

Strategic management in smaller and medium-sized enterprises

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Does the term strategic management have a substance or is it simply a buzz word? The risk is actually very high that one of the greatest and most significant innovations in the field of corporate management could remain misunderstood and suffocate in the dogmatism of classical business management thinking and the immobility of organisation. Especially for SMEs, strategic management is more important than ever before.

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Strategic planning is still understood to mean the same as long-term planning. So-called strategic plans are still based on extrapolative forecasts. And still, decisive natural strategic laws are either unknown or are ignored. The following will explain the importance of strategic management for SMEs.

The importance of strategic management

Strategic planning and strategic management were for long less important for the economic situation of most companies than comparatively high stability, the low speed of change in the most significant factors and a high degree of understanding of the business. Today, a company with no strategic planning and management system is like a car driver who races forwards with his eyes firmly fixed on the rear-view mirror.

The value and significance of strategic planning can be demonstrated by some very fundamental evidence:

- operative data such as sales, costs, profit and yield are, seen strategically, systematically misleading for a business's management.
- practically all the management and information system in use today, especially in small and medium-sized enterprises, deliver exclusively operative or short-term data. This applies in particular to accounting systems.
- the better the picture that the operative data paint, the greater the risk of strategic errors in the future.

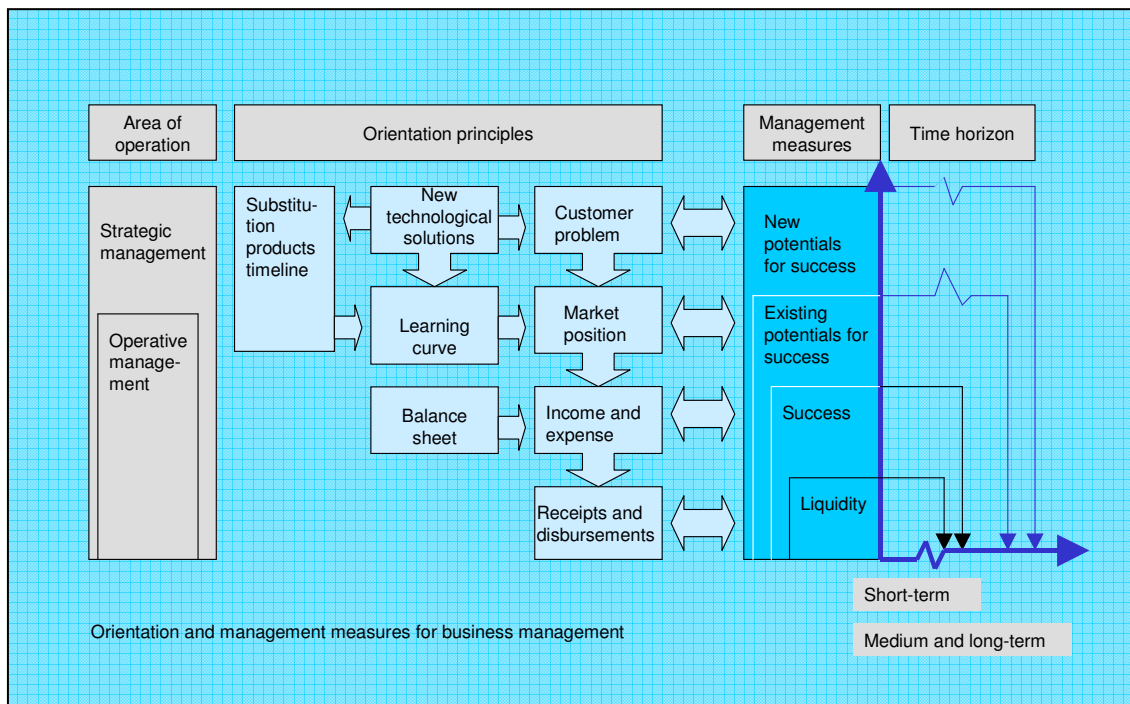
It is the opposing forces of operative and strategic business management (see illustration below), arising from the internal logic of the relationships that make a truly well-founded strategic planning essential. We can never make conclusions about strategic development from the operative course of business. Even the best balance sheets and profit and loss accounts never provide enough information on the long-term and permanent capability of a company to remain in business. Operative tools say nothing to us about the health of a business.

Present and future potential for success

Strategic planning means, therefore, constantly evaluating and improving the quality and durability of the present requirements for success and to create the requirements for success in the future.

While we can judge the success or lack of success of current operative business activity from the accounting system on the basis of income and expense or receipts and disbursements, very different measures must be used to assess the potential for success.

The decisive measures for the evaluation of current potentials are primarily the indicators for the market positioning of a company and the consequent fundamental cost structures. For the evaluation of future potentials for success, we must add the possibility of competitive substitution, primarily on the basis of technological substitutions and profound knowledge of the problems of the end-user, normally the consumer.



Only on this basis is it possible to recognise and evaluate the opportunities and risks inherent in new technological developments, to identify our true competitors and thus to have some control over the dangerous problem of competitive substitution.

The significance of individual factors for success

The question arises time and again which factors are truly important for the continued strategic success of a company.

Some of these factors are explained briefly below:

Consistent customer or user-orientation

Profound knowledge of customer needs is the basis for every successful corporate strategy. If we understand the user problem and if we do not sell our customers simple products, but complete solutions to their problems, then we have the best possible basis on which to make all our strategic decisions.

Market share and quality of market performance

As a rule, the higher the share of the market, the higher the income that can be expected. But the smaller the market share, the more closely the quality of what we offer on the market must be tailored to our customer' needs.

The return must be in a reasonable relationship with the investment

Every franc that is invested in a company must be able to produce at least one franc of profit, the increase in value that a company creates.

The customer structure must be right

A few good customers will always produce more than spreading the business thinly over a large base of small customers.

Innovate – within reason

Innovations are extolled today as decisive means of ensuring the future of companies. But we must clearly differentiate between a reasonable level of constant innovation that will have the desired effect on yield and an over-large portion of innovations in our market offer that, as a rule, cause the yield to decline.

The opportunities for small and medium-sized enterprises

We could now, with good reason, ask if strategic planning and management are something only for larger companies. This opinion is frequently heard but is fundamentally incorrect. Strategic management is not only more necessary for small and medium-sized companies than for large, it is also easier for them to implement. Strategic mistakes hit small and medium-sized companies more directly and harder than they do large companies, as they cannot cross-finance areas of the business that are doing badly with the profits from those that are doing well.

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