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**Reaching a Crossroads  
A Strategic Roadmap for the Small to Medium  
Size Enterprise**

by  
Joseph Treacy



**A Research Dissertation submitted in partial fulfilment for  
the Degree of Masters of Science in Technology Management  
of the  
National University of Ireland Galway**

College of Business, Public Policy and Law  
School of Business and Economics.

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**Date:** 1<sup>st</sup> September 2009

**Final Project/Thesis Submission**

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I hereby certify that I am the author of this document and that any assistance I received in its preparation is fully acknowledged and disclosed in the document. I have also cited all sources from which I obtained data, ideas or words that are copied directly or paraphrased in the document. Sources are properly credited according to accepted standards for professional publications. I also certify that this paper was prepared by me for the purpose of partial fulfilment of requirements for the Degree Programme.

Signed: \_\_\_\_\_ Date: 01/09/2009

**Acknowledgements:**

When I first made the decision to undertake a masters people told me I was crazy, and I guess throughout the past two years they were times that I thought they were right. However now that I have neared completion it would be unforgiving of me not to thank those people without who's help this thesis would never have been completed.

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To my beautiful children Ross, Holly and new baby Jasmine who have lacked the attention of a Father they truly deserve, my days of isolation are truly over and I promise to make it up to you all.

Finally, I would like to thank my gorgeous wife Sarah for her encouragement, dedication and most especially for putting up with me through everything that life has thrown at us over the past two years. It has been your inspiration, unwavering support and timely words of encouragement when they were most needed that have made me realise my dream, Thank you!

**Dedication:**

To you Mum, the greatest fighter and most inspirational person I have ever known, you would have been so proud of this moment. This is dedicated to you for all the love and support you have shown me throughout my life.

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**Abstract:**

Globalisation is now well and truly upon us and the barriers of entry no longer hold bounds on the larger organisations, the big corporations are now looking for new opportunities for expansion. For the Small and Medium Enterprises (SMEs) in Ireland this presents a serious problem as today, not only do they have to compete with the local competition, they now have to face the force of the big corporations who bring with them the power of finance, possess superior products and technology with a strong experienced managerial team driving it. Where at one time the SME had dominance in their local markets, in many cases the arrival of the major entrant signals the end of the road.

Many SMEs have diversified and become sub-contracting subordinates for larger organisations, while others have sold out to Multi-National Enterprises (MNEs). For the purposes of this research we examine the SMEs that have sold out to larger MNEs and we attempt to discover what unique features those SMEs have that is seen as adding value to the MNE. By understanding these factors we propose to create a strategic roadmap for all SMEs to benchmark themselves against, to bring them to the same level of higher performance as those SMEs seen as attractive propositions to the MNEs.



# *INTRODUCTION*

## **Chapter One: Introduction**

It has widely been recognised that the future economic success of the country is linked to the vitality of the SME sector. According to the Observatory of European SMEs (2002: Pg 5), becoming the most competitive and dynamic knowledge-based economy in the world will ultimately depend on how successful the enterprises, especially the small and medium sized ones are. Today in Ireland over 99% of businesses are classified as SMEs; that is enterprises with fewer than 250 employees.

Globalisation is now well and truly upon us and the barriers of entry no longer hold bounds on the larger organisations, the big corporations are now looking for new opportunities for expansion. For the SME in Ireland this presents a serious problem as today, not only do they have to compete with the local competition, they now have to face the force of the big corporations who bring with them the power of finance, possess superior products and technology with a strong experienced managerial team driving it. Where at one time the SME had dominance in their local market, in many cases the arrival of the major entrant signals the end of the road.

This point was highlighted recently by the Fine Gael Enterprise Spokesman Dr. Leo Varadkar (2009) who stated at a recent press conference that; “small businesses are the backbone of the Irish economy. There has been a silent haemorrhaging of jobs from small & medium enterprises across the country. Yet the Government has failed to produce any concrete measures to support SMEs and stem the tide of rising unemployment.”

This statement by Varadkar raises a lot of questions about the role of the Irish Government and their current policies as well as the role played by the SME sector themselves. Is the government actually doing enough in support of the SME sector in Ireland? Can the finger for failure be pointed solely at the doorstep of the Government and their current economic policies? Are SME's in Ireland doing enough to help themselves?

Argenti (1976: Pg 182) stated that “managers are as much responsible for avoiding failure as for achieving success”.

Many SMEs have diversified and become sub-contracting subordinates for larger organisations, while others have sold out to Multi-National Enterprises (MNEs). For the purposes of this research we examine the SMEs that have sold out to larger MNEs and we attempt to discover what unique features those SMEs have that is seen as adding value to the MNE. By understanding these factors we propose to create a strategic roadmap for all SMEs to benchmark themselves against, to bring them to the same level of higher performance as those SMEs seen as attractive propositions to the MNEs.

### **1.1 Background of the research:**

The idea for the research came from the personal experiences of the author who having been involved in an SME that had a very lucrative high-end computer hardware electronics business dealing in a niche market space, where after five years of profitable sustained development the business was sold to a larger Multi-National who saw the opportunity that presented itself in buying the business.



The net effect from this was the loss of the company as an entity, a loss to the local economy with the loss of one hundred jobs; however the biggest loss was to the Irish economy as the business was broken up and dispersed across a number of developing cheaper economies in China, Eastern Europe and South America.

While the scope of this research is not to examine the motives behind why the actions taken by the new ownership in moving the business abroad, it is hoped that by delivering on this research that it may go some way towards understanding;

- Why the SME sold the business
- What is the attraction of the business to the MNE
- To create a strategic roadmap for other SMEs who are;
  - a) Looking to follow the same strategy
  - b) Looking to move up the value chain

By developing a strategic roadmap the aims are to show where other SMEs need to be in their development to bring them to the same level of performance as those SMEs seen as attractive propositions for larger organisations. It is also hoped that by carrying out this research it may reveal other alternatives to decisions of moving businesses away from its local environment once acquired, and to see if a win-win situation can be created for stakeholders in other SMEs that may face the same type of situation.

## **1.2 Research Question**

A high proportion of SMEs close down during the first few years of existence, this would indicate that these SMEs were not able to sustain a level of growth within their chosen markets, or had never even achieved a level of proficiency; other SMEs on the other hand are acquired by larger organisations.

According to the European Commission (2006) they estimate that over the next decade 610,000 SMEs in Europe will have to be transferred to new owners (around 2.4 million jobs). So from this statement we try to answer the following primary question:

***PQ.1:** What Key Attributes are required by an SME that would make them an attractive proposition for acquisition by a Multi-National Enterprise?*

To address the primary research question the study shall seek to first answer the following related secondary research questions as these will lead to the discovery and answer of the primary question.

***SQ.1:** “Given the current size of the business what are the strategic goals in developing and maintaining the business over the next three years?”*

***SQ.2:** “What is perceived to be the best marketing approach for the company toward ensuring the future development of the business?”*

***SQ.3:** “How influential is knowledge and a learning culture perceived as part of the development within the organisation?”*

***SQ.4:** “In light of the current economic downturn are the government and their relevant support agencies doing enough to support the small to medium enterprises in Ireland?”*

***SQ.5:** “Is intellectual property seen by the owner/manager as way forward in developing the business or as an exit strategy?”*

### **1.3 Significance of the research**

The purpose of this research is to examine the current status of SMEs across a number of industry sectors in Ireland, the aims being to determine where they are currently in terms of their strategic development or “Here” and where they need to be to make them attractive to a Foreign Direct Investment (FDI) or “There”.

This research is important for all SME owner / senior managers as we hypothesise that if an SME is attractive to FDI or seen as an attractive acquisition prospect to a larger multi-national organisation then they are doing something right. This point is supported by Harris and Robinson (2003) who provide empirical evidence showing that foreign investors tend to acquire only firms with higher productivity in comparison with other manufacturing firms.

### **1.4 Outline of the research**

The thesis is structured in the following manner. Chapter one presents the background, study and purpose of the paper with relation to the SMEs in Ireland as well as the significance of the study.

Chapter two reviews the literature on SMEs, and while much has been written on the subject of the SME our aim is to examine specific key areas, such as strategy, attitudes to growth, the future development for entrepreneurship and innovation, and we conclude this chapter by defining maturity within the SME.

Chapter three presents the research methodology that was used within this thesis. We begin by outlining the research questions that need to be addressed and the methods used toward reaching our objectives. We then discuss the methodology we are proposing to use and why we chose this technique.

This consisted of a selection of qualitative interviews and questionnaires which took place across three specific industries, these were, Software Development, Medical Devices and the Electronics Industries.

Chapter four presents the key results and findings based on the interviews and questionnaires. We also outline a current state roadmap of the SME in Ireland based on these findings.

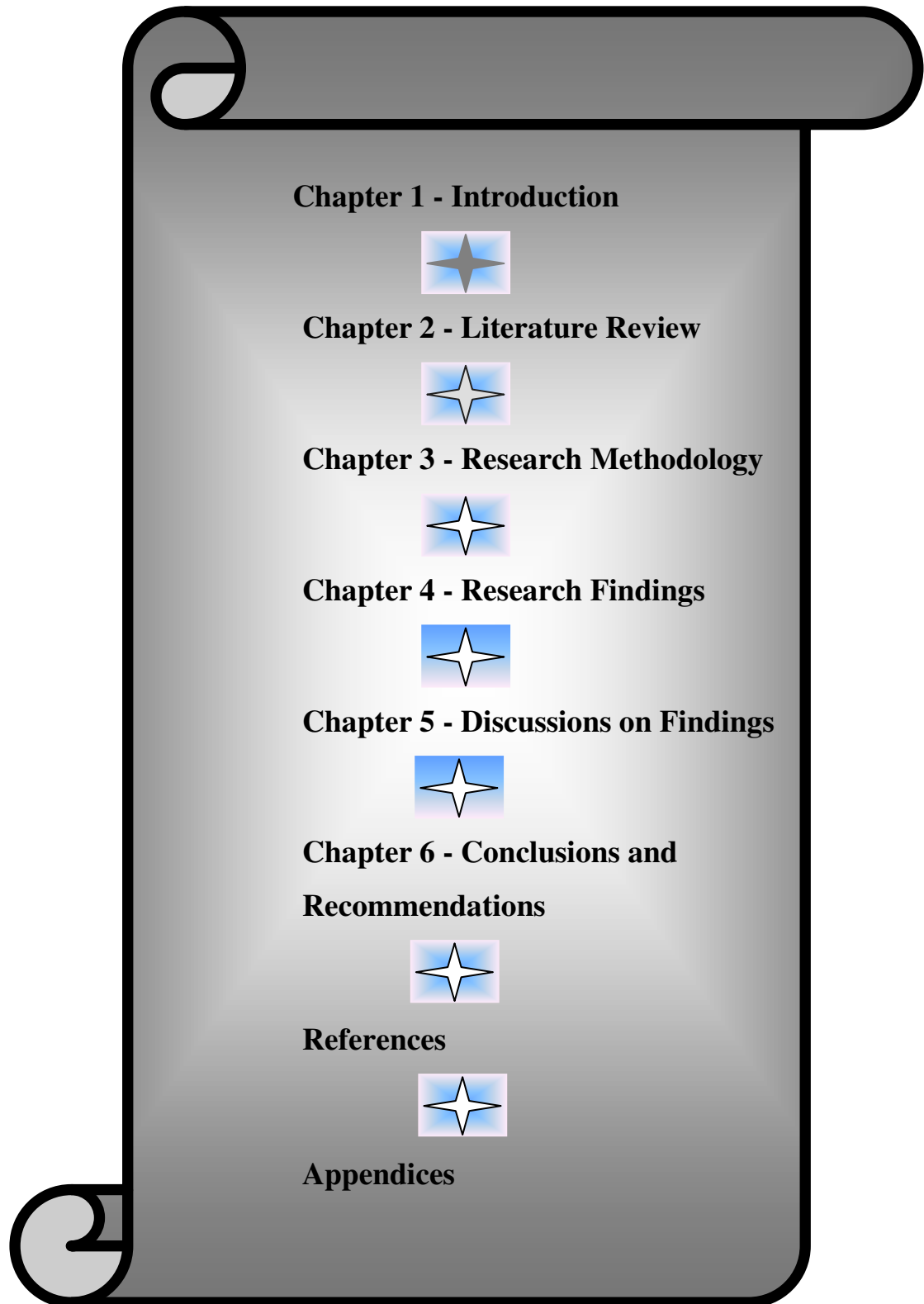
Chapter five discusses the main findings on the research in more detail and answers the primary question as well as the five secondary questions. We then develop a new strategic roadmap for the SME based on our analysis.

Chapter six presents a complete summary of the project as well as how the study contributes toward the academic research, and we finish with our conclusions and recommendations for future research.

### **1.5 Limitations of the research**

A major difficulty in undertaking this research study of SMEs and entrepreneurship is the lack of a reliable data on businesses that were acquired. Bannock and Doran (1980, Pg:123) noted that “Perhaps the most important gap in British Statistics, and indeed in virtually all other countries, is in statistics on new enterprise formation (births) and failures (deaths)”. Once a small business has ceased operating, information concerning the business becomes difficult to obtain. Typically most of the information resides with the owner as there is no systematic reporting of information on small businesses in the same way as is provided for larger concerns and particularly for listed companies.

**FIGURE 1: THESIS STRUCTURE**





## *CHAPTER TWO*

## **Chapter Two: Literature Review**

### **2.1 Introduction**

This chapter presents the review of the literature section of the thesis. It investigates how much previous research has been done in this area. The studies reviewed here were selected based on their relevance in helping to address the research question: that is in creating a strategic roadmap for the SME. We review the literature under the following headings:

- Definition of an SME
- Issues regarding strategy
- Attitudes to growth
- Knowledge and Development
- Future for Innovation and Entrepreneurship
- What is the best way to grow
- What is the impact on the economy if SMEs sell
- What is the impact on innovation
- What incentive is there for SMEs not to sell
- Building a culture of growth
- Patent Innovation
- Support for companies in Ireland
- Where do they go to next
- Define maturity

While each of these headings warrant separate research in their own right it is important to reference each of them in context to the aims and objectives for the purpose of this research.

***“To Creative a Strategic Road-map for the Small to Medium Size Enterprise”***

## **2.2 Definition of an SME**

There is no definite accepted definition of what constitutes a small enterprise Harvie (2002) as different industries across many countries adopt different definitions of what constitutes a small enterprise. To this end some of these definitions are based on quantitative measures such as staffing levels, assets or turnover, while others employ a qualitative approach, Meredith (1994). Below we outline a brief history on the definition of the SME.

### **2.2.1 SME Definition History:**

The small business definition was developed in 1947 in the USA by the Committee for Economic Development and it was based on a firm fulfilling two out of four key criteria:

1. That management of the firm is independent, with ownership and control normally held by the managers.
2. A small group or individual provides the capital
3. The operations are essentially local with owners and employees living in the same geographical vicinity. The markets served need not be local in scale.
4. The business firm must be small within its industry when compared to the largest firms in its field of operations. This measure can be in terms of sales volume, number of employees, or other significant comparisons.

Source: (Dickey: 1982)

In 1971 the Bolton Committee in the UK constructed a definition Table 1 that had both a quantitative and a qualitative element, namely the statistical definition and the economic definition.



**Table 1: Bolton Report Statistical Definition**

Sector	Definition
Manufacturing	200 employees or less
Construction	25 employees or less
Mining and Quarrying	25 employees or less
Retailing	Turnover of £50,000 or less
Miscellaneous	Turnover of £50,000 or less
Services	Turnover of £50,000 or less
Motor Trades	Turnover of £100,000 or less
Wholesale Trades	Turnover of £200,000 or less
Road Transport	Five vehicles or less
Catering	All excluding multiples & brewery managed houses

Source: Bolton (1971)

From the data showing in Table 1 we can establish that the Bolton committee found it appropriate to define size by the number of employees in some sectors but by turnover in others. The Economic definition given by the Bolton Report (1971) defined a small business as:

- One that has a relatively small market share
- One that is managed by its owners or part owners in a personalised way, not by an organised managerial structure
- One that is independent with the owners/managers having control of the activities of the business. They should only be limited by outside elements in matters of financial obligation.

In May 2003, the European Commission (EC) revised its definition of SMEs taking into account economic developments since 1996 and the application of the definition. Their intention was to ensure that enterprises that were part of a larger grouping did not benefit from SME support schemes.

Definitions of a small to medium sized enterprise based on the European Commission (EC) Table 2 use one or other of the following three defining measurements: Number of employees, Turnover and/or Size of the balance sheet.

**Table 2: The EU Definition of an SME**

	Head Count	Annual turnover	Annual Balance sheet
Medium	<250	<€50 Million	<€43 Million
Small	<50	<€10 Million	<€10 Million
Micro	<10	<€2 Million	<€2 Million

Source: European Commission for Enterprise and Industry (2009)

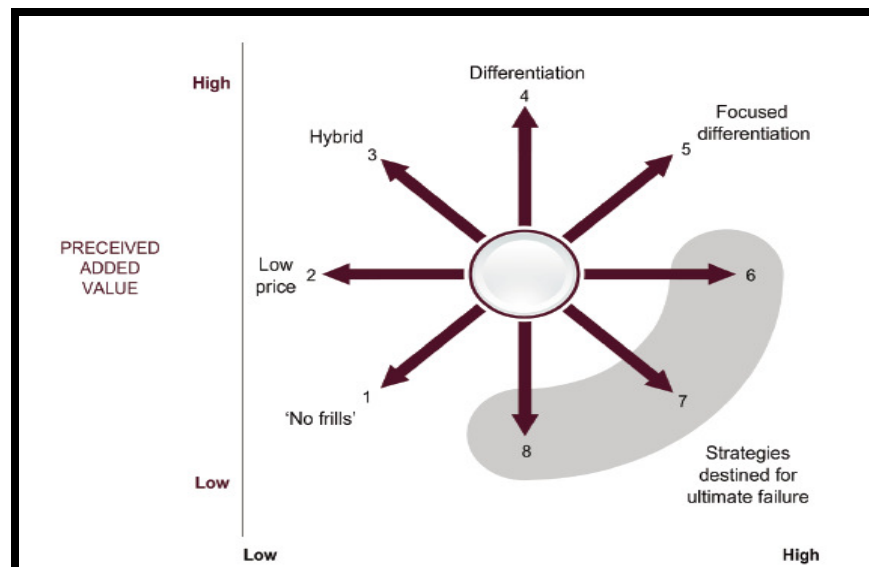
So from this we define an SME as an enterprise except agriculture, hunting, forestry and fishing which employ less than 250 workers and with an annual balance sheet not greater than €43 Million

### **2.3 Issues Regarding Strategy**

While the definition of strategy in SME's is often perceived as person centred rather than process driven, the performance and in many cases the survival of small firms can be identified with the success of the leadership style of the entrepreneur. Within the Irish context and for most SMEs the strategy adopted is crucial as it determines the competitive moves and business approaches devised by the entrepreneur in producing successful performance. It should be seen as a way for running the business and strengthening the company's competitive position as well as satisfying customers, and achieving performance targets. Johnson and Scholes (2002: Pg 10) describe strategy as "the direction and scope of an organisation over the long term, which achieves sustainable competitive advantage for the organisation through its configuration of resources within a changing environment to meet the needs of markets and to fulfil stakeholder expectations."

Today in Ireland many entrepreneurs routinely operate their daily business but do not believe that strategic management applies to them however it has been argued that no business is too small to have a solid strategy (Sandberg, Robinson, & Pearce, 2001). Relative positioning within the market place for SMEs has been shown to strongly influence its performance. The market entry of a start-up is of major importance because it determines the strategic basis from which the enterprise tries to achieve competitive advantages in the market place Gruber (2004). The strategy clock Figure 2 developed by Faulkner and Bowman (1995) outlines the various strategic options that are available modes of entry for the SME into the market place.

**Figure 2: The Strategy Clock – Competitive Strategy Options**



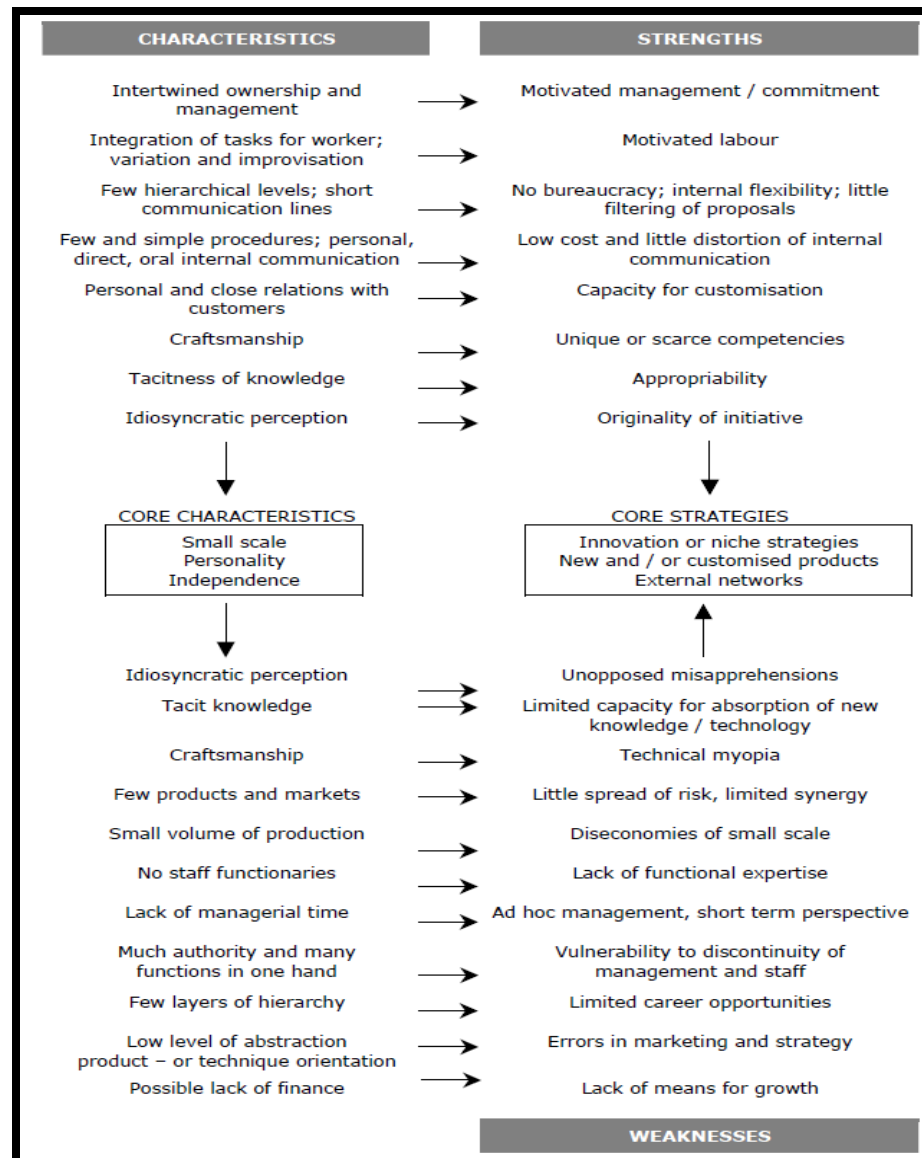
Source: Faulkner, D. and Bowman, C. (1995)

1. **No Frills:** This is likely to be segment specific.
2. **Low Price:** Risk of price war and low margins/ need to be a cost leader.
3. **Hybrid:** Low cost base and reinvestment in low price and differentiation.

4. **Differentiation:** (a) Without a price premium - Perceived added value by user, yielding market share benefits. (b) With a price premium - Perceived added value sufficient to bear price premium.
5. **Focused differentiation:** Perceived added value to a particular segment warranting a premium price.
6. **Increased price/standard:** Higher margins if competitors do not value follow/risk of losing market share.
7. **Increased price/low values:** Only feasible in a monopoly situation.
8. **Low value/standard price:** Loss of market share.

According to Nooteboom (1994) “the strengths and weaknesses of the SME would suggest their appropriate core strategies; innovation yielding new products where scale effects are not yet in force or/and niche markets with customize products, where scale effects do not appear.” He further goes on to state that the main advantages for SMEs is greater potential flexibility and closeness to the customer. The disadvantage would be a lack of economies of scale, scope and experience, (Nooteboom 1994). Figure 3 outlines the strengths and weakness of the SME.

**Figure 3: Strengths and weaknesses of SMEs**



Source: Nooteboom (1994: Pg 334)

In an investigation on growth strategies for the SME carried out by Perry (1986-87), he concluded that the most appropriate growth strategies are niche strategies, i.e. market development and product development strategies, in that order. Indeed most researchers would agree that for young SMEs a niche strategy would be the recommended option as this gives time for establishing a market position and developing the necessary resources to survive.

We define a niche market as a small distinct group of potential customers who have a preference and desire for greater product choices. A business that focuses on a niche market can be seen as addressing a need for a product or service that is not being serviced by mainstream providers.

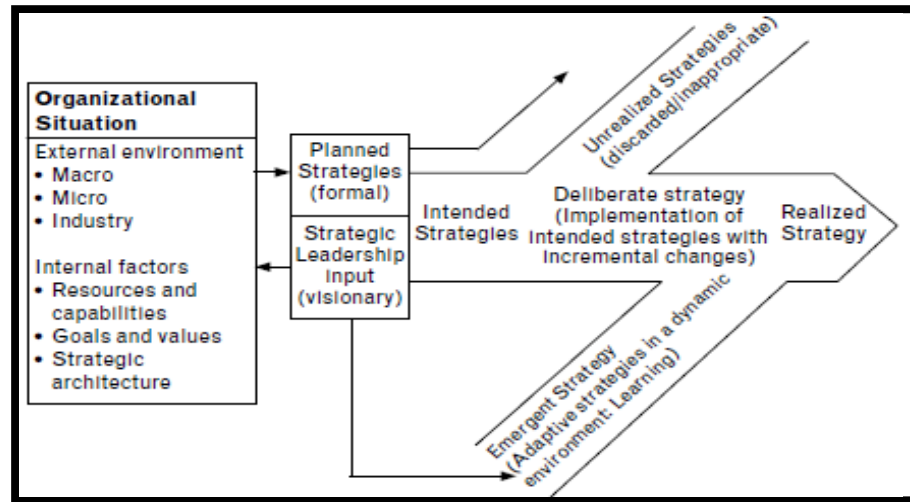
For the majority of SMEs in Ireland and indeed across most countries the business plans are more likely to be in the shorter-term and so they experience any changes within the market place a lot quicker than larger organisations, so from this we conclude that an emergent, non-formal, non-written type of strategy would suit their needs better. This point is supported by Ilbury and Sunter (2001) who state that,

*“Eighty per cent of the success of world-class organisations can be attributed to the implementation of emergent strategies – the trick is to co-ordinate the 101 little things that make the idea happen rather than the major innovative ideas. Management has the responsibility of evaluating the appropriateness of emergent unplanned strategies.”*

Ilbury and Sunter (2001: Pg 15)

Figure 4 shows an illustration of how this is done by comparing the emergent strategy with the organisation’s external environment and internal resources and capabilities to assess whether there is a strategic link between these two, and whether there is alignment with the organisational purpose. It illustrates that it is normal to find deliberate and emergent strategies simultaneously in an organisation.

**Figure 4: Deliberate and Emergent Strategies**



Source: Lynette, L. and Venter, P. (2007)

In summary, it is important for all SMEs to recognise that the very essence and nature of strategy as cited by Mintzberg, Ahlstrand & Lampel, (1998) is that;

- Strategy concerns the organisation and its environment
- Effective strategies are important to value creation for all stakeholders and above average earnings for the organisation
- Strategy sets direction; focuses effort, and provides consistency.

Source: Mintzberg, Ahlstrand & Lampel (1998: Pg 15–17)

## **2.4 Attitudes to growth**

Growing a business is one of the hardest things that entrepreneurs do and there is no general agreement on how firm growth size is measured and therefore there is a wide range of variables used by researchers. In government policy research for instance, as well as many management and economics sources growth is measured in terms of increases in SME employment.

However for the owner / managers of SMEs rather than employment growth, usually the most important factor is measured in terms of financial performance and how profitable the company actually is.

This is most commonly termed as the “**bottom line**”. That is not to say it is the only area that gets measured in terms of growth however it is certainly seen as the most important. Gibb and Davies (1990: Pg 26) state “there is no single theory that could adequately explain growth of SMEs, and it is unlikely that such theories will be developed in the near future.”

The statistics shown in Table 3 reveal that on average each year about 1.5 million new enterprises are established in the European Union (EU), corresponding to 9% of the total enterprise population. While at the same time 1.3 million enterprises annually cease to exist, corresponding to a death rate of 8% of the stock of enterprises. There may be any number of factors for ceasing activities, examples would through forced closure due to bankruptcy, poor management, lack of strategic planning, or because the business was acquired by a larger organisation.

**Table 3 Enterprise birth and death, EU-27, 2002 – 2005\***

	2003	2004	2005	average 2003/2005
<b>enterprise birth</b>				
1,000	1,472	1,625	1,585	1,560
% of population	9	9	9	9
<b>enterprise death</b>				
1,000	1,259	1,325	1,368	1,317
% of population	7	8	8	8
<b>net enterprise birth</b>				
1,000	213	300	217	243
% of population	1	2	1	1

\* Estimates based on available data for Bulgaria, Czech Republic, Germany, Estonia, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Netherlands, Austria, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden, United Kingdom.

Source: EIM on the basis of EUROSTAT: (2009)



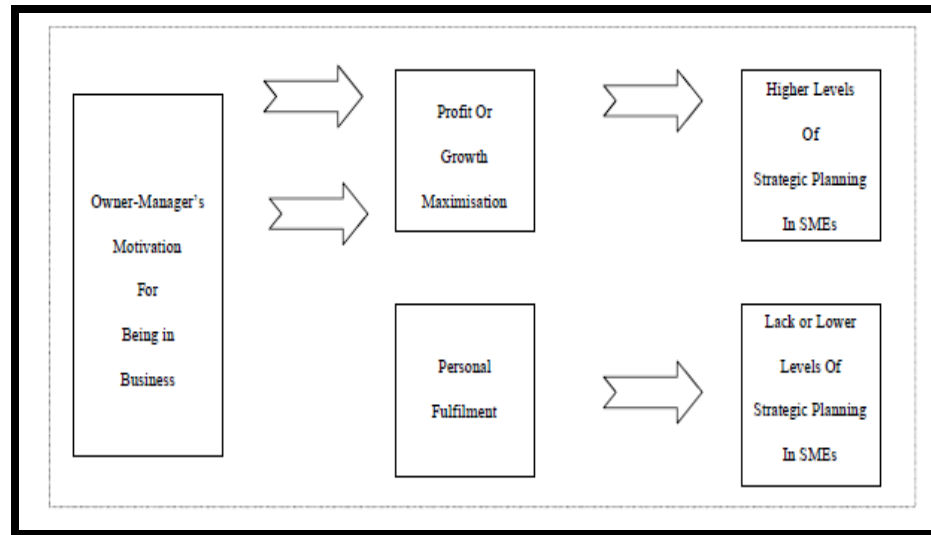
In SMEs, growth objectives are often tied in with the owner-manager's personal goals and so it is important that they are in-sync and support each other. There has been a lot written about the importance of the entrepreneur's growth motivation (Perren, 2000; Davidsson, 1991; Miner, 1990). "The close connection between an owner-manager and the firm is the dominant characteristic of small firms."

Vesalainen: (1995: Pg 18)

One message that comes from the strategic management literature is that not every owner/manager has the desire, or indeed the means in terms of resources and expertise, to grow their business. In many cases in Ireland and indeed across the EU just being comfortable and surviving at the present size, rather than future growth is most often the prime strategic objective. The reasons for this can be numerous ranging from personal life-styles to having the freedom to be able to make all their own choices, just having achieved their own dream of starting up a business is enough to sustain them.

The framework Figure 5 proposed by Wang et al (2007: Pg 6) outlines two opposing views of the owners motivations for being in business. The first one shows that if there is a strong desire for growth on the owner/managers behalf then there are high levels of strategic planning evident within the SME. The second shows that if the motivational factors are for personal fulfilment then there will a lack of or low levels of strategic planning leading to stagnation.

**Figure 5: Proposed Approach to Explain Lack or Low Levels of Strategic Planning in SMEs**



Source: Wang, Walker and Redmond (2007: Pg 6)

According to LeCornu et al. (1996: Pg 11; quoted in Wang et al.2007 Pg: 9) “many SME owner-managers are in business to pursue primarily personal, non-economic goals and most have “capped” or “limited” desires in relation to business performance and expansion.”

Source: LeCornu et al. (1996: Pg 11)

Cooper (1998) argues that, “the primary motivations of the entrepreneur bear upon not only the decision to start but also upon the decisions about how to manage, including whether or not to grow the firm aggressively”

Cooper: (1998: Pg 247)

However from the experiences of this author most entrepreneurs see the growth of the business as the key deliverable of their efforts, as this is seen to be the pinnacle of personal success.

However, aversion to growth has been said to be the principal reason why most SMEs stagnate and decline (Clark et al., 2001). For SMEs to remain in business and move up the value chain the entrepreneur/management team must continually look for ways to progress their businesses through improvements in their products and services, business operations and work practices.

According to Storey (1994: Pg 113) “a small proportion of high growth SMEs account disproportionately for SME job creation. Out of every group of one hundred small firms, the fastest growing four firms will create half the jobs in the group over a ten-year period. High growth SMEs are consistently found in buoyant niche markets and may not necessarily exhibit characteristics of textbook good management such as investing in staff development.”

This point by Storey is summed up beautifully by Peter Morgan, of Deloitte Touché, when explaining the characteristics of successful high growth SMEs as follows:

*“Using a boating analogy there are two strategies for making the boat go faster. One is having a capable crew and the other is to have the boat backed by a strong current. Our observation is that the ‘Ten Percenters’ [i.e. the high growth SMEs] place more emphasis on locating the boat correctly in the current than on the quality of the crew”*

(WBS, 2000)

## **2.5 Knowledge and development**

In today's economy knowledge is considered to be the key to creating and sustaining a competitive advantage because not only do knowledge resources allow managers to make informed predictions about future market activity, to learn from experience and discover opportunities (Shane: 2000), they remain, unlike property-based resources, hard to imitate. For the SME in Ireland this is one of the most crucial challenges they face today in how to manage their existing and new knowledge effectively in order to make maximum benefit from the innovative and creative capacity of the firm. The payoff potentials in getting it right are huge, as it would enable greater improvements in customer services, a reduction in the delivery cycle times, increased collaboration within the firm and increased interactions with external partners.

It is argued that knowledge is a source of growth and profitability within organisations when competitive advantage accrues from configurations of resources that are unique, imperfectly imitable and non-substitutable, including those associated with human capital (Barney: 1991).

### **2.5.1 Definition of Knowledge:**

For the purpose of this research paper we use the definition by Hulse et al. (1980) who defines knowledge as “a relatively permanent change in the behaviour, or potential behaviour that results from experience.”

### **2.5.2 Knowledge Classification**

Within the business environment knowledge is seen to exist in two separate forms, tacit knowledge and explicit knowledge. In the following section we explain each of these terms and the why they are important in the development of any SME. Nonaka (1994: Pg 16) defined the typology of knowledge in the form of an iceberg. The peak of the iceberg which is above the water level is explained as explicit knowledge that is visible and can be expressed and transferred from one resource to another. The underneath part of the iceberg is regarded as tacit knowledge that is difficult to visualise and therefore difficult to transmit.

### **2.5.3 Tacit Knowledge**

The term tacit knowledge was first introduced into philosophy by Michael Polanyi in 1958. He declares that tacit knowledge is deeply rooted in individual's actions and experience and also in their ideals, values and emotions. It is highly personal and is very difficult to replicate, express or even describe. One can best describe tacit knowledge as what's inside a persons head.

A good example of tacit knowledge from an organisational context is where a piece of equipment or machinery is bought in and installed by the manufacturer however should the machine break down or give fault and the people that purchased it are unable to repair it as they lack the technical knowledge, it is usually the manufacturer that is called back to come and repair the problem as they have the know-how or knowledge about the equipment, this is tacit knowledge.

Polanyi (1962) proposes that those using tacit knowledge to make decisions are often at a loss to explain the reasoning behind them as tacit knowledge is intuitive to the individual.

Leonard and Swap (2004) propose that these types of decisions are as close to wisdom that business gets, and that the insights are neither documented nor articulated. One major drawback with tacit knowledge is that it can be lost if not passed on. So in leaving tacit knowledge with only a few people in an organisation can create a serious problem if those people ever decide to leave the business and worse still if they decide to join a competitor.

#### 2.5.4 Explicit Knowledge

Explicit knowledge is knowledge that can be articulated in words and numbers and shared through, books and magazines, the web, in documents and procedures, computer programs, and computer databases. This kind of knowledge is easily communicated between individuals both formally and systematically. An example would be the manual that you would receive when you purchase a new product; this contains explicit knowledge on the product. Polanyi (1966) was one of the first researches to determine that all knowledge exists in a spectrum. At one end is the explicit and at the other end is the tacit knowledge. Figure 6 outlines the knowledge spectrum

**Figure 6: Knowledge Spectrum**

<u>Tacit Knowledge</u>	<u>Explicit Knowledge</u>
➤ Semiconscious	➤ Words
➤ Unconscious	➤ Numbers
➤ Knowledge in peoples heads	➤ Data
➤ Knowledge in Peoples actions, Ideals, Values and Emotions	➤ Scientific Formulae
	➤ Specifications
	➤ Manuals

Adapted from Polanyi (1966)

### 2.5.5 Knowledge Development

In order for knowledge to become reproducible and useable, tacit knowledge needs to be transformed into explicit knowledge. According to Nonaka and Takeuchi (1995) knowledge is created by individuals and even though ideas are formed in the mind of individuals, it is the interactions between individuals that typically play a significant role in developing new ideas and creating new knowledge. Nonaka and Teece (2001) conceive an organisation as an entity that creates knowledge by virtue of its actions and interactions with its environments. Among many of the studies of knowledge used in SMEs there is recognition, made more or less explicit, that knowledge is gained experientially rather than through environments of formal instruction. Many theorists and practitioners view the transition to a learning organisation as crucial to enable companies to unlock the learning potential of individuals and groups to gain and sustain competitive advantage. As Handy (1992) suggests:

*“In an uncertain world, where all we know for sure is that nothing is sure, we are going to need organisations that are continually renewing themselves, reinventing themselves and reinvigorating themselves. These are the learning organisations, the ones with the learning habit. Without the habit of learning, they will not dream the dream, let alone have any hope of managing it”*

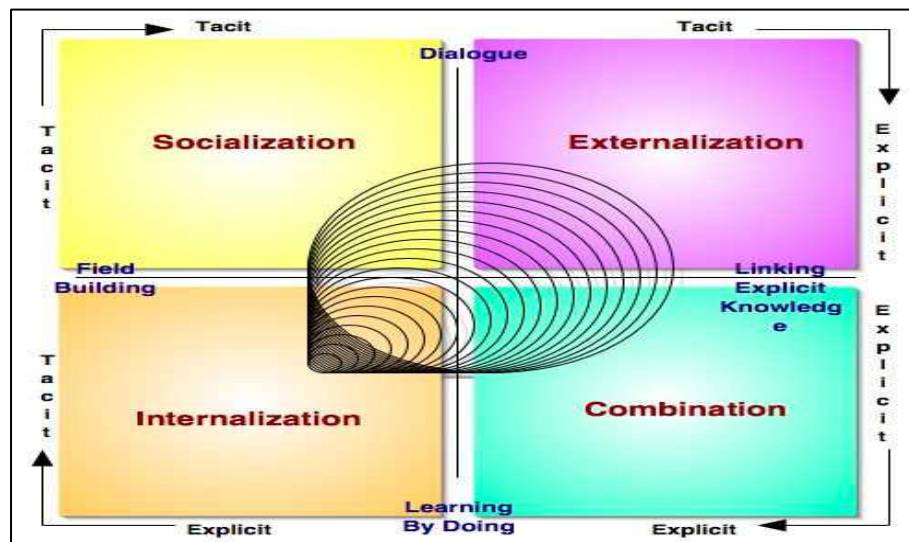
Handy: (1992: Pg 59)

For the majority of SMEs in Ireland, what is known is very much an outcome of the everyday activities of the people that work in them. This point is supported in a study carried out by Carson and Gilmore (2001) on marketing among 60 SMEs in England, for example, they found a heavy reliance upon existing knowledge and personal judgement, experience and communication skills.

According to Gibb (1997: Pg 16) “Learning better from experience implies bringing knowledge, skills, values and attitudes together to interact on the learning process; it therefore fundamentally demands an action-learning approach.”

Nonaka and Takeuchi (1995) propose that the creation of knowledge is the result of a continuous cycle of four integrated processes Figure 7. Through the sharing of tacit knowledge from the individual through to the group or organisational level knowledge gets transformed from tacit knowledge into explicit knowledge as they pass through the four spirals. These are socialisation, externalisation, internalisation, and combination.

**Figure 7: Spiral Process Creation of Knowledge**



Source: Van Wylick (2009)

Ireland is currently going through a transition period slow as it may seem toward becoming a knowledge-based economy, for far too long Ireland has become heavily dependent on foreign multinationals much to the detriment of many smaller industries that relied heavily on their business.



A lot of these multinationals are now moving their operations to cheaper economies. Lower value-added activities continue to be transferred to lower economies where costs are cheaper; one only has to look at the recent Dell decision for an example of this.

Recent assessments of this situation have concluded that a greater proportion of the country's wealth will need to be generated from local enterprise, and for this to take place SMEs in Ireland will need to move up the value chain and start investing in innovation and become more self-sustaining. This can be achieved by becoming direct suppliers to customers be that by way of products or services and the key to all of this will be in developing new networks and nurturing new knowledge.

## **2.6 Future for Innovation & Entrepreneurship**

In the medium to long term, sustained competitiveness for SMEs in Ireland will depend on their technological and innovation-based strengths. The key person that will be the driver of this is the entrepreneur. It will only be through their ability in developing new products successfully, in gaining access to new markets, and through the development of new knowledge and skill levels across the full spectrum of the labour force, will this be achieved.

We begin this section by first defining what is innovation and what role entrepreneurship plays in creating innovation.

### **2.6.1 Innovation:**

Innovation can mean many things to many people, for the customer innovation means a higher quality product with better value, more efficient services and higher standards of living.

For the entrepreneur innovation means sustained or improved growth in their business while for the employee innovation means the development of new knowledge with more interesting work and better skills. Equally however a lack of innovation can lead to business decline and a loss of jobs.

Rogers (1995: Pg 11) defines innovation as “any idea practice or object that is perceived to be the new by an individual or other unit of adoption.”

Joseph Schumpeter an Austrian economist was one of the first people to highlight the importance of innovation. In 1934 he identified five types of innovation:

- Introduction of a new product or a qualitative change in an existing product.
- Process Innovation new to an industry
- The opening of a new market
- Development of new resources of supply for raw materials or other inputs
- Change in industrial organisation.

Schumpeter’s ideas have since been updated and incorporated into the Oslo Manual. This is foremost international source of guidelines for the collection and use of data on innovation activities in industry today and is used right across the globe.

In 2005 the 3<sup>rd</sup> Edition of the Oslo manual was published and in it they have distinguished innovation into four key areas and classified it as having both technological and non-technological aspects.

- **Product Innovation:** This is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses.
- **Process Innovation:** Is the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques equipment and/or software.
- **Marketing Innovation:** This is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing.
- **Organisational Innovation:** This is the implementation of a new organisational method in the firm's business practices, work place organisation or external relations.

Source: Oslo Manual (2005: Pg 48-52)

So from the above abbreviation we define innovation as, the creative process that transforms technology and new discoveries and marketing or organisational processes into commercial value.

### **2.6.2 Entrepreneurship:**

Entrepreneurship can be seen in many forms today and be defined in many different ways, to some, entrepreneurship is seen a risk taking, to others it is creating a new venture and to others still it is innovation itself in the creation of a new product. Schumpeter (1934) describes entrepreneurship as the creation of the new resource combinations through the act of innovation.

According to Wennekers and Thurik (1999: Pg29) “Small firms are the vehicle in which entrepreneurship thrives.” However for many SMEs in Ireland achieving effective innovation is a difficult task and experience many problems in converting research and development into successful innovation.

Today in Ireland attracting more FDI is still the strategy adopted by the Government, it is commonly seen as the way forward toward economic recovery, however given the current economic downturn and with MNE’s moving their businesses out of Ireland to cheaper economies it will be the SME that will pave the way forward for Ireland and the key driver behind this will be the role of the entrepreneur.

Given that almost 97% of enterprises in Ireland are small it is from this sector that the economy will increasingly depend upon for the future competitiveness of the Irish economy. Birch (1979) reported that small enterprises created about 90 percent of all new jobs and thereby highlighted entrepreneurship as the engine of growth in the economy. This point is supported by (Brock & Evans, 1989; Carree & Thurik, 2000) who acknowledge that entrepreneurship is at present one of the major driving forces of the economy of every modern society and is considered the instrument to cope with the new competitive landscape and its enormous speed of changes.

Goodbody (2002: Pg 4, quoting Delmar: 2000) argues that, “the individual characteristics leading to an entrepreneurial career are only activated when exposed to a favourable socialisation process, where an entrepreneurial career is seen as a viable possibility among others, where the socialisation patterns usually consist of a certain specific ability and sensitivity, environmental possibilities and social support.”

While many entrepreneurs choose not to grow their business, for the future of entrepreneurship in Ireland new support structures need to be put in place that encourages idea generation and business growth development within these SMEs. This can be achieved by making the necessary knowledge available through training programmes and bringing in outside expertise. The Government will also play a key role toward creating an environment that makes entrepreneurship attractive toward the younger population by introducing entrepreneurship as part of third level education in universities, introducing policies that remove administrative burdens, increasing the availability of capital and driving a culture of innovation within industry.

### **2.6.3 The future for innovation:**

Given the current downturn in the today's global economy, more than ever productivity growth in Ireland is essential towards economic competitiveness and key to this will growth through the innovation of new products and services.

“Innovation is the specific instrument of entrepreneurship... the act that endows resources with a new capacity to create wealth.”

Drucker: (1985)

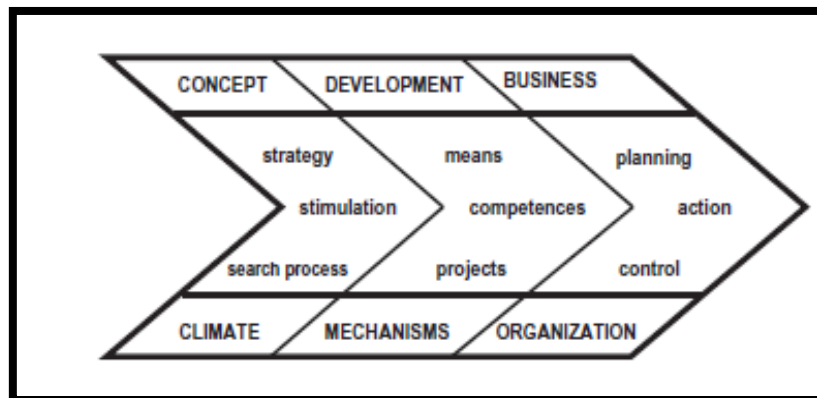
In a statement on innovation by the National Competitiveness Council (NCC) in 2004, they comment that “traditionally economies would improve its productivity in one of two ways, either through a reduction in costs or through the production of higher value added products or services. While emphasising the need to continue to minimise costs it is clear that for the future of competitiveness in Ireland it depends on productivity gains which accrue from innovations in product and process design.

There is generally widespread agreement that the Irish economy will need to be more innovative and knowledge-intensive as part of this process. It is therefore vital to ensure that all of the elements of a knowledge economy and society are properly understood and that there is an innovation mindset in those sectors where it will be needed most.”

Source: NCC (2004: Pg 4)

As innovation is seen as the basis of competitiveness in a knowledge driven economy, the quality of innovation support policies are critical levers of economic development. Figure 8 outlines a three stage concept of the innovate process.

**Figure 8: The Three Stages in the Innovation Process**



Source: Han van der Meer (2007 Pg: 194)

**Stage 1:** The concept stage is where new ideas are found, this is the stage of invention and free creativity.

**Stage 2:** The development stage is where ideas are transformed into projects.

**Stage 3:** The business stage in which projects are turned into new business.

Porter (1985) observes that innovation is among the most prominent factors that determine the rules of today's business competition. Successful firms must repeatedly disrupt competitors, and innovation in taking a creative idea and turning it into a product or process that can be sold or used in the marketplace is the way to achieve that.

However if businesses in Ireland continue to be lost through acquisitions and moved abroad to cheaper economies then Ireland will continue to lose out on its innovative capabilities and the opportunities of creating employment and wealth by competing against other economies.

## **2.7 What is the best way to grow!**

While there is a vast and diverse body of research on the growth of small business, Storey (1994) integrated many of the most commonly researched and categorised them into three main groups Table 4. These are the entrepreneur, the firm, and strategy. For a firm to achieve rapid growth, all of the components within the three groups need to be in appropriate alignment, and while there is no real agreement on the effect that each of these factors actually has on SME growth it does serve as a good framework for investigating potential influencing factors that may be positively or negatively affecting SME's (Hansen: 2009).

**Table 4: Factors Influencing Growth in Small Firms**

<b>The Entrepreneur</b>	<b>The Firm</b>	<b>Strategy</b>
Motivation	Age	Workforce Training
Unemployment	Sector	Management Training
Education	Legal form	External equity
Management experience	Location	Technology
Number of founders	Size	Market positioning
Prior self-employment	Ownership	Market adjustments
Family history		Planning
Social marginality		New products
Functional skills		Management recruitment
Training		State support
Age		Customer concentration
Prior business failure		Competition
Prior sector experience		Information and advice
Prior firm size experience		Exporting
Gender		

Source: Storey (1994: Pg 123)

### **2.7.1 Growth Strategies**

There is several growth strategies related to business management approaches presented in the literature. Managing growth is a major strategic issue for a growing firm and strategy is the most important determinant of firm growth. Thompson (2001: Pg 563-565) presents a number of growth strategies however for the purpose of this paper we examine two of these in more detail, organic growth and acquisitions growth.

### **2.7.2 Organic Growth:**

Penrose's (1959) fundamentally dynamic vision of firms holds that firm growth is led by an internal momentum generated by learning-by-doing. Management and employees alike become more productive over time as they become accustomed to their tasks through internal organic growth.



Sveiby (1997) defines organic growth as *“the natural kind of growth when the business concept is so strong and the level of knowledge is so high that more and more customers seek the company’s knowledge.”*

Source: Sveiby (1997: Pg 100)

Damanpour (1991) classified the organic orientation as structures that are conducive and decentralised to idea generation and their development in technology creation performance. The organic style approach is widely adopted in many young growing entrepreneurial SMEs particularly in Ireland as it is seen as being a good way of creating a culture of teamwork within the company, a *one for all and all for one* developmental style approach which in-turn fosters knowledge creation and innovation.

### **2.7.3 Acquisition Growth:**

This type of growth strategy is normally associated with large Multi-National enterprises and there may be several motives behind these acquisitions besides becoming bigger and acquiring greater market power. Acquiring synergies, industry restructuring, acquiring new knowledge and other necessary resources, overcoming barriers to entry, and entering new markets quickly may all be reason for using an acquisition strategy.

There are cases where some smaller enterprises have tried to use this strategy in being acquired by a larger organisation to enable them to expand their own brand name, however the problem with this type of growth is eventually the SME will be totally assimilated into the larger organisation leading to a complete loss of the business as an entity and a bigger loss to the economy in the form of job loss.

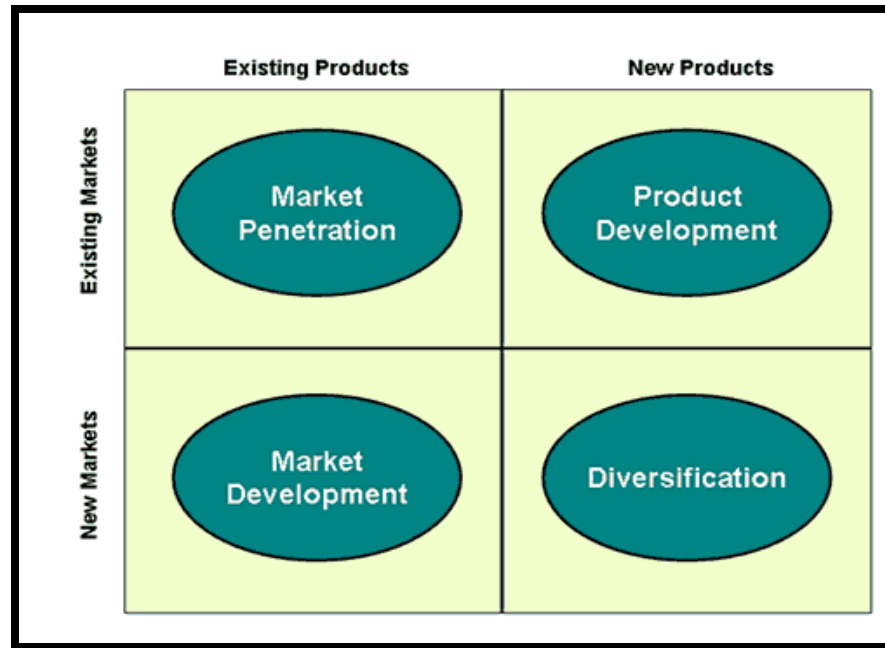
#### **2.7.4 The best way to grow**

As discussed earlier in section 2.1 relative positioning within the market place for SMEs has been shown to strongly influence its performance, and this positioning comes from the strategic choices adopted by the business / entrepreneur. There are many strategic options open to SMEs as modes of growth, usually however the strategy chosen will depend on management's conscious decision-making and choice. Many researchers believe that the more education and experience the entrepreneur has from previous business experiences the more likely it is growth will be achieved.

Using Igor Ansoff product/market growth matrix Figure 9 it suggests that the growth of a business depends whether it markets new or existing products in new or existing markets. The product/market matrix sets out a series of growth strategies that shape the direction of the business strategy.

- Market Penetration: This strategy is aimed at growing the businesses by selling existing product into existing markets.
- Market Penetration: This growth strategy is for businesses who are selling existing products into new markets.
- Product Development: This strategy is aimed at growth through the introduction of new products into existing markets.
- Diversification: This growth strategy is for the introduction of new products into new markets.

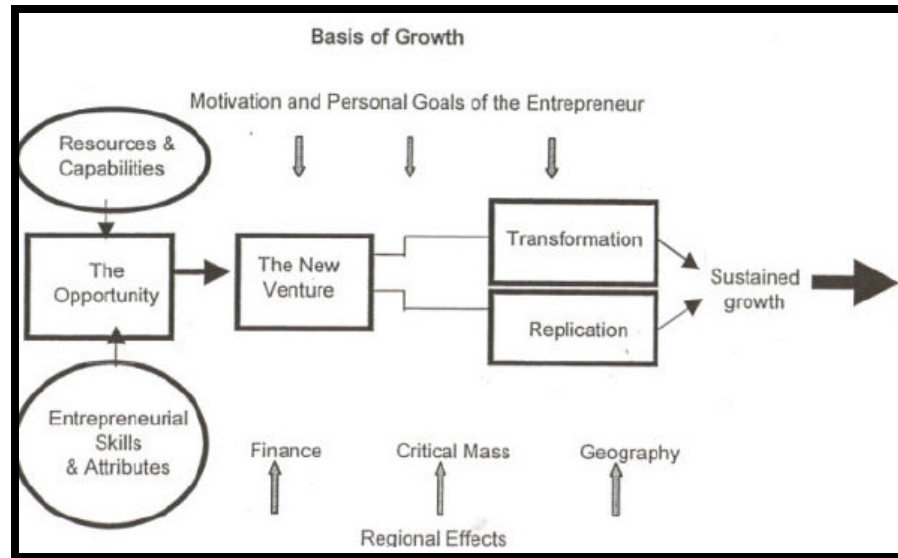
**Figure 9: Ansoff Product / Market Growth Matrix**



Adapted from Igor Ansoff Product/Market Matrix (1965)

Another multidimensional framework developed by Lowe & Henson (2004) Figure 10 depicts probably the most appropriate representation of the process of growth within SMEs. The principal challenge that most SMEs face in growing their business as experienced by the author is in maintaining the current product development processes as well as the flexibility of the team while at the same time trying to introduce more efficient and structured processes into the company.

**Figure 10: The SME Growth Framework**



Source: Lowe & Henson (2004: Pg 17)

## **2.8 The impact on the economy if SMEs sell**

It is well documented in the literature that the SME makes substantial contributions to the economy both in terms of employment and social infrastructure and in terms of tax and other contributions to the exchequer. In a report by the Small Business Forum (SBF) published in 2006 it showed that in 2002, small businesses in Ireland paid 11% of corporation taxes almost €25 million Euro, 37% of income taxes almost €4 billion Euro and 50% VAT in the services sector almost €4 Billion Euro. (Small Business Forum, 2006: Pg 5)

Any loss in this revenue will have a significant impact on the economy. According to Audretsch (2002) it is increasingly new and small firms, rather than large ones, that are the major providers of new jobs. Furthermore, Audretsch (2002) purports that, countries exhibiting a greater increase in entrepreneurship rates tend to exhibit greater decrease in unemployment rates. Not only do SMEs outperform large scaled enterprise, SMEs are the more dominant form of business in Ireland.

The overall importance of SMEs to the economy is probably best summarised by Ibielski (1997 quoted in Hashim & Abdullah 2000, Pg: 193) as follows: “SMEs are mighty minnows, reflecting the competitive spirit that a market economy needs for efficiency; they provide an outlet for entrepreneurial talents, a wider range of consumer goods and services, a check to monopoly inefficiency, a source of innovation, and a seedbed for new industries; they allow an economy to be more adaptable to structural change through continuous initiatives embodying new technologies, skills, processes or products.”

Source: Wang. C, Walker. E. and Redmond, J. (2004: Pg 2)

Most of the literature discusses start-up firms as being the seed for economic development, however young SMEs are also very susceptible to larger MNEs who for various reasons are unable to generate organic growth on their own. They continuously survey markets for SMEs with new ideas and/or products that will maintain their growth rates. It is by acquiring these SMEs, the larger firms can compensate for the lack of “intrapreneurship” (Baumol: 2004). The bottom line as experienced by this author is that the SME gets absorbed back into the larger organisation resulting in the closure of the local plant. To the local economy it means a loss of jobs, the break up of the business as an entity however on a larger scale it means a loss to the regions economic growth.

According to the European Commission of Enterprise and Industry there are approximately twenty SMEs per one thousand inhabitants in Ireland, which corresponds to only half of the EU average. Table 5 shows the number of SMEs in Ireland and the number of people employed as a comparison to the other EU countries in 2005.

**Table 5: Number of SMEs in Ireland compared to the other EU States**

	Number of enterprises	Number of persons employed	Value added	Number of enterprises	Number of persons employed	Value added
	1,000	1,000	EUR billion	%	%	%
<b>EU-27</b>	<b>19,602</b>	<b>85,000</b>	<b>3,090</b>	<b>99.8</b>	<b>67.1</b>	<b>57.6</b>
Belgium	395	1,602	83	99.8	66.6	57.8
Bulgaria	240	1,318	5	99.7	72.6	53.2
Czech Republic	878	2,461	30	99.8	68.9	56.7
Denmark	202	1,129	67	99.7	66.0	64.8
Germany	1,654	12,357	553	99.5	60.6	53.2
Estonia	38	305	4	99.6	78.1	75.1
Ireland	85	654	53	99.5	67.5	58.2
Greece	820	2,031	44	99.9	81.9	69.6
Spain	2,542	10,538	339	99.9	78.7	68.5
France	2,274	8,834	412	99.8	61.4	54.2
Italy	3,919	12,182	420	99.9	81.3	70.9
Cyprus	43	174	5	99.9	84.3	80.0
Latvia	62	469	5	99.7	75.6	71.1
Lithuania	93	619	5	99.7	72.9	58.5
Luxembourg	21	120	7	99.6	70.8	58.5
Hungary	556	1,783	20	99.8	70.9	50.2
Malta	:	:	:	:	:	:
Netherlands	492	3,146	146	99.7	67.6	61.5
Austria	272	1,589	76	99.7	67.4	60.0
Poland	1,405	5,289	59	99.8	69.8	48.4
Portugal	848	2,676	47	99.9	82.0	67.8
Romania	410	2,463	13	99.5	60.8	48.4
Slovenia	88	371	8	99.7	66.4	60.6
Slovakia	42	501	7	99.8	54.0	44.5
Finland	187	717	40	99.7	58.5	53.9
Sweden	523	1,667	83	99.8	63.2	55.6
United Kingdom	1,535	9,636	501	99.6	54.0	51.0

Source: Adapted from the Euro Stat SBS database (2004-2005)

While there is a distinct lack of statistical information to show exactly how many SMEs in Ireland have been acquired by larger organisations, statistics taken from the Global Entrepreneurship Monitor (GEM) report in 2007, shown in Table 6, reveals that almost 2% of entrepreneurs discontinued businesses in Ireland each year between the years 2003-2007.

**Table 6: Entrepreneurial Activity in Ireland 2003-2007****TABLE 1.3 ENTREPRENEURIAL ACTIVITY IN IRELAND: 2003-2007**

Year	Nascent entrepreneurs	New firm entrepreneurs	Total early stage entrepreneurs	Established entrepreneurs	Future aspirations to be an entrepreneur	Closed a firm
2007	4.2%	4.2%	8.2%	9.0%	11.2%	1.9%
2006	4.5%	2.9%	7.4%	7.8%	9.8%	1.8%
2005	5.7%	4.7%	9.8%	8.1%	12.8%	2.3%
2004	4.4%	3.6%	7.7%	6.5%	11.0%	1.3%
2003	5.1%	3.8%	8.1%	6.7%	11.3%	2.5%
Average	4.8%	3.8%	8.2%	7.6%	11.2%	1.9%

Source: GEM Report (2007)

One could argue the point that not all of these failed businesses were down to missed opportunities within the market place, but rather the opposite in that they were opportunities taken by the owners through exit strategies in selling the business to larger organisations. Which ever viewpoint is taken when a company ceases to exist, the potential for future employment an innovation is lost to the economy and this also constrains the future for economic growth.

## **2.9 What is the impact on Innovation?**

In Ireland today innovation is considered to be one of the most important drivers for long-term productivity and economic recovery. It is argued that countries that generate innovation, create new technologies and encourage adoption of these new technologies will grow faster than those that do not.

Innovation therefore can be seen as the creative process of exploiting new ideas or a more complex definition describes innovation as the exploitation of new ideas in pursuit of a competitive advantage, including the development of new or enhanced products and services and the introduction of new business models, new organisational structures or new work practices.

As the economy continues on its downward spiral and company acquisitions by larger organisations continue to occur, and, since an acquisition is usually driven by a corporate headquarters in another country, the impact on innovation locally often gets lost in translation. Today in Ireland much of the technology and knowledge that is driving the economy is produced abroad, this makes Ireland a technology taker rather than a technology maker. One only has to look at the figures from the Erawatch country report (2006) showing that expenditure by foreign-owned firms in Ireland amounted to €939m in 2006, with spending by Irish-owned firms totaling €390m in R&D. This equates to over 70% of €1.33b in Business Expenditure of Research and Development (BERD).

Given this last statement as a backdrop when an SME is acquired by an MNE, not only will the SME be lost as an entity to both the local and domestic economy, one of the biggest losses will be the knowledge and innovative capacity that the business has built up over time. The future for Irish competitiveness depends on productivity advances which accrue from innovations in product and process design, and the backbone of this is the SME sector.



While there is generally widespread agreement that the Irish economy will need to be more innovative and knowledge-intensive as part of this process, current government spending on R&D is still a long way behind the OECD average and education still has some way to go before the critical research infrastructures are in place to accommodate world-leading research and development (OECD 2004).

It is therefore vital to ensure that all of the elements of a knowledge economy and society are properly understood and that there is an innovation mindset in those sectors where it will be needed most “the SME”. It is also imperative that some type of policies and/or legislation be put in place to support the SMEs so they don’t feel they have to sell.

#### **2.10 What incentive is there not to sell out!**

Regarding incentives for the entrepreneur not to sell out their business very little was discovered in the literature surrounding this topic. This leads this author to hypothesise that there are no real incentives currently in place for the owner/managers of SMEs not to sell. What this means is that when the big boys come calling there is very little that one can do to ensure the survival of the business.

The thoughts of this author is that there should be a clause built in to the contractual agreements at initial start-up phase with the relevant state agencies, stating that no businesses can be taken out of it’s local environment for a certain period of time should the business be sold on or acquired.

Two other key points as experienced by the author is that in selling on a business the whole area of brand loyalty gets lost with the customer as well as the relationship with the local community, this can also have an effect on the standing of the entrepreneur.

Customers who associate themselves with a specific brand with the original organisation can have a tendency to look elsewhere for their products/services as they feel the personal association with the original company is no longer there, once a company has been sold. This has a negative effect and can lead to a downturn in sales and even closure. The second aspect of this is that the standing of the entrepreneur within the local environment can also suffer as they can often be associated with the loss of local employment and revenue if the business is moved elsewhere as part of the acquisition.

While these points are not substantial reasons for an entrepreneur not to sell a business it mainly serves to highlight the point that customers tend to build an association with the owner or brand of an organisation and are very slow to regain confidence again if they feel that bond has been broken.

### **2.11 Building a culture of growth**

As globalisation accelerates ever faster and faster transforming both technologies and the economy it is clear that for the entrepreneur building a business with a strong culture for innovation will be essential for successful growth. Culture within SMEs is often viewed as an extension of the owner/managers personality and leadership style such is the influence they have on the people that work for them when developing the business, therefore the leader's vision and drive must be focused on innovation if it is to be successfully incorporated in the organisation.

Throughout the innovation literature the central role of people and the ensuing culture this creates are continually identified as being the key to innovation (Schmidt, 1990).

### **2.11.1 Definition of Culture**

A widely accepted definition of culture provided by Schein (1984) is:

*“The pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid, and, therefore to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.”*

Source: Schein (1984: Pg 4)

### **2.11.2 Growth through Knowledge**

What is evident is that the future for SMEs in Ireland will be one established on a foundation of knowledge and technology based activities. In a report for the Strategy for Science, Technology and Innovation the vision outlined by the Minister for Trade and Employment (2006) is that;

*“Ireland by 2013 will be internationally renowned for the excellence of its research, and will be at the forefront in generating and using new knowledge for economic and social progress, within an innovation driven culture.”*

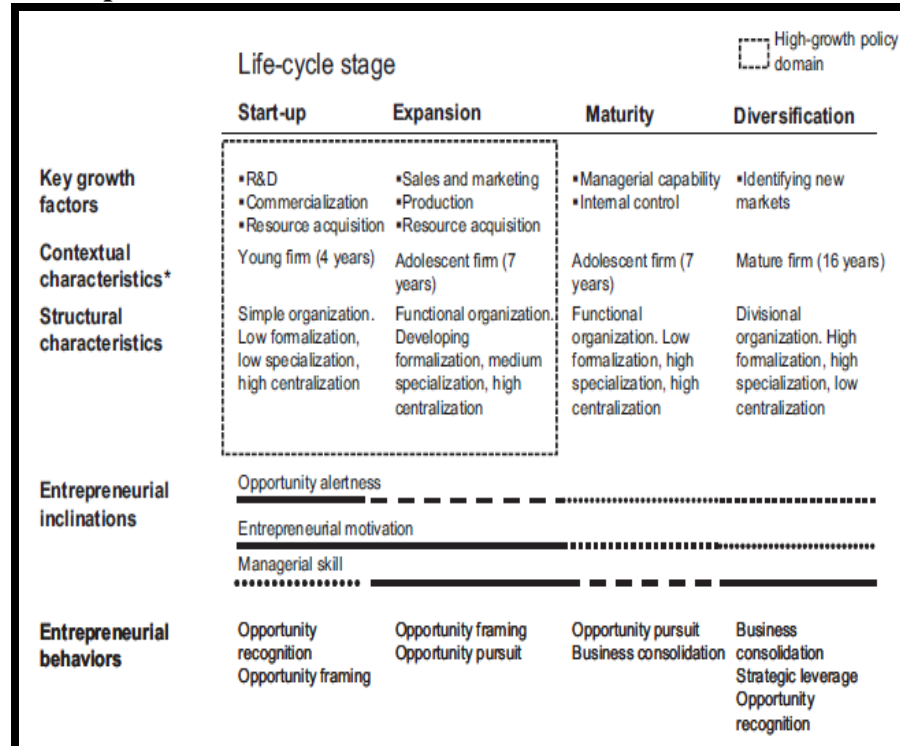
Source: Strategy for Science, Technology and Innovation (2006)

The economy is transforming itself in response to current globalisation, and to stay in line with the transformation, the role that knowledge will play within the SME will need to increase, and intellectual capital will now assume and even greater responsibility in driving growth. From this perspective education within the SME industry will need to be an on-going process. This should include more formal training in the manner of up-skilling either through on the job training or more formal courses through third level education. World-class skills, education and training have been identified as crucial areas in which Ireland can develop competitive advantage.

Significant challenges now present themselves if Ireland is to achieve the required levels to be a knowledge base economy and the entrepreneurship will play an ever increasing role with high level activity being driven by the acceptance of failure as part of success.

There are many ways in developing a culture of high growth in companies Figure 11 gives an illustration of the steps involved for high growth firms from idea concept to a successful high-growth company. This is a very simplistic model and is adapted for firms that grow organically.

**Figure 11: Illustration of growth stages in an innovation-driven start-up firm**



Source: High-Growth SME Support Initiatives in Nine Countries: Analysis, Categorization, and Recommendations, Finland (2007: Pg 12)

At the start up phase the values of the business are those of the owner / manager but as the firm grows the values become those of the group with every new hire adding to the culture. If the company has a positive culture then this will lend itself to a dedicated team which in-turn will lead to increased productivity.

This point is backed up by McLarty (1998) and Bennett & Smith (2002) who found that “SMEs are not successful because of a fruitful business environment or other such external factors. Rather, internal factors and the ability to master these factors in a competitive setting are what enable SMEs to grow and become successful. Successful entrepreneurs are able to create.”

Source Holm & Flemming (2002: Pg 5)

In building a growth culture for the future in the SME in Ireland, there will be a need for more open collaboration of information between the people in both research institutes and businesses, this will ensure that opportunities are realised in technological advances and innovation.

## **2.12 Patent Innovation**

The capacity of SMEs to develop new and innovative products varies across different sectors of industry. These SMEs may benefit from different aspects of the Intellectual Property (IP) system depending on their specific needs and environment. One of the possibilities to induce innovation is the introduction and use of property-like rights – perhaps the oldest institutional arrangement particular to innovation as a social phenomenon (Granstrand, 2006).

According to Gowers (2006: Pg11) “Intellectual Property Rights (IPR) can be regarded as a bundle of rights that protect applications of ideas and information that have commercial value.” Gower continues by stating that the IPR system has three goals;

1. To provide incentives for knowledge creation (and thus also the build-up of wealth)
2. To accumulate knowledge in a culture
3. To protect a distinctive identity.

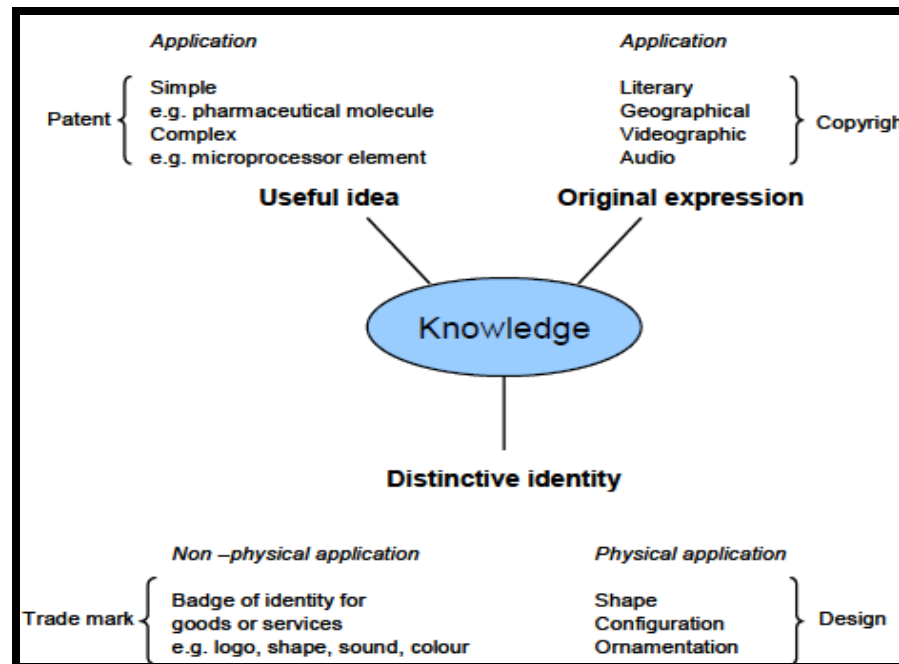
In Ireland today it is technology developers that reap the most benefit from the use of patent protection of their inventions however these are a small minority. The vast majority of SMEs would be seen as technology followers but they too have a lot to gain through the use of IP, in the way of trademarks, and industrial designs, these can be a way of differentiating their products and marketing their goods and services.

### 2.12.1 Defining Patents:

Patents cover inventions of new and/or improved products and processes (Blackburn, 2003: Pg 6). Against the disclosure of the technical details of an invention to the patent office, the patent holder receives the right for a limited amount of time (mostly up to 20 years) to stop others from making, selling or using an invention for commercial purposes without permission.

Patenting has the highest degree of legal formality, requiring formal registration at a patent or IP office and an examination with respect to the different criteria of patentability. Figure 12 outlines the different intellectual property rights available to SMEs for their products / services.

**Figure 12: Major IPR instruments and common applications**



Source: Gowers (2006)

Today in Ireland there is strong support structures available to SMEs who want to pursue IPR. Through its Research Innovation Fund, Enterprise Ireland provides support for research commercialisation:

- Proof of concept: €50-70,000
- Technology Development: €300–400,000
- Commercialisation of R&D: €215–300,000
- 

In addition, Enterprise Ireland has a range of other supports that could be helpful to assisting R&D and patent commercialisation:

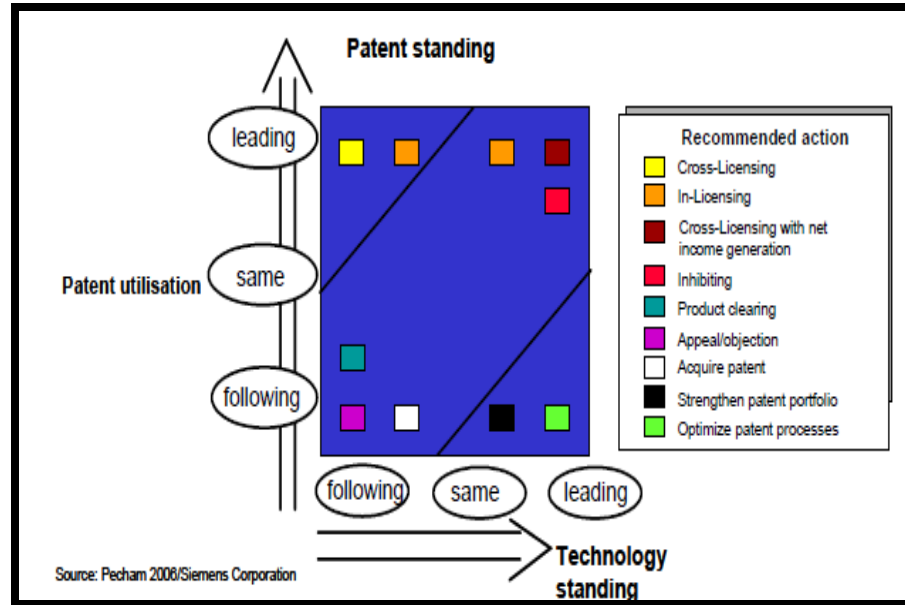
- Seed Fund
- Equity Fund
- Incubator Centre Initiative
- Technology Transfer Initiative – Atlantic University Alliance (UCC, NUI Galway and the University of Limerick)
- CORD and Mentor programmes

There is a growing recognition of the power of Intellectual Property system for spurring innovation. Figure 13 illustrates how innovation can be fostered actively in SMEs by the exploitation of Intellectual Property system mainly patents, through the following major avenues;

- Patent licensing,
- Use of patent information as strategic tool for, e.g.
  - Simulating technological changes within an enterprise,
  - Identification and comparative evaluation of technologies
  - Monitoring global technological changes
  - Avoiding collision with existing patent rights
  - Forecasting future technological developments and industrial cycles



**Figure 13: Matrix for the usage of different IP protection methods, depending on market position/standing**



Source: Pecham (2006)

### 2.13 Support for companies in Ireland?

Within Ireland there are a number of government bodies Table 7 that provide support to companies in the SME sector. Their support functions include, funding, training, recruitment, research and development and HR support. In the following section we review each of these government bodies and their support functions.

**Table 7: Support Agencies in Ireland**

<b>Enterprise Ireland</b>	<b>County Enterprise Boards</b>	<b>FAS</b>
<b>Shannon Development</b>	<b>IDA Ireland</b>	<b>Udaras Na Gaeltachta</b>

**Enterprise Ireland**, (EI) is the main agency charged with supporting the indigenous business sector within Ireland. Their key focus areas are in supporting SMEs in achieving export sales, investment in research and innovation, competing through productivity, in starting up and scaling up of businesses and driving regional enterprise. EI also offer various support in terms of funding for the SME sector with the aims of developing the business. Table 8 outlines each of these funding schemes with a direct link for further information

**Table 8: Enterprise Ireland funding schemes:**

Fund Type	Link to fund scheme
Enterprise stabilization fund	<a href="http://www.enterpriseireland.com/AboutUs/Organisation/Enterprise+Stabilisation+Fund.htm">http://www.enterpriseireland.com/AboutUs/Organisation/Enterprise+Stabilisation+Fund.htm</a>
Fund to explore new markets/ideas	<a href="http://www.enterpriseireland.com/Grow/Finance/FundingforExploringNewOpportunities.htm">http://www.enterpriseireland.com/Grow/Finance/FundingforExploringNewOpportunities.htm</a>
Funding for start up companies	<a href="http://www.enterpriseireland.com/Grow/Finance/Standardhighpotentialstartupcompany.htm">http://www.enterpriseireland.com/Grow/Finance/Standardhighpotentialstartupcompany.htm</a>
Growth Funding	<a href="http://www.enterpriseireland.com/Grow/Finance/Growth+Fund.htm">http://www.enterpriseireland.com/Grow/Finance/Growth+Fund.htm</a>
Simulating research and innovation	<a href="http://www.enterpriseireland.com/ResearchInnovate/R+and+D+in+your+Enterprise/RandD+Stimulation+Grant.htm">http://www.enterpriseireland.com/ResearchInnovate/R+and+D+in+your+Enterprise/RandD+Stimulation+Grant.htm</a>
R&D Fund: Small projects	<a href="http://www.enterpriseireland.com/Grow/Finance/RandD+Fund+Small+Projects.htm">http://www.enterpriseireland.com/Grow/Finance/RandD+Fund+Small+Projects.htm</a>
The R&D Fund	<a href="http://www.enterpriseireland.com/Grow/Finance/R+and+D+Fund+2008.htm">http://www.enterpriseireland.com/Grow/Finance/R+and+D+Fund+2008.htm</a>
Collaboration	<a href="http://www.enterpriseireland.com/ResearchInnovate/R+and+D+Collaboration">http://www.enterpriseireland.com/ResearchInnovate/R+and+D+Collaboration</a>
Innovation Expertise	<a href="http://www.enterpriseireland.com/ResearchInnovate/R+and+D+in+your+Enterprise/Expertise.htm">http://www.enterpriseireland.com/ResearchInnovate/R+and+D+in+your+Enterprise/Expertise.htm</a>
Funding for company expansion	<a href="http://www.enterpriseireland.com/Grow/Finance/FundingforCompanyExpansion.htm">http://www.enterpriseireland.com/Grow/Finance/FundingforCompanyExpansion.htm</a>

Source: Enterprise Ireland (2009)

**County Enterprise Boards**, (CEBs) provide advice, training and support to qualifying companies with less than 10 employees. The CEBs support both new and established businesses include and they offer, Advice, Mentoring, Grants and Financial supports for training and growth. Table 9 outlines each of these support schemes with a link for further information.

**Table 9: County Enterprise Board support schemes**

Support Type	Link to Support
Financial Support	<a href="http://www.enterpriseboards.ie/Business_supports/FINANCIAL.aspx">http://www.enterpriseboards.ie/Business_supports/FINANCIAL.aspx</a>
Training Programmes	<a href="http://www.enterpriseboards.ie/Business_supports/TRAINING.aspx">http://www.enterpriseboards.ie/Business_supports/TRAINING.aspx</a>
First Stop Shop	<a href="http://www.enterpriseboards.ie/Business_supports/First_Stop_Shop.aspx">http://www.enterpriseboards.ie/Business_supports/First_Stop_Shop.aspx</a>
Business Networks	<a href="http://www.enterpriseboards.ie/Business_supports/BUSINESS_NETWORKS.asp">http://www.enterpriseboards.ie/Business_supports/BUSINESS_NETWORKS.asp</a>
Mentoring	<a href="http://www.enterpriseboards.ie/Business_supports/MENTORING.aspx">http://www.enterpriseboards.ie/Business_supports/MENTORING.aspx</a>

Source: County and City Enterprise Board (2009)

**FÁS**, is a training and employment authority which has a number of initiatives targeted at the small business sector. The Diagnostic Programme was developed to strengthen a company's ability to identify their human resource development needs and to assist with the preparation of a training plan, as an integral part of the overall business planning process. FAS provide up to four days consultancy to each company to help with the initial diagnosis and the implementation of the training programme. The programme is targeted at small companies who, for competitive or technical reasons, have a requirement to upgrade the skills of their workforce. The programme demonstrates the importance and need for the identification of training needs linked to a business plan to be carried out on an on-going basis in order for companies to maintain their competitive advantage.

<http://www.fas.ie/en/>

**Shannon Development** is the development company responsible for: the development and strengthening the indigenous industry sector in the Shannon Region which includes building up a venture capital culture and creating awareness of the benefits accruing from the Information Society. They have responsibility for delivering European Regional Development Fund (ERDF) funding which is aimed at supporting new tourism product development.

They also are also responsible for developing the Shannon Free Zone and its associated World Aviation Park as a location for international investment in manufacturing and international services as well as managing the National Technological Park in Limerick.  
<http://www.shannon-dev.ie/>

**Industrial Investment Agency (IDA)** is responsible for attracting FDI in to Ireland. Their main aims are in securing investment from new and existing clients in the areas of high end manufacturing, global services including financial services and research, development and innovation. They offer a broad range of services and incentives, including funding and grants, which are available to those considering foreign direct investment in Ireland. They focus mainly on building links between international businesses and third level education, academic and research centers to ensure the necessary skills and research and development capabilities are in place. They also strive toward influencing the competitive needs of Ireland's economy by actively engaging in the development of infrastructure and business support services, telecoms, education, regulatory issues especially in relation to EU policy. More information can be obtained at,  
<http://www.idaireland.ie/>

## Udaras Na Gaeltachta

Udaras is focused on developing the Irish speaking areas of the country as well as addressing industrial as well as cultural and tourism aspects of the regions. They offer support to a number of industries that are based within the Gaeltacht areas around Ireland. Table 10 outlines the various fund types that are available through the Udaras.

**Table 10: Udaras Na Gaeltachta funding schemes**

<b>Fund Type</b>	<b>Link to fund scheme</b>
Innovation voucher initiative	<a href="http://www.udaras.ie/index.php?item_id=3450">http://www.udaras.ie/index.php?item_id=3450</a>
De Minimis Aid	<a href="http://www.udaras.ie/index.php/corporate_menu/business">http://www.udaras.ie/index.php/corporate_menu/business</a>
Trade fair participation scheme	<a href="http://www.udaras.ie/index.php/corporate_menu/business">http://www.udaras.ie/index.php/corporate_menu/business</a>
Development of market research skills	<a href="http://www.udaras.ie/index.php/corporate_menu/business">http://www.udaras.ie/index.php/corporate_menu/business</a>
Share capital investment	<a href="http://www.udaras.ie/index.php/corporate_menu/business">http://www.udaras.ie/index.php/corporate_menu/business</a>
Consultancy services grant	<a href="http://www.udaras.ie/index.php/corporate_menu/business">http://www.udaras.ie/index.php/corporate_menu/business</a>
Training grants	<a href="http://www.udaras.ie/index.php/corporate_menu/business">http://www.udaras.ie/index.php/corporate_menu/business</a>
Employment grants	<a href="http://www.udaras.ie/index.php/corporate_menu/business">http://www.udaras.ie/index.php/corporate_menu/business</a>
Capital grants	<a href="http://www.udaras.ie/index.php/corporate_menu/business">http://www.udaras.ie/index.php/corporate_menu/business</a>
Aid for initial investment	<a href="http://www.udaras.ie/index.php/corporate_menu/business">http://www.udaras.ie/index.php/corporate_menu/business</a>
Feasibility study grant	<a href="http://www.udaras.ie/index.php/corporate_menu/business">http://www.udaras.ie/index.php/corporate_menu/business</a>
Research and development grant	<a href="http://www.udaras.ie/index.php/corporate_menu/business">http://www.udaras.ie/index.php/corporate_menu/business</a>

Source: Udaras Na Gaeltachta (2009)

## 2.14 Where do they go next?

For many entrepreneurs once a business has become established and settled, they feel the need for newer challenges and move aside by selling on the business, this is the nature of the beast. The detriment of this is that if a decision is taken to sell the business on, then usually it is the people that remain who will usually feel the impact of the decision.

From this perspective the government needs to do more to ensure that the experience and the knowledge that has developed within a business over time is not shifted abroad or is lost to the economy both locally and nationally. Continued growth within the SME sector should be taken as an important factor in the role of government policy agenda for employment and prosperity.

Another key point is that should the business be sold or acquired then the experiences of the entrepreneur should not be lost with it. The knowledge that has been gained over time should be utilised by the relevant state agencies as well as the educational boards to assist all new budding entrepreneurs on the benefits and pitfalls of new business start-ups.

### **2.15 Define Maturity**

In reaching maturity all SMEs will pass through different life-cycle growth patterns. However not all SMEs do it at the same rate, for example, some operate at low growth rates as in a traditional SME model, others at a moderate pace in a capped growth model, and a third group at a high growth rate in an entrepreneurial model of SME (McMahon, 2001).

Yusuf (1997) argues that as firms “move through the various stages of development, they encounter different obstacles that must be addressed, requiring different management priorities, skills, and structural arrangements”

Source: Yusuf (1997: Pg 424)



### 2.15.1 Stage 1 Existence

In stage one existence the company is just starting out and generating business by looking for customers and suppliers. The entrepreneur / owner will usually manage all aspects of the day to day running of the business. There is probably no formal planning in place at this point and the most important strategic aspect for the business is in staying alive or survival. If custom can not be generated at this stage then the business will fail and close. As we can see from Table 11 in Ireland alone almost 2% of companies fail at this point each year.

**Table 11: Number of Failed Firms in Ireland**

Year	Nascent entrepreneurs	New firm entrepreneurs	Total early stage entrepreneurs	Established Entrepreneurs	Future aspirations to be an entrepreneur	Closed a Firm
2007	4.2%	4.2%	8.2%	9.0%	11.2%	1.9%
2006	4.5%	2.9%	7.4%	7.8%	9.8%	1.8%
2005	5.7%	4.7%	9.8%	8.1%	12.6%	2.3%
2004	4.4%	3.6%	7.7%	6.5%	11.0%	1.3%
2003	5.1%	3.8%	8.1%	6.7%	11.3%	2.5%
Average	4.8%	3.8%	8.2%	7.6%	11.2%	1.9%

Source: Adapted from Enterprise Ireland (2009)

However businesses that are able to generate customers will become stage two companies.

### 2.15.2 Stage 2 Survival

In reaching stage two the company has now shown that it has customers and is a workable business proposition. Structure wise the company will usually be the same as in the existence stage with the owner's still in control and supervising their business directly.



It is at this stage also that it is necessary to pay special attention on the financial situation, items like cash-flow, profitability and the assets of the company. Key questions need to be answered here like, is there enough revenue being generated to stay in business, and can the business be expanded? If the business becomes profitable at this stage then it will move on to stage three success, however in many cases if the profits are marginal then the business will remain in stage two survival and will stay there until the business either closes or the owner leaves it.

### **2.15.3 Stage 3 Success**

This third phase has two different manifestations. The decision to be made here is whether to invest more capital into further growth of the business or to enjoy the profits and keep the business stable or to a greater or lesser extent disengage from the business and pursue other interests.

**Success - Disengagement:** The company at the disengagement sub-stage is beginning to enjoy the profits been generated and the customer / market demand is good. The company is growing and there is a requirement for more staff to continue to satisfy the successful demands on the business. It is at this point also that the owners have to start delegating the responsibilities. Formal planning is now in place and the owner is formulating a strategy to maintain the same business operational levels. Many companies remain in the disengagement sub-stage however this usually depends on the market segment they are servicing. It is at this stage also that some owners look at selling the business for a profit.

**Success - Growth:** The Company is now financially healthy and is able to grow. The owner invests more money into the business and new management is hired in bringing new life blood to the company all with the aims of taking the company to its next level take-off.

#### **2.15.4 Stage 4 Take-off**

Churchill and Lewis view this stage to be very important on every company's life cycle. The management of rapid-growth and how to finance it are the main issues at this stage. If both issues are controlled, the company can look forward to a positive and healthy growth. At this point also the company will most likely have been broken into separate divisions, i.e. sales/marketing, production.

Strategic and operational management will play a big part at this stage, as well as all cash flows being kept under tight control. Churchill (1983) states that, "this is a pivotal period in the company's life. If the owner rises to the challenges of a growing company both financially and managerially, it can become big business. If not it can usually be sold at a profit provided the owner recognises his or her limitations soon enough."

Source: Churchill (1983: Pg 7)

#### **2.15.5 Maturity**

This is the final stage in the Churchill and Lewis model, a company reaching this stage has arrived at the maturity level. Here the company has extensive systems that have been well developed, a workforce that is knowledgeable and skilled, a strong, experienced and decentralised management team that are backed up by strong financial resources. Churchill (1983) states that "if the company can preserve its entrepreneurial spirit then it will be a formidable force in the market."

Source: Churchill (1983: Pg 9)

### **2.16 Literature Review Conclusion**

The review of literature examined the relevant key aspects of the research questions that are put forward in this study. It explored all the relevant areas associated with entrepreneurship and the SME in today's economic climate. Theses included the strategic options available to the SME, the impact that culture has on growth and innovation, the future for a knowledge economy, the use of patents, and finally it defined maturity and explored what support structures are in place for the entrepreneur.



## *CHAPTER THREE*

## **Chapter Three: Research Methodology**

### **3.1 Introduction:**

This chapter presents the methodology and the research approach that has been used to achieve the objectives of the study. It is important when doing any research to choose the appropriate methodology as this is a key ingredient in carrying out any research work. To achieve the main purpose of this study both a quantitative and qualitative approach has been chosen in carrying out the research questions, these are discussed in the next sections of this chapter.

Section 3.2 gives an outline of the research purpose and the importance of why this research is required.

Section 3.3 shows the approach that has been selected to achieve the aims of this study, toward creating a strategic roadmap for the SME in Ireland.

Section 3.4 outlines the quantitative empirical study approach, i.e. the questionnaire survey that was distributed to the various SME industry sectors in Ireland; it also addresses the primary research questions developed from the survey.

Section 3.5 outlines the qualitative part of the research design – the one to one interviews with business owners and senior managers of SMEs in Ireland.

Section 3.6 concludes the research methodology chapter.

### **3.2 Research Purpose:**

The purpose of this research is to examine the current status of SMEs across a number of industry sectors in Ireland, the aims being to determine where they are currently in terms of their strategic development or “Here” and where they need to be to make them attractive to a foreign direct investment or “There”. This research is important as we hypothesise that if an SME is attractive to FDI or seen as an attractive acquisition prospect to a larger multi-national organisation then they are doing something right. This point is supported by Harris and Robinson (2003) who provide empirical evidence showing that foreign investors tend to acquire only firms with higher productivity in comparison with other manufacturing firms.

A important point of note here is that while there is also a negative aspect to this where the foreign multinational may actually acquire a domestic firm and move the business abroad, our aim is solely toward creating a strategic roadmap for the SME in Ireland to be in a position where they are seen as an attractive proposition and **“have a choice”**.

### **3.3 Research Design Approach**

According to Yin (1984: Pg 19), research design is an action plan for getting from here to there, where here refers to the initial set of the research questions and there represents the set of conclusions or answers to these questions. The main purpose of it is to ensure that the data and methods used are applicable for answering the research questions. Dayman and Hollway (2001), state that there are two fundamental methodological approaches to studying academic research, the quantitative approach and the qualitative approach.

The big debate over which approach is superior to the other is somewhat controversial, however most researchers tend to use one or the other methodological approach. One could argue that which ever approach is used the most important factor is what the applied method can reveal about the particular problem and how well it is executed.

Table 12 provides a summary of the fundamental differences between quantitative and qualitative research approaches according to Ohlen (2002). Both of these approaches are characterised by different strengths and weaknesses.

**Table 12: Overview of Quantitative and Qualitative Research Approaches**

	Quantitative Research	Qualitative Research
<b>Aim of Inquiry</b>	explanation	understanding
<b>Relationship Between Researcher and Subject</b>	distant	close
<b>Research Approach</b>	rigid, structured	flexible, open
<b>Nature of Data</b>	hard, reliable	rich, deep
<b>Data Analysis</b>	reductive, explanatory	explicative, explorative
<b>Scope of Findings</b>	nomothetic	ideographic
<b>Strengths</b>	<ul style="list-style-type: none"> <li>- generalizability of results</li> <li>- inquiry of large samples possible</li> <li>- relatively easy replication</li> </ul>	<ul style="list-style-type: none"> <li>- depth of inquiry and richness of data</li> <li>- focus on events in natural settings</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>- low on realism of contextual factors</li> <li>- static approach</li> </ul>	<ul style="list-style-type: none"> <li>- lack of generalizability</li> <li>- susceptibility to researcher bias</li> <li>- difficult replication</li> </ul>

Source: Ohlen (2002: Pg 92)

For the purpose of this thesis the research structure that we propose, will use both a quantitative method through the use of surveys across a range of different industry sectors and qualitative method by carrying out interviews with entrepreneurs / senior managers of SMEs again across the same range of industry sectors, the reasons for this is that it aspires to limit the disadvantages of either single research approach.

### **3.4 Quantitative Study**

The vast majority of the research investigations carried out for this thesis is of a quantitative nature. Malhotra (1996) defines quantitative research as a research methodology that seeks to quantify the data and typically applies some form of statistical analysis. At the same time quantitative research is a form of conclusive research involving large representative samples and fairly structured data collection procedures (Parasuraman, 1991). For this thesis a questionnaire (appendix A) was developed consisting of thirty questions and distributed on-line via e-mail. The reason for this approach was it presented the best way of gathering the largest amounts of data given the constrained time-frames available in completing this research.

#### **3.4.1 Research Questions**

The research questionnaire was broken down into five main sections each one designed to gather the most information relevant to the research topic that is in; creating a strategic roadmap for the SME in Ireland by defining where the business needs to be in the value chain. This study shall seek to address primary research questions and the five secondary questions. It is proposed that in delivering the answers to the five secondary questions it will provide the answer to the primary question,



***PQ.1:** What are the Key Attributes within an SME that attract an acquisition by a Multi-National Enterprise?*

**Section 1:**

The first part of the questionnaire included questions designed to gather information about the company, e.g. the size of the company, how long it was established, what industry sector it operates in, is the company Irish or foreign owned and what are the strategic goals and future plans for the organisation over the next three years. From this we ask the first question:

***SQ.1:** “Given the current size of the business what are the strategic goals in developing and maintaining the business over the next three years?”*

**Section 2:**

Section two of the questionnaire examines the personal traits of the owner/entrepreneur, here the aims are to explore how they build relationships with customers, what marketing approaches are used, is there other industries that they benchmark themselves against and do they take risks for further development of the business.

***SQ.2:** “What is perceived to be the best marketing approach for the company toward ensuring the future development of the business?”*

**Section 3:**

Section three examines the educational background of the owner / entrepreneur. The objective here is to determine the experience of the owner / entrepreneur in terms of knowledge within the industry and how is this experience translated in creating a learning culture within the organisation.

**SQ.3:** *“How influential is knowledge and a learning culture perceived as part of the development within the organisation?”*

#### **Section 4:**

Section four examines the perceived barriers to innovation and growth as well as examining what if any current support structures are currently available for SMEs in Ireland. It also seeks to explore what government policies and/or programmes are currently in place and what changes should be enacted to assist the SME in Ireland in the current environment.

**SQ.4:** *“In light of the current economic downturn are the government and their relevant support agencies doing enough to support the small to medium enterprises in Ireland?”*

#### **Section 5:**

Section five seeks to determine to what extent intellectual property (IP) plays a part in the future development for the business and how much influence do owners / managers exert over decisions affecting the future development of the business.

**SQ.5:** *“Is intellectual property seen by the owner/manager as way forward in developing the business or as an exit strategy?”*

### **3.5 Qualitative Study**

The second part of the research for this thesis is based on a qualitative method. This consisted of in-depth one on one interviews with the owners of SME's in Ireland. The interviews that were conducted acted as a way of strengthening the findings from the survey questionnaires.

The interview can be seen as an alternative method of collecting survey data and rather than asking respondents to fill out a survey, the interviewer ask questions orally and records the respondent answers. Interviewers also provide a guard against confusing items, in other words if a respondent has misunderstood a question the interviewer can clarify it, thereby obtaining relevant responses (Babbie, 1992). Personal interviews are also viewed as a good way to gather information from entrepreneurs or senior managers particularly those who might be unwilling or too busy to complete a written survey.

According to Cresswell (1994) “a qualitative study is defined as an inquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of informants, and conducted in a natural setting. The ultimate aim of qualitative research is to offer a perspective of a situation and provide well written research reports that reflect the researcher's ability to illustrate or describe the corresponding phenomenon.” Myers (2000) supports this in stating that “One of the greatest strengths of the qualitative approach is the richness and depth of explorations and descriptions I salute the importance of the qualitative method, and believe that, to the extent that it contributes to knowledge and promotes action in the area of the circumstance studied, it is exonerated in the broader framework of social life.”

Source: Myers (2000)

### **3.5.1 Questionnaire**

For each of the interviews that were conducted the same questionnaire (appendix A) was used as that of the survey, however the advantages of being able to conduct one on one personal interviews enabled the researcher to delve more deeply into each response from the interviewee and thus gain a greater understanding of the emotion behind the answer.

### **3.6 Conclusion**

In summary the study proposes to examine the current status of SMEs across a number of industry sectors in Ireland, the aims being to determine where they are currently in terms of their strategic development or “Here” and where they need to be to make them attractive to a FDI or “There”.

To achieve this, the study will use both a quantitative and qualitative approach. The quantitative approach will be in the form of a questionnaire while the qualitative approach will be conducted through structured personal interviews with owner / managers of SMEs in Ireland.

The primary research questions that the study seeks to answer is;

***PQ.1:** What are the Key Attributes within an SME that attract an acquisition by a Multi-National Enterprise?*

Only when this has been defined can we create;

***“A strategic roadmap for the small to medium size enterprise”***



## *CHAPTER FOUR*

## **Chapter Four: Findings**

### **4.1 Introduction:**

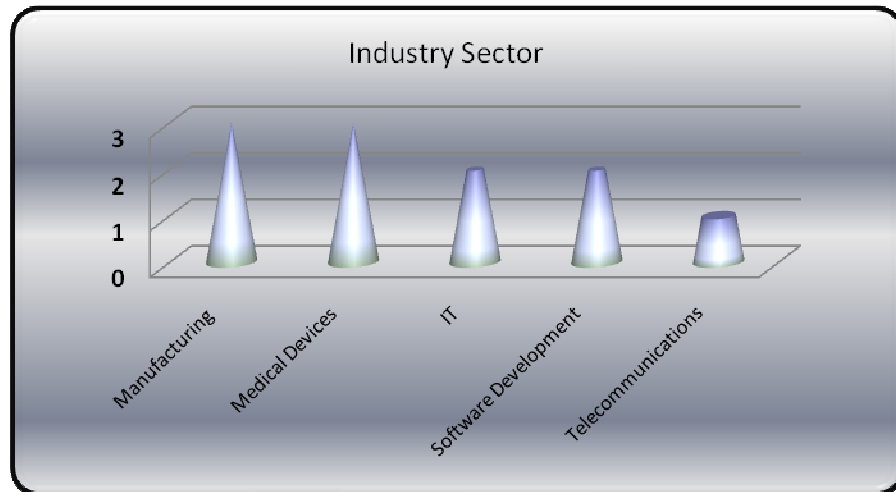
The purpose of this chapter is to present the research findings from both the interviews and the survey questionnaires that were administered to the SMEs. A total of 9 questionnaires (Appendix A) were completed by owners and senior managers of SMEs while two in-depth interviews were carried out with entrepreneurs, one who had sold their business and the other who is looking to expand their business. The same style questionnaire was used as that of the survey however the personal responses allowed for a more complete answer to the questions. All the people that were selected for the research were all seen as suitable candidates for the interviews / questionnaires as they all had a good understanding of the issues surrounding their business. For the purpose of collating this data both the responses from the survey questionnaires and the interviews have been grouped together unless otherwise stated. In this chapter we examine our findings under the following topics

- Industry Sector
- Strategic Goals
- Level of the owner / manager education
- Markets Served
- Method of selling products and/or services
- Marketing strategy
- Barriers to growth and Innovation
- Support organisations
- Intellectual Property
- Future business development
- Technology and Knowledge development
- Business Skills and Future development
- Government policies and /or programmes
- Selling the Business

## 4.2 Industry Sector

Q5: This question asked what industry sectors were covered by the respondents. As we can see in Figure 15 there were three respondents in the manufacturing industry, three in the medical devices industry and two from the IT industry, two in software development and one in the telecommunications industry.

**Figure 15: Industry Sector**



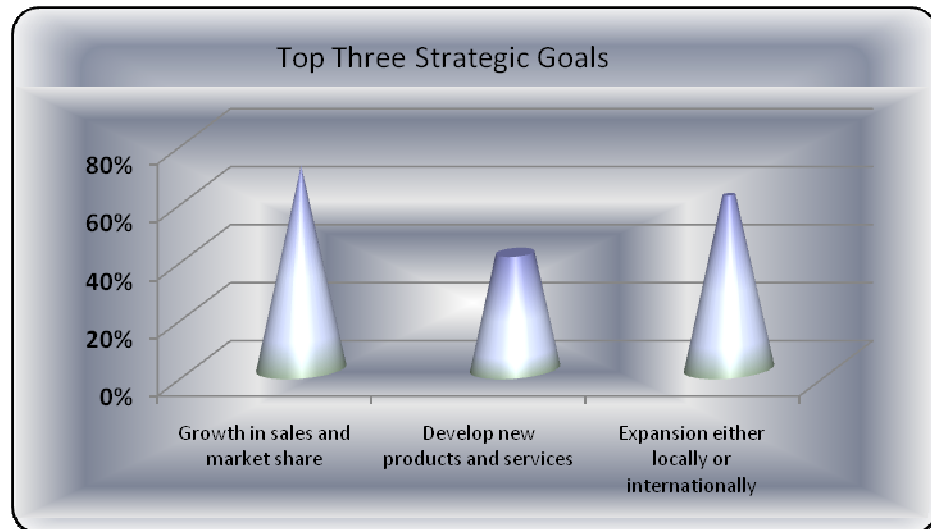
## 4.3 Strategic Goals

Q5/Q6: This question asked the respondents to outline their top three strategic goals for the next three years. As illustrated in Figure 16, 70% reported growth in sales and market share as their top priority, with expansion either locally or internationally coming second with 60% and new product development and services being third with 40%. From the interviews that were conducted interestingly enough in quoting one respondent they said;

*“We were looking to be acquired from day one as we realised we did not have the scale to do this on our own so we were looking for partnerships and/or venture capitalist to come in. It was our strategic goal from day one in setting up the business.”*

The experiences of this researcher also point to this strategy been adopted by a number of other businesses in Ireland.

**Figure 16: Strategic Goals**



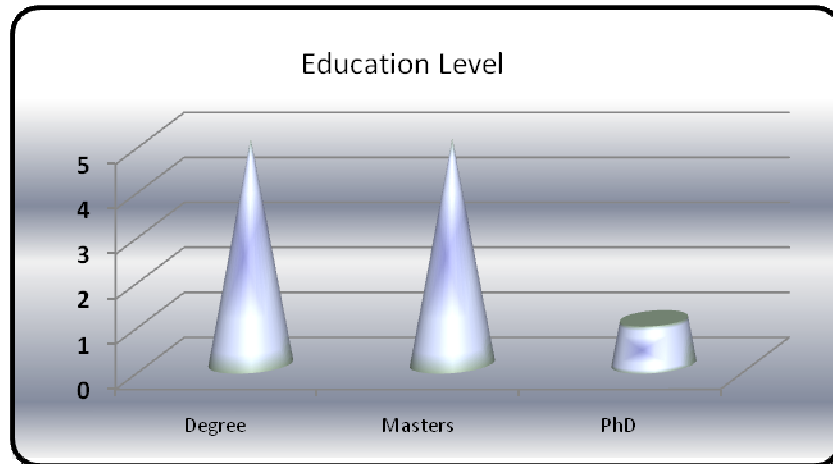
#### **4.4 Education level**

Q9/Q10/Q11/Q12/13: Asked the candidates in the survey about their education levels, what discipline they studied, year of graduation and if entrepreneurship was part of their curriculum. Figure 17 shows that five of the respondents were educated to a degree level with five more educated to a master's degree level with one having a PhD. Only one of the respondents had any formal training in entrepreneurship. The thought process behind this question was to try and access the current educational levels of business owner / managers that are responsible for the decisions of the business. If Ireland is to move to a knowledge economy then it needs to start from the top down.

One interesting statistic that came out of the interviews was both respondents claimed that all their staff were educated to degree level or higher and saw it as a key deliverable as part of their recruitment and business development process



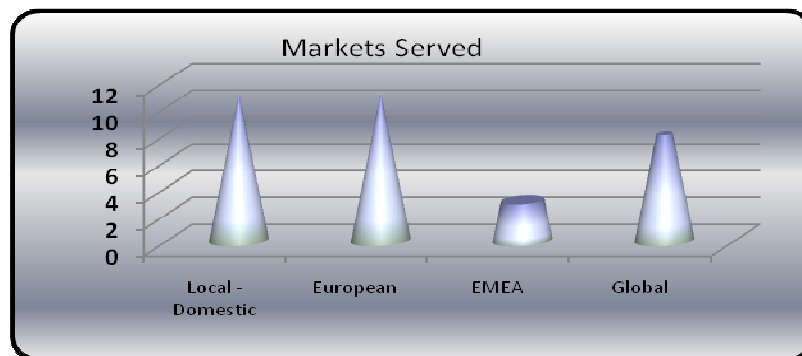
**Figure 17: Education Level**



#### **4.5 Markets Served**

Q18: This question asked what markets were currently been served by their business. The thought process behind this question was to establish if there operated locally or globally and as can be seen from Figure 18 all eleven respondents replied that they operated both locally and in Europe, with seven of these operating globally, while two more were servicing the EMEA region.

**Figure 18: Markets Served**

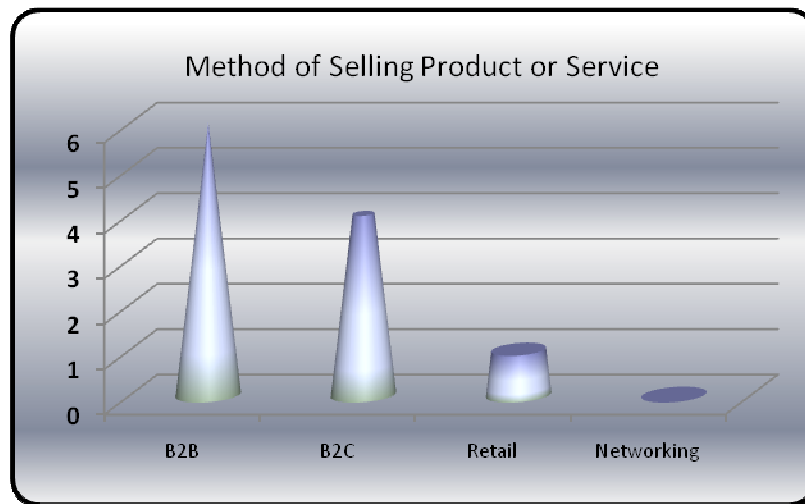


#### **4.6 Method used in selling products or services**

Q16: Having established the current markets being served the next point we examine is the method used for selling their products and services.

Figure 19 shows that six of the respondents answered business to business was their main marketing approach to selling their product / service with another four of selling directly to customers while one respondent sold into the retail trade. An interesting statistic showed that none of them used networking as a means of selling their products or services.

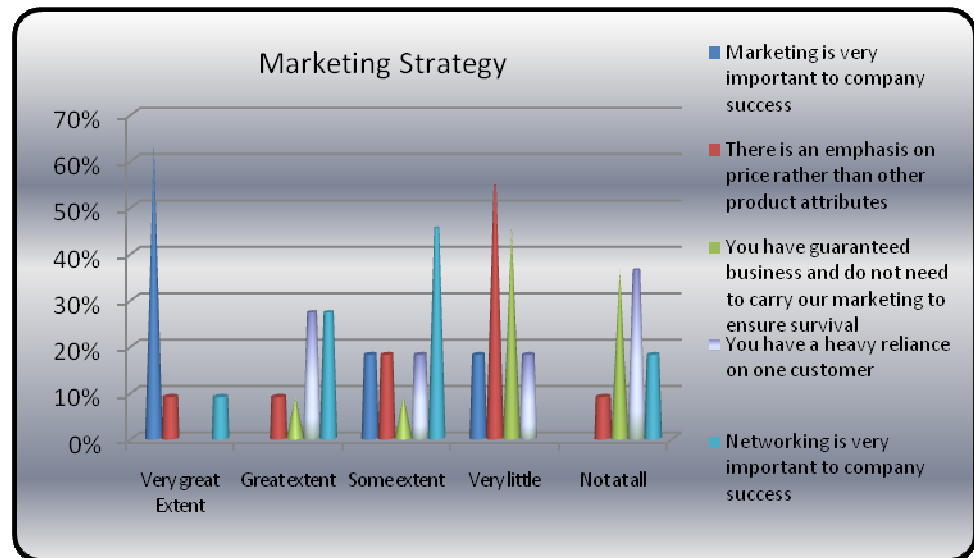
**Figure 19: Method of selling products and services**



#### **4.7 Marketing Strategy**

Q28: This question examined how much marketing played a role in doing business and if price rather than product attributes had any bearing on their products / services. It also asked if networking played a part in their marketing strategy and how much reliance was placed on one specific customer. As can be seen from the results in Figure 20, 64% of the respondents cited marketing as being a very important factor the success of their business while 55% stated that price was not a relevant factor over product attributes. 45% saw networking to some extent as having a role to play in their business while 27% had a heavy reliance on one customer. The latter point shows that these businesses could be in a vulnerable position should their main customer decide to look to different economies for their products or services.

**Figure 20: Marketing Strategy**

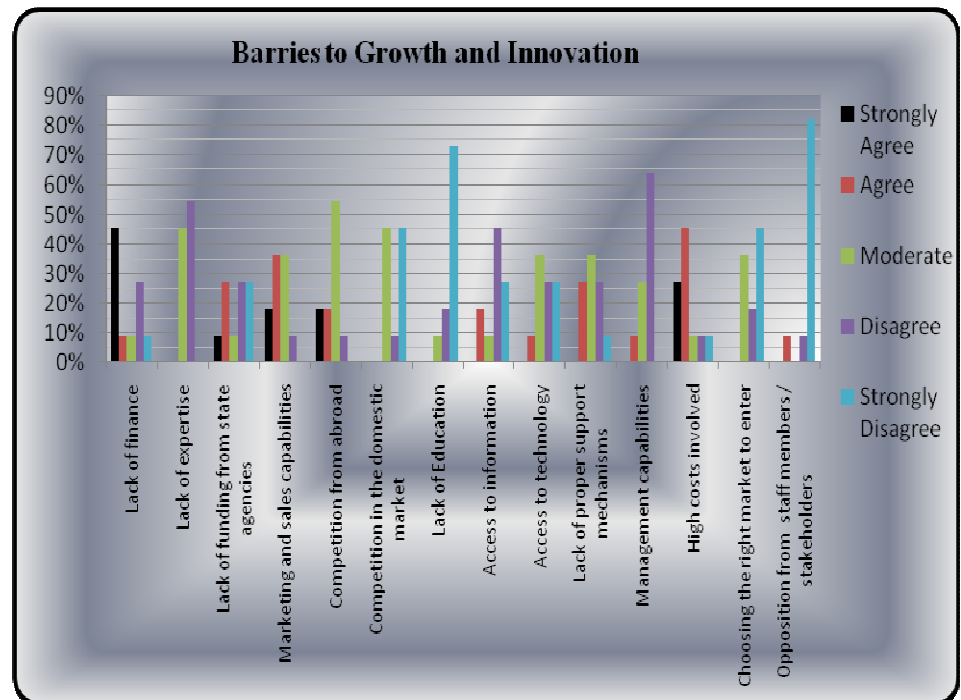


#### 4.8 Barriers to Growth and Innovation

Q20: This question examined the barriers toward growth and innovation in their organisations. There were fourteen different barriers to rate in order of strongly agree (1) down to strongly disagree (5) these options are outlined in Figure 21. The results showed that when examining the barriers to growth and innovation as experienced by the respondents, 72% either agreed or strongly agreed that the high costs involved in setting up a business was the biggest barrier, 55% of people highlighted a lack of finance by either agreeing or strongly agreeing, with marketing and sales capabilities also showing at 55%.

The interesting statistic that came out of this question was that 91% cited education as not being a barrier to growth and innovation leading to the conclusion that there us a well educated workforce out there at present.

**Figure 21: Barriers to Growth and Innovation**



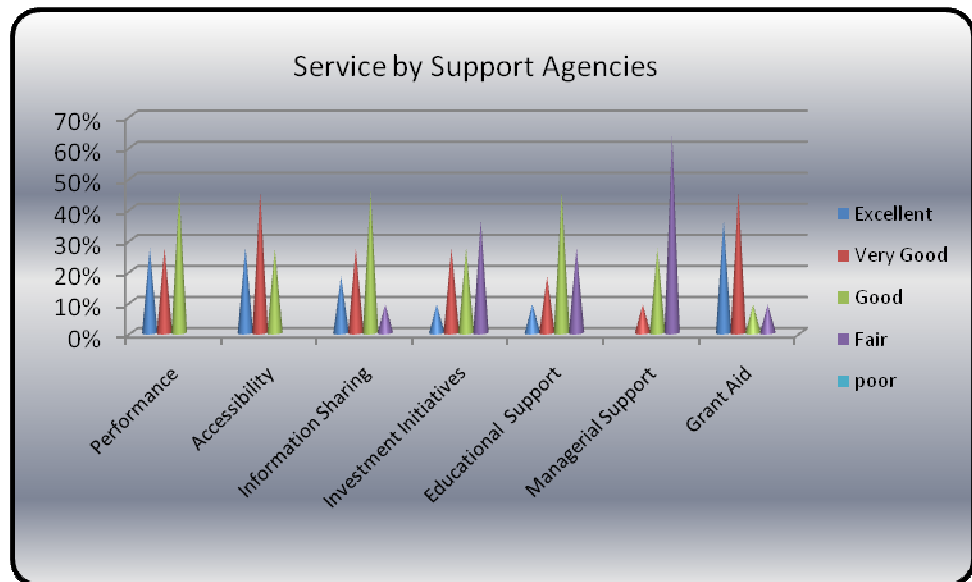
#### 4.9 Support Agencies

Q23 / Q24: These questions looked at the current support agencies that are supporting businesses in Ireland today and the service they provide Figure 22. 55% of the respondents stated that their performance was either excellent or very good with 73% stating that having accessibility to them was again either excellent or very good. 64% reported that managerial support was fair with 36% stating that investment incentives were only fair. Quoting one interviewee;

*“We are currently looking to expand our operations in Ireland however being in the Gaeltacht region and affiliated to Udaras Na Gaeltachta we feel this is hindering our opportunity to gain access to the relevant funds provided by Enterprise Ireland (EI). From this perspective we are looking at locating the business to a region within Ireland that is supported by Enterprise Ireland.”*

So from this statement we note that geographic location matters greatly when setting up a business in Ireland. The survey also showed that 27% thought educational support was only fair.

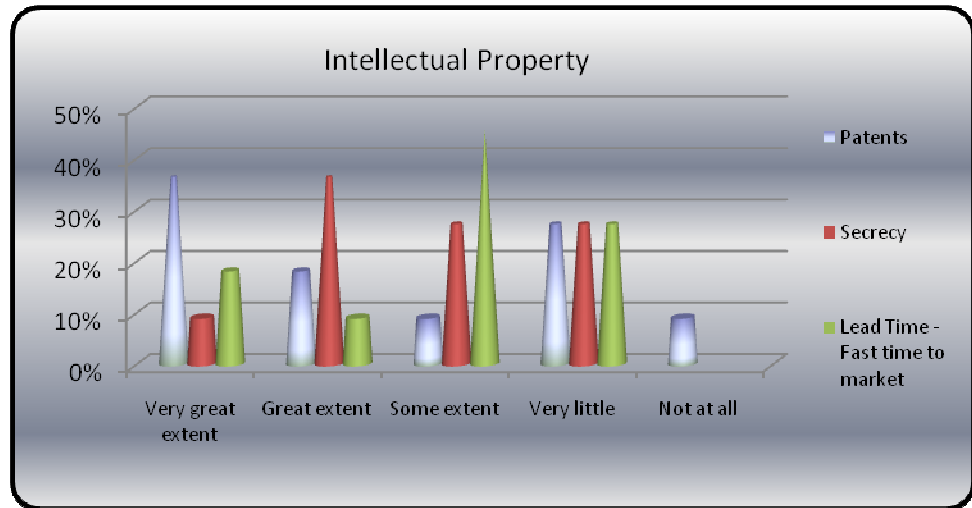
**Figure 22: Service provided by Support Agencies**



#### 4.10 Intellectual Property

Q29: This question examined the whole area of intellectual property protection. The respondents were asked to rate three key areas in this section, Patents, Secrecy and Lead time to market. These were ranked into five headings ranging from a very great extent down to not at all in terms of how they perceived the use of each within their organisation. Figure 23 shows that 54% of the respondents reported that IP was used to a great or very great extent. It also showed that only 9% scored secrecy to be used a great with lead time to market coming in at 18%. At the other end of the scale 36% of respondents use IP either very little or not at all.

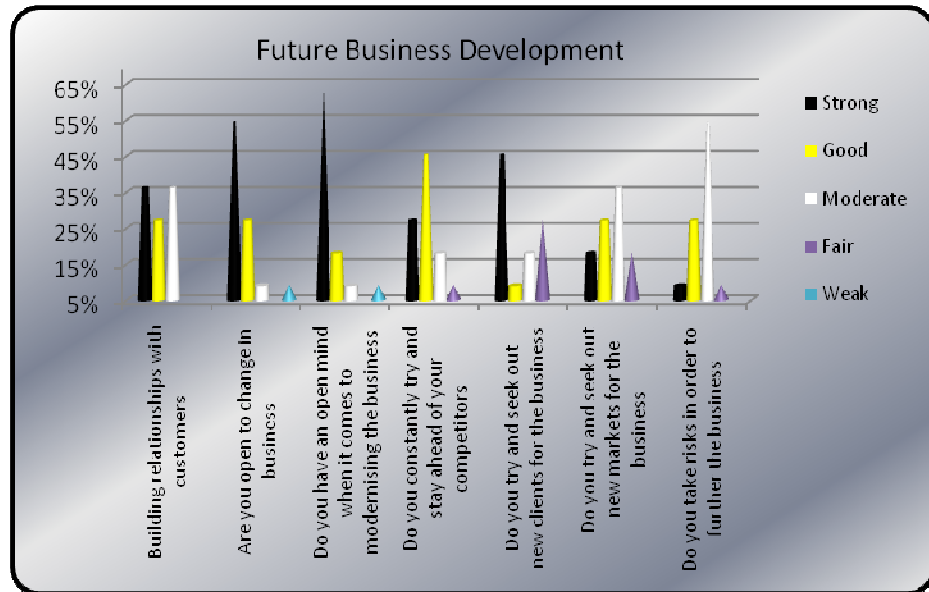
**Figure 23: Intellectual Property**



#### **4.11 Future Business Development**

Q8: Even though this question was headed under personal traits the aims of this was to explore the thoughts of the owner/managers about the future development of the business. This question asked the respondents to rank each section of the question from (1) being strong to (5) being weak. The results as can be seen from Figure 24 showed that 55% were strongly in favour of being open to change within their business while at the same time 82% were also in favour of modernising the business. 36% marked that building relationships with customers was important while only 27% showed that staying ahead of the competition was another key deliverable. An interesting statistic showed that only 9% were willing to take risks to try and further their business with only 18% of the respondents willing to seek out new markets for their business.

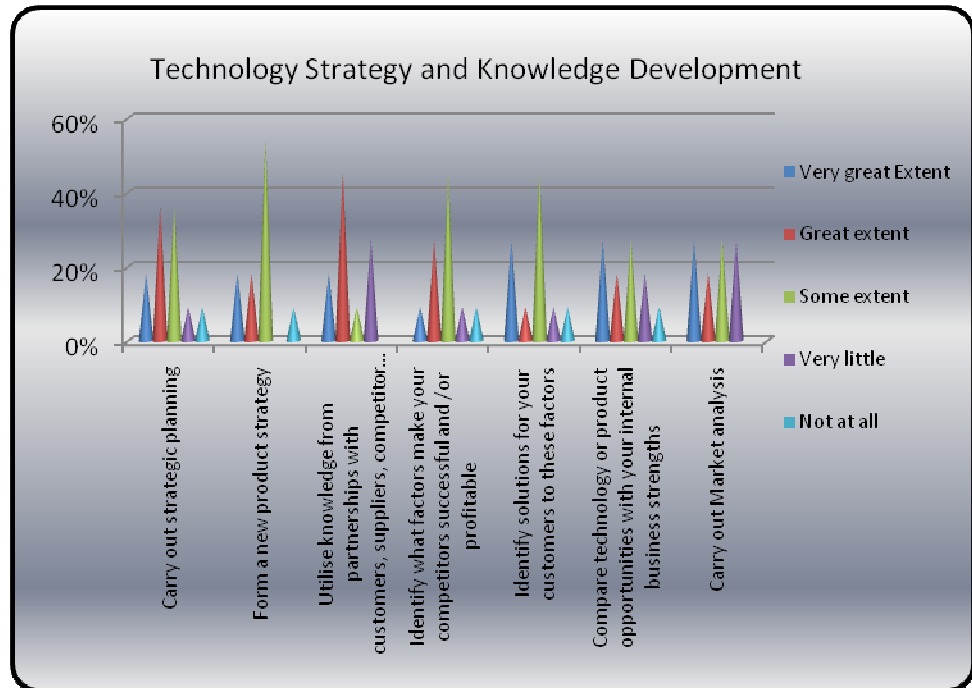
**Figure 24: Future Business Development**



#### **4.12: Technology Strategy and Knowledge Development**

Q27: This question examined the whole area of technology strategic planning as well as asking if the use of suppliers, customers, competitors or universities are used toward the development of new knowledge within the business. The result shown in Figure 25 reported that only 18% took the advantage of utilising knowledge from partnerships with customers, suppliers, competitors or universities, while 27% did not avail of this option. The response also showed that 54% carried out strategic planning to some great extent while the remaining 46% did very little if none at all. Another interesting statistic that came from this question was that almost 64% of the respondents did very little in the way of new product strategy.

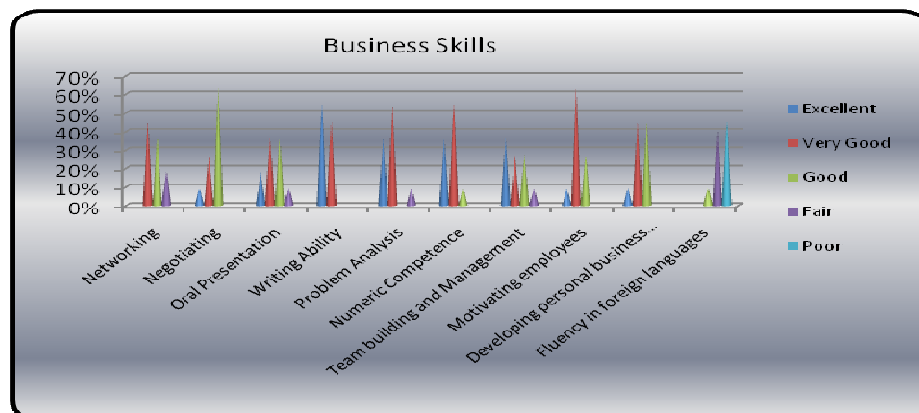
**Figure 25: Technology Strategy and Knowledge Development**



#### 4:13: Business Skills

Q15: Looked at the skills that the owner / manager possess and as this can have influence on how a business is managed. As can be seen from Figure 26 only 9% rated themselves highly when it came to networking, with 9% also in the area of motivating employees, and only 9% again scoring high in developing personal business developments.

**Figure 26: Business Skills**

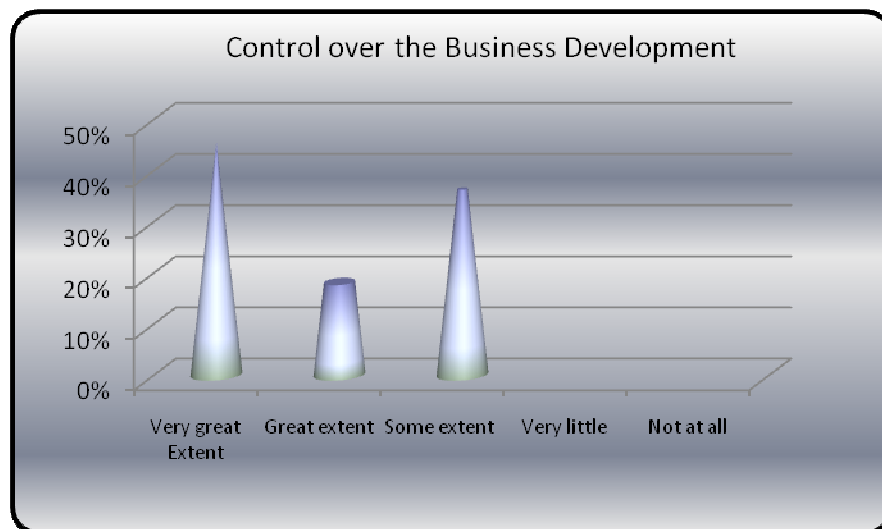




#### 4.14: Control over future decisions affecting the business

Q30: This question required the respondents to identify what if any control the owner / manager had in the decision making process affecting the future development decisions of the business, these decisions could include to either grow and expand the business or sell it on. As we can see from Figure 27, 45% of the respondents showed that the owner/manager had control over the decision making process relating to decisions affecting the business. All of these points show that the entrepreneur has a major decision over what direction the business will take toward the future development of the business.

**Figure 27: Control over the Business**



#### 4.15: Given the current economic climate what government policies and / or programmes should be enacted to overcome barriers faced by you company today

Q22: This question asked what the owners / managers perceived to being important the criteria to overcoming barriers faced by their companies. This question was not completed by all the correspondent's however the answers that were received are listed below:

*“Wage structures, minimum wage needs to be reviewed, the costs are too high. There should be a huge focus on internet sales and marketing personnel, training and development as well as university courses.”*

*“Open access to finance for all organisations regardless of what support agency the business is affiliated too.”*

*“Our international travel costs are high and local infrastructure is not great from Galway to enable us to get to our main markets quickly. Taxation makes Ireland unattractive for senior employees. Employee costs are too high in comparison to the EU.”*

*“Better access to grant aid for indigenous start-up companies”.*

*“Make more funding, support, tax credits and grants available to SMEs.”*

*“The government needs to encourage companies to set up regional headquarters in Ireland by supporting existing management in making a case to the head office to locate more shared services in Ireland. It is also important that the government maintains the lower tax rates in face of the current financial difficulties. This should also avoid increasing employment taxes such as employer PRSI and pension costs.”*

*“An increased incentive toward reducing energy costs provisions. The introduction of reduced tax rates for start up companies which increases relative to the number of years operating.”*

*“Given the current economic climate there should be more incentives in place from the support agencies toward developing the business.”*

#### **4:16: Selling your Business**

Q25: This question asked the respondents if they ever thought about selling the business and if so what would their reasons be. While some of the respondents failed to respond to this question, the replies that were received were as follows;

*“Yes, purely for financial gain”*

*“We were always looking for a venture capitalist to come in as we knew from day one that we could never have grown on our own.”*

*“Yes, for personal reasons.”*

*“Yes, we have an exit strategy as required by our investors.”*

*“No, I decided from day one that this was my future and this was where I wanted my home and family to grow. I would never leave it.”*

*“Yes, to pay back investors and have money for my family. Start another business and move on.”*

#### **4:17: Have you ever been involved with other businesses that have either been sold or failed and if so what were the reasons?**

Q26: This question was posed to examine the past experiences of the owner/managers in industry and to see what they had learned if anything from the experiences of either failed company's or businesses that sold. The respondents answered as follows;

*“Yes, bad management was the primary reason the business failed.”*

*“Yes, the business was acquired and merged by Astra and lost its identity.”*

*“Yes, we were sold to a Japanese company who wanted a manufacturing base in Ireland.”*

*“Yes, the company I work for was sold to a US multi-national in 2005. It was re-purchased through a management buy-out in 2007, and is now 100% Irish owned.”*

*“Yes, the business failed due to poor distribution channels and poor sales environment.”*

*“Yes, the business failed due to the high production costs in Ireland.”*

*“Yes, I worked for Digital and their failure is well documented. However I built up a great network as a result of being in Digital”*

*“Yes, product innovation and a lagged market.”*

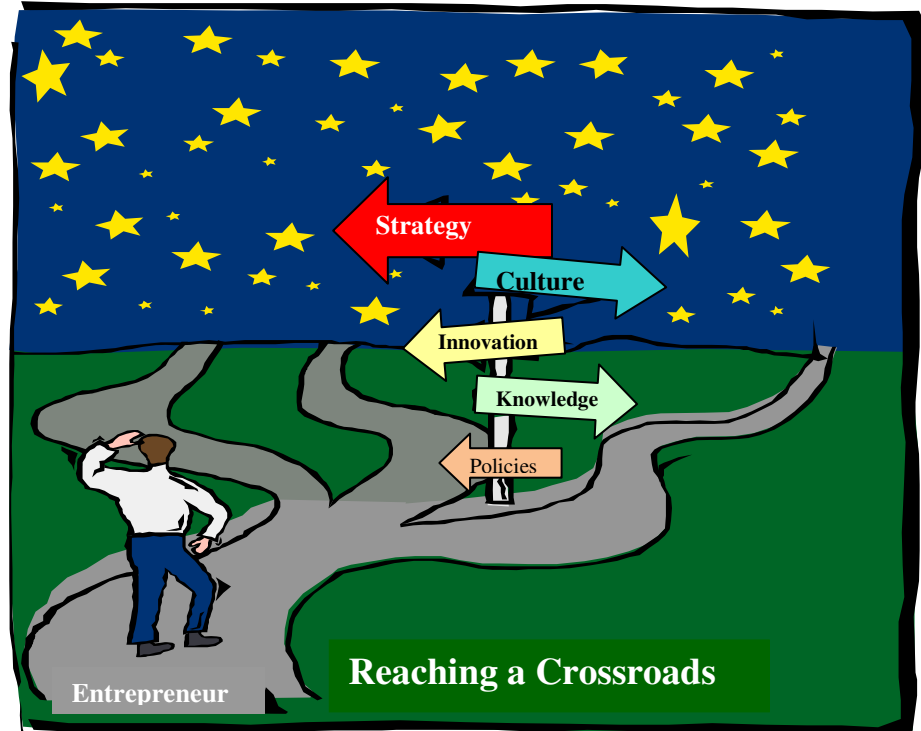
*“We felt the only way that we could become a real global player in the market place was to leverage the finances and the purchasing power of a large multi-national enterprise. Only by doing this can we achieve what we set out to do from day one. This is the reason that we sold the business and became a stand-alone subsidiary.”*

#### **4.18 Conclusion of the findings:**

The objective of this study is to assess the key attributes of SMEs that are perceived to be an attractive proposition to larger organisations, the aims being to create a roadmap for those SMEs in attaining the same levels of higher performance.

Based on the current findings from the literature review and the results associated with the findings from both the questionnaires and the surveys we propose that the picture shown in Figure 28 is a good portrayal of how things currently stand or “**here**” for the majority of SME’s today.

**Figure 28: Reaching the Crossroads**



Source: Adapted by the author from J.C. Shukla Nahak (2009)

The picture above “Reaching a Crossroads” we believe is a good representation of the principal results that were found from the findings in Chapter 4 inclusive of the in-depth interviews and the questionnaires as well as the literature review section in Chapter 2.

It depicts an entrepreneur looking for the way forward and being confused not knowing which direction to take, as there is no clear indication of which path or direction is the right one. The following influencing factors were discovered;

 **Entrepreneurship**

 **Environment**

 **Strategy**

 **Innovation**

 **Culture**



## *CHAPTER FIVE*

## Chapter Five: Discussions

### 5.1 Introduction:

This chapter shall now discuss the implications of the study's findings presented in Chapter 4 and the literature in Chapter 2 and try and bring some intelligence to it all by tying everything together. In the first part section one of Chapter 5 we present and discuss the findings based on the main headings from the current state map.

- Entrepreneur and the SME
- Environment and Government Policy
- Strategy and Growth
- Knowledge and Culture
- Innovation and Intellectual Property

In section two of this chapter we define the answers to the five secondary questions so we can reach a conclusion to the primary question, that is;

***PQ.1:** What Key Attributes are required by an SME that would make them an attractive proposition for acquisition by a Multi-National Enterprise?*

***SQ.1:** “Given the current size of the business what are the strategic goals in developing and maintaining the business over the next three years?”*

***SQ.2:** “What is perceived to be the best marketing approach for the company toward ensuring the future development of the business?”*



*SQ.3: “How influential is knowledge and a learning culture perceived as part of the development within the organisation?”*

*SQ.4: “In light of the current economic downturn are the government and their relevant support agencies doing enough to support the small to medium enterprises in Ireland?”*

*SQ.5: “Is intellectual property seen by the owner/manager as way forward in developing the business or as an exit strategy?”*

Finally in section three we aim to answer the primary question, *what are the key attributes within an SME that would attract an acquisition by a Multi-National Enterprise*, and we set out how best to achieve this by creating;

*A Strategic roadmap for the Small and Medium size Enterprise.*

## **5.2 Section One:**

### **5.2.1 The Entrepreneur and the SME**

As we have seen from the literature review for the SME to achieve sustained growth and competitiveness a lot will depend on their technological and innovation based strengths and the key driver behind making this happen is the entrepreneur. Birch (1979) reported that small enterprises create about 90 percent of all new jobs and thereby highlighted entrepreneurship as the engine of growth in the economy.

According to Vesalainen (1995: Pg 18) “the close connection between an owner-manager and the firm is the dominant characteristic of small firms.”

As we saw from Figure 25 of the survey results, 60% of the respondents answered that the owner/manager has the major decision over what direction the business will take toward its future development. However as we also saw from the literature, not all entrepreneurs have the desire or the means in terms of resources and expertise to grow their business.


We also saw from the literature that there are no real other alternatives out there for the SME if they want to sell the business. Once the decision has been made by the entrepreneur to sell, there is very little in the way to stop them from doing this. However as experienced by this author change of ownership also spreads distaste amongst the loyal customers which in-turn can lead to them look elsewhere for their products and/or services. Building loyalty from customers does not happen overnight, it requires the SME to draw attention to the value of its products and/or services and to show that they are interested in building a relationship with the customer and this takes time and nurturing. A good story that sums this point up was taken from Jill Griffin on her paper about customer loyalty (1995: Pg 10),

*“A man died and went to heaven, where he was told he had a choice between Heaven and Hell. He decided to take up the offer to look around and found Heaven to be serene, bathed in a white light. People were friendly walking around in white robes and singing hymns. Nice but a tad boring. On his visit to Hell, he was surprised to find people having fun. They were playing golf, cards and it wasn’t even hot. He went back to the Pearly Gates and told St. Peter he’d take Hell. But, when he arrived in Hell this time, everything was different. It was hot and terrible, People were miserable and screaming.*

*“What happened?” he asked the Devil. “This isn’t at all what I saw when I visited.” “When you visited,” replied the Devil, “you were a prospect. Now my good man, you’re a Customer!”*

Perhaps one way of avoiding this is by state agencies building in a clause in the contractual agreement with the SMEs at initial start-up phase whereby the business can not be taken out of its environment should a larger MNE comes calling for a certain period of time.

Many of today’s entrepreneurs are engineers or scientists and are not knowledgeable in the ways of finance and marketing, skills that are required to build an entrepreneurial firm. Here the Government can play a key role toward creating an environment that makes entrepreneurship attractive toward the younger population by introducing entrepreneurship as part of third level education in universities, introducing policies that remove administrative burdens, increasing the availability of capital and driving a culture of innovation within industry.

 Note: We mark this as point one on the roadmap,

### **The Entrepreneur and the SME!**

#### **5.2.2 Environment and Government Policy**

Today in Ireland there has been a decisive focus by the Government on FDI as a generator of employment and income. However given the current economic climate, the future for growth and prosperity in Ireland will depend on the actions and achievements of the SME. This is where the government and their respective agencies will need to focus their efforts by introducing policies and regulations that favour the SME and not hinder it.

As we saw from the results section in Figure 19 that 72% of the respondents cited the high costs involved in setting up a business as being one of the major barriers to starting a business in Ireland.

When asked what if anything the government should change given the current economic climate the respondents felt that open access to finance for all organisations regardless of what support agency the business is affiliated too. This response stems from the confusion surrounding the different support structures provided by state agencies where by being affiliated to Enterprise Ireland is seen to be more beneficial in terms of support and financial structures than being affiliated to Udaras Na Gaