according to the contract with the parent, one firm solely provides full service legal system databases for local businesses. Two other firms among the three are less exclusive but, since they were the first to affiliate with the national leaders based in Moscow, they had some time to attain a bigger share in the local market and are currently on top in their segments.

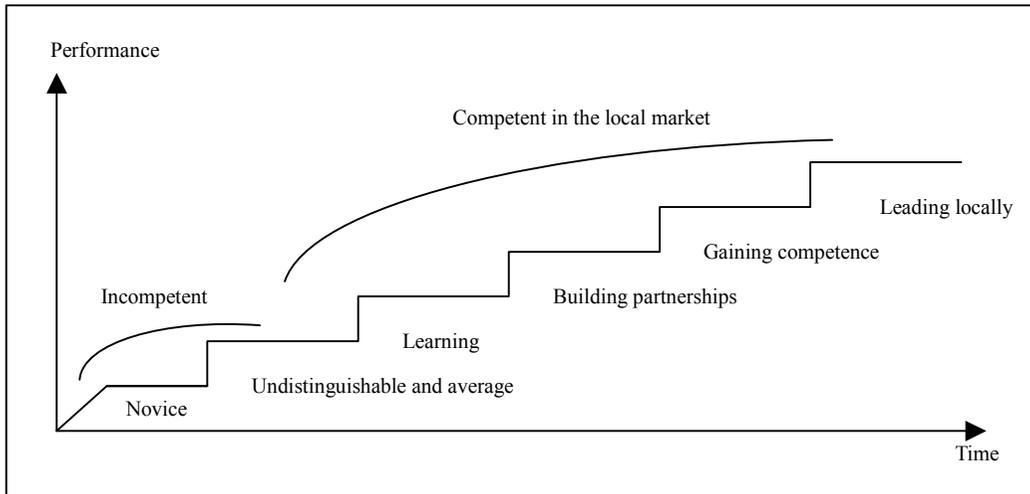
As one entrepreneur noted: “The opportunities are limited here because of the small market. It became obvious that to adapt packaged business software solutions produced in Moscow for local needs and have an excellent marketing and technical support from the maker is a better way for us. It might have, well, somehow wounded someone’s pride because we were able to offer customized solutions of good quality too.

Anyway, we had to face the truth – consumers buy Microsoft even if there might be better solutions. Similarly, accountants and managers in the area ask for well-marketed software solutions for businesses offered by the larger firms. So, it was reasonable for us to adapt them for the particular customer's needs and then provide a full range of services than try to compete. We still develop unique customized solutions when required but getting more powerful partners and learning from them was a real chance and now we can be proud of the fact that we were the first to do that ”.

In case R, the entrepreneur preferred to get over the local constraints by entering the offshore software development market. That was a great challenge since no one could even consider that a small peripheral firm would be viable to enter this market. Some typical comments encountered by R were “crazy” and “nobody is going to deal with you”. Ambitious enough, the entrepreneur did not give up and managed to establish a long-term partnership with one of the world-famous provider of electronics technologies and by learning from the parent enriched its software engineering process management to the Level 4 of SEICMM Certification essential to compete in the offshore market. This was certainly a great achievement for a Russian software company, especially since it is located in a peripheral area (currently, only four Russian IT firms are certified at level 4). This certification enabled the firm to not only extend its contracts in offshore software development but also gave a kind of ‘magic wand’ to wave before local clients. Recently, the firm has won large contracts for the local governments and almost every large enterprise in the area may be found among its customers.

The following figure reflects the way in which the strategy of the small local firms in the sample was developing over time.

Figure 2 Strategy development in the small local IT firms included into the sample



A shift from a short-term to long-term prospective along with capturing an opportunity to grow through partnerships is the general pattern observed in every small firm in the sample. In all cases, these partnerships in essence appeared as an intangible resource, a facilitating factor for success, and, even more important, the search for these key partnerships was initiated by the local firms. In all cases, not only partnerships themselves but also new knowledge attained through them contributed to competence building and, therefore, to the small firm's success in the local market.

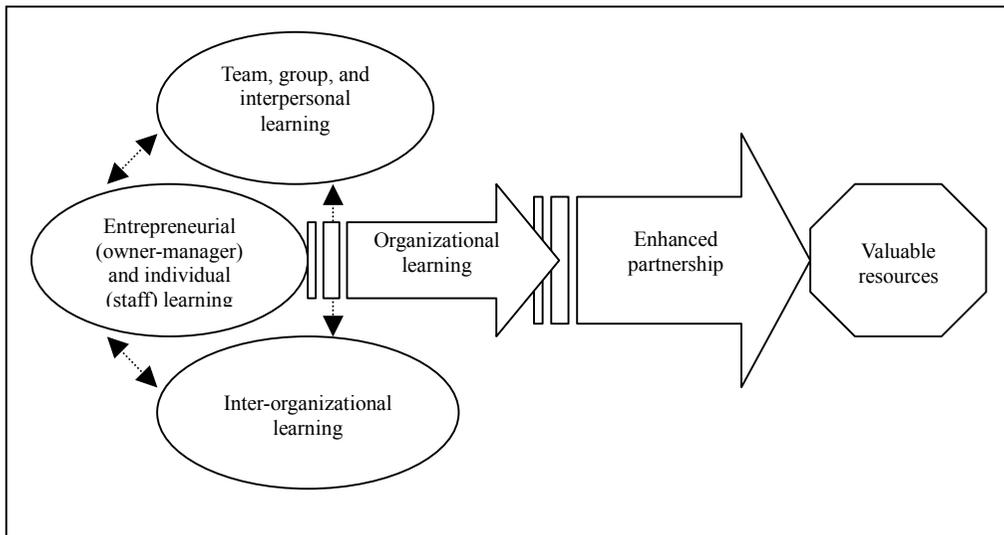
C Entrepreneurial learning

Down (1999) emphasizes the importance of enhancing small enterprise relations with other firms up and down market channels. Earlier Gibb (1997) stressed the increasing organizational inter-dependency between small businesses and other stakeholders. Furthermore, entrepreneurial networking and inter-organizational learning might be regarded as an important resource (Morrison and Bergin-Seers, 2002), supported by both the organizational learning literature and the knowledge-based stream within the resource-based view of the firm literature (Beeby and Booth, 2000).

The findings of this research conform very well to the ideas that entrepreneurs develop their knowledge and skills through relationships within their organizations and with other businesses and organizations and

learn through experience (Down, 1999; Gibb, 1997; McCarthy, 2003). The study also suggests that the entrepreneur's ability to learn *per se* should be considered as one of the key resources providing value for the small enterprise. I found elements of learning at all levels: the owner-manager and staff (individual learning), team or group, inter-organizational, and organizational. Figure 3 shows key elements of learning found in the sample while examples following by illustrate this point.

Figure 3 Elements of learning in a small firm



The case that best supports this was the firm R engaged into offshore software development. The owner-manager admitted that the first partnership with the key customer had a crucial influence and that he learned a lot about process organization, project management, and quality assurance by developing relations with a contractor on the basis of information sharing and inter-organizational learning. Attending related seminars in Moscow and learning on-line also helped him to implement new practices into the firm (individual learning).

Software development is a kind of business requiring flexibility from an organization that can be reached through implementing project structure of the firm. The entrepreneur complained that project organization management is not taught at the local universities' faculties of engineering where he himself and the staff came from. However, learning from external sources helped to create an effective flexible structure within the firm. Although the company's specialists are grouped in functional units for operational purposes, they are

now deployed in project teams to work on specific projects. There might be several projects going on at a time, therefore, this structure requires cross-participation. Consequently, there is a great deal of interactions of individuals who learn from each other (team learning).

In addition to the fusion of administrative and engineering personnel within project teams bringing about a better understanding of company's goals, the cross-participation also contributed to the encouragement of natural curiosity and ambitiousness on the part of the participants. For example, the work required improvement of their English skills. An engineer with knowledge of English can work for offshore projects and get a higher income and so a study group was formed with the goal of learning English. When it came to Japanese, another study group was immediately formed and, although participation is voluntary, attendance remains constant.

Finally, the firm's engineers who had been previously involved in projects requiring high process efficiency for overseas partners were likely to demonstrate the same attitude regarding domestic orders. Consequently, overall productivity has risen while high standards of work have been implemented 'naturally' (organizational learning). In fact, as Nelson (1991) suggests, learning to effectively use a new organizational form (project structure, in this case) involves much the same kind of uncertainty (experimental groping, learning through errors) that marks technological invention and innovation.

The entrepreneur in case M admitted that it was his daughter, a recent graduate specializing in Chinese and Korean culture, who generated the idea to cooperate with firms in these countries. Unlike the above case, the process of learning in this firm was initially focused more on inter-cultural than on technical or process aspects of business. Besides, in this case, the individual learning, i.e. the entrepreneur himself learning from the foreign partners through negotiations and then spreading new ideas into his firm, prevailed over other levels, especially at first. For this small enterprise, establishing relations with suppliers was a major task since the entrepreneur expected these relations to result in a better position for his firm in the local market. Therefore, the entrepreneur was mainly concerned about winning his partner's trust. As he recalled: "We had to learn many cultural things to build these relations. Everything matters. The way you make and keep your commitments as well as the way you present your business card can make you lose or win".

He certainly learned how to deal with his Asian partners not only in terms of following the rules of ceremony, but also, which more importantly, in terms of following the rules of civilized business. And if the former was mainly essential for him personally, since he was the one to negotiate, then the dissemination of the latter throughout the whole organization significantly changed the way the firm continued to conduct

business. Teamwork and group discussions were also found to be among the everyday practices in this small enterprise though it was the owner-manager who usually initiated them.

During the interview with the owner-manager of the firm D, well-known locally for having brilliant software engineers, I made a casual remark that the firm could have been competitive in the offshore software development market had they at least launched a web site in English. A month later, the firm added an English version to the existing site and our follow up communication suggests that the entrepreneur keeps on trying to work his way into the offshore market. That means he understood the idea immediately and put it to work for his firm.

Entrepreneurs in the cases K, P, and S responded very similarly to each other and emphasized that at first they had to learn to deal with Muscovites and focused on building strong personal relations based on trust (individual learning). Certainly, trust might have been hard to sustain, especially taking into account the enormous distance between the parent and the small local firms. At first, the entrepreneurs and groups of core employees had to obtain ideas, techniques, and procedures necessary to maintain partnerships through regular visits to headquarters and, upon return, had to disseminate new knowledge throughout the firm. Every week seminars and meetings for personnel were a must (group learning). Now, when the Internet has become a routine part of businesses, and the firms have developed their own intranet networks, instant communications with the distant Moscow offices make all necessary information available immediately.

In all cases, however, desire and readiness to learn from the external sources enhanced the entrepreneurial and firm's capabilities. Depending on the case, the scale of learning fluctuated from individual learning focused on building trust to organizational and inter-organizational learning on more efficient processes and procedures.

D Entrepreneurs as powerful individuals

Some previous research provides insights on the decision-making process in small enterprises. It is generally agreed that the small firms typically lack formality in their decision-making processes and that entrepreneurs tend to rely on their intuition in decision-making rather than on rationality or planning. However, this flies in the face of some facts that have been discovered. In all cases elements of formal planning were found.

Predictably, the detailed plans based on formal analysis were peculiar to the firms whose role was to

locally represent the interests of a larger partner and whose major business function was to resell in accordance with a clearly stated partnership agreement. The planning function was mainly pursued by the makers in cases K and P, whereas small local firms only had to adjust the plans to the local conditions.

In other, more independent small firms, the plans would take the shape of a one-page statement, in which the company's future destination, at least one year ahead, was briefly summarized. This was very much like what Kanter (2002) calls 'a theme', 'a topic of interest' acting as a mean to merely outline directions yet to be focused within the same company domain. These one-page statements were mainly based on entrepreneur's own vision of their business future and personal knowledge. This sometimes occurred with a great deal of the key employees' participation in the process. In all cases, the entrepreneurs demonstrated rational thinking rather than "dreaming about a bright future" and consequently their vision appeared more like 'scenarios', general rather than detailed, with possible changes to be made according to circumstances.

The entrepreneurs in the sample had solid backgrounds in the exact sciences. As one of the interviewees recalled, their custom is to question the validity of everything until it is scientifically proved. This reflected their way of their decision-making in a business sense as well. One entrepreneur with a background in applied mathematics noted this about my supposition concerning his visionary attitude towards planning, "I am not an oracle prone to prophesy but, sometimes, even the simple logic of events is enough to estimate the probability of an idea coming true. Well, I allow myself to visualize event sequences and make assumptions on the firm's future simply by reading trade magazines and talking to people but when someone in the firm comes to me with an idea, I always ask for grounds." Another entrepreneur added to the point by saying, "It is always about discussion and team work. I am absolutely open to new ideas... There was that freshman that came up with his suggestions on how to improve our sales. I was a little stunned at first since, well, he had just graduated from university and had worked here for only about a month at that time, but when he clearly supported his idea with figures I let him do it."

Empirical research suggests that owner-managers of small firms tend to feel that they "have to do everything in the firm" (Hankinson et al, 1997) and are predisposed to lead key business functions in order to control the enterprise. They also found that among characteristics by which entrepreneurs judge staff, the attitude to work and adaptability are classed as "essential" while qualifications and experience might be rated from "useful" to "unreliable". We also asked the entrepreneurs and core employees about the general climate in the firms, the level of autocracy, and the owner-managers attitude towards function delegation and the way he/she evaluates the effectiveness of the staff.

In all cases both sides admitted that the atmosphere in their firms was rather democratic and allowed for a great amount of flexibility but at the same time requiring a strong commitment to the enterprise. In case K, a manager expressed her feeling about the firm with excitement, “it feels like a family in here because we grow up together with the firm... My boss sometimes shouts at us when something is wrong, but he’s always fair in his judgments. It’s not a case of ‘like’ or ‘dislike’ it’s rather judging people by their contribution made to the firm”.

In firm M, one of the core employees, a program engineer, said that he doesn’t mind to unload cargo when necessary although it is not his direct responsibility. He also added, “It makes me feel a part of the whole, especially when I know how others are dedicated to the firm and see my boss doing the same thing”. Another manager of this firm, whose basic function was sales, told about his experience of taking an initiative to promote the company’s services in his hometown during his vacation, “I found new customers and sales increased. No more was needed to make the boss compensate my efforts properly. Profits reflected on the balance sheet – that’s what he wants and I am here to provide them”.

To illustrate these comments from the opposite side, the entrepreneur in case M noted, “Every year I employ a few graduates from the local universities, the good ones, but only those who can multitask stay. Today you program, tomorrow you might be asked to unload cargo. If you are afraid to get your hands dirty, then we are not made for each other.”

As for function centralization, all entrepreneurs insisted that they only totally control finance while other functions are broadly delegated. One entrepreneur, case P, stated jokingly, “I hope to reach the moment when I can lay on the beach and my firm goes well without me at all.” Another one (case D) was even more precise by saying, “Managing this firm, including staff allocation, is a creative thing for me. It’s like writing an algorithm that makes a system work. The most exciting is to realize that I have created it and I am making it work.”

These observations contribute to the findings of Hankinson et al (1997) as regards to the small enterprise owners’ expectations of their employees’ commitment to the firm. The study also found some evidence that there might be a link between the entrepreneur attitude toward function allocation and their background. In the sample, the entrepreneur’s previous occupations required strict logical thinking and result-oriented pragmatism. These were then both applied towards their own businesses. All of them appeared to be rational rather than emotional leaders. Moreover, this result orientation and rationality seem to be an appropriate explanation for what made the firms in the sample to succeed. Overall, the idea of the strong influence of a

powerful individual or entrepreneur/owner-manager is supported within the research findings. They create culture in their firms, inspire employees with their ideas, have very active minds, are quick to adopt new trends and are certainly the central decision-makers and, therefore, deserve to remain as a part of the strategy model suggested in this study.

V. Conclusions and implications

The case study supports the theoretical model outlined in section III and suggests that the small firms can have strategies. The elements included into the model were found to play a significant role when the small firms included into the sample pursued their strategies in the local market.

The assumption that strategies are more likely to be found in growth-oriented small firms is confirmed. However, growth-orientation is not always an innate characteristic of entrepreneurs. Initial motives of self-support might evolve into greater ambitions along with the experience gained and initial success achieved. Therefore, a shift towards strategic thinking instead of capturing short-term advantages might be also considered as a result of the personal development of the entrepreneur/owner-manager.

Small firms strategies appeared to be strongly embedded into the local context, a notion that was also assumed within this paper. Entrepreneurial vision, goals and objectives proved to be a result of visualizing opportunities emerging within the local environment. Local constraints, as opposed to opportunities, are also a force behind vision-formation and objective-setting. For example, the entrepreneur in case R aimed at initially jumping beyond local constraints and then appeared in the local market in a 'new disguise'. Anyhow, the local level of competition requires businesses of small scale to find ways to distinguish themselves and that is what the strategies of the firms in the sample served to do.

The framework suggested above was partly grounded on the resource-based view of the firm, which, in turn, is strongly connected with the idea of superior performance. We shared Barney's view that superior performance is achieved when economic return meets or exceeds entrepreneurial expectations of opportunity cost. The evidence from the cases suggests that entrepreneurial expectations change over time and may evolve along with the enterprise growth and experience gained. The study also suggests that expectations reflected in vision, goals, and objectives might be reached or even exceeded if the entrepreneur obtains, develops, allocates, and utilizes the firm's resources, including him/herself in a way unattainable for others.

At this point, my conclusion shifts to the area of resources in the small firm. The study confirmed initial

assumption of that in small firms entrepreneurial ability to learn and capabilities further developed might be considered significant variables (resources) enhancing small firm success. The case study data conforms to the ideas found in both the organizational learning literature and the knowledge-based stream within the resource-based view of the firm literature that learning at different levels might be regarded as an important resource. In the case of small enterprises, the concept of organizational learning should be mainly focused on entrepreneurial learning, since the entrepreneur is a central figure in the process.

The case studies data also suggests that entrepreneurial ability to learn and disseminate new knowledge throughout a firm is particularly essential in transitional countries where market economies are being built from the ground up. The entrepreneurs in the sample, together with millions of other Russians, had to learn how to live, conduct business, and succeed in absolutely new, for them, conditions. Most of what they have become is due to their ability to obtain and use new knowledge.

The case studies also discovered that it was a key partnership that allowed the small firms in the sample to differentiate themselves from others and through learning from more powerful players obtain a bit of their power. In the cases we observed, the key partnerships themselves could be considered resources. Moreover, these partnerships worked in a way very similar to Barney's idea of valuable, rare, and imperfectly imitable resources. They were valuable because developing partnerships and learning from external sources resulted in increasing profits and faster growth for the small firms. Although actual performance data in many cases remained undisclosed, qualitative characteristics, e.g. the firm's rankings in the local market, might be considered instead as indirect measurements. The key partnerships might be also regarded as a rare resource, because they were possessed by a few firms operating within the same market. This 'rareness' was protected either in the form of a license or agreement confirming the status of regional distributor. Therefore, they are imperfectly imitable because the partnerships are secured under better terms than competitors, if only they try, will be able to get later. In one case, obtaining Level 4 of SEI CMM Certification through the key partnership gave a regional firm another knowledge-based resource which is still rare not only in the local market but in the Russian market as a whole.

In the partnerships that we observed both parties benefit: a source develops a presence in distant locations while a recipient, i.e. a small peripheral firm, obtains a resource that enables it to outperform local rivals and through inter-organizational learning might contribute to further growth. In other words, for both sides the partnership itself becomes a valuable resource that could be further developed into a competence.

These findings contribute to the body of research on small firm strategy as follows:

Small Enterprise Strategy Model (Tarassova)

- Resource-based view on the firm's strategy is considered applicable to the strategy of growth-oriented or entrepreneurial small firms.
- Conceptual framework of the small firm strategy consisting of three elements labeled 'entrepreneur', 'vision, goals, objectives', and 'resources', all embedded into environment context, is suggested.
- Entrepreneur as a powerful individual is considered as a resource allocator and an allocated resource within the firm's strategy and his/her influence is assumed to be significant if not crucial.
- Entrepreneur's ability to learn and develop further capabilities is considered as a significant resource enhancing the small firm success.
- Key partnerships, allowing a small firm to differentiate it from others and outperform competitors, might be themselves considered as a resource.

The study, however, had certain limitations. The geography of research, i.e. the peripheral area of a country in transition, might have strongly influenced the research findings. The environmental context taken into account in this study is too specific and, therefore, the development of findings into theory applicable beyond the specific context in which they were observed requires further investigation. The research ideas on the small enterprise strategy outlined within this study need to be tested in other contexts.

This study emphasizes entrepreneurial learning and key partnerships as small firm resources, which gives directions for further research. Brumangim's hierarchical model of resources (Brumangim, 1994) might be used as a basis for further study. His concept addresses complexity of corporate resources and is primarily aimed at complex organizations of a large size. Nevertheless, the idea to put resources in hierarchical order seems to be applicable in the small enterprise context too as they certainly are of different value for the firm. Besides, Brumangim's model specifically emphasizes that organizations are influenced by a broader array of human characteristics, such as the desire to learn and the propensity toward vision building. This is exactly what constitutes the entrepreneurial learning and entrepreneurial capabilities that this study emphasizes. Therefore, further research, preferably quantitative, is suggested to develop a hierarchical model of small firm resources and to find statistical evidence for the relation between entrepreneurial learning and building capabilities and small enterprise performance.

Endnotes

- 1 My previous literature review (Tarassova, 2003) suggests that a great number of the experts in the field of small enterprise research call for qualitative methodology.
- 2 What if an owner-manager initially expected 'to conduct' business for self-support and has succeeded in accordance to his/her expectations? Would a firm of this kind be considered successful? I believe that it would, but only by the owner-manager. However, since this paper is focused on strategy, which is, according to the first assumption, likelier to be found in the growth-oriented small firms, competing for a bigger 'piece of the pie', I suggest that within the model to be discussed here, expectations should cover more than just self-support.
- 3 Consider, for example, changes in Japanese retail legislation in the 1990's that gave more freedom to the larger retail formats and forced thousands of small independent retailers to shutter their shop-windows.
- 4 I used these expressions as suggested by Collis and Montgomery (1997).
- 5 When the model was already completed, I accidentally discovered its accordance with the definition done by Johnson and Scholes (2001), who point out, "Strategy is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations".
- 6 "Population Census 2002", published in the regional newspaper *Tikhookeanskaya Zvezda*, August 21, 2003 (in Russian).
- 7 "Internet in Russia 2002", Public Opinion Foundation Survey, conducted for the Ministry of Communications and Information (in Russian) Available at <http://bd.fom.ru/reports/frames/o0209241.html>

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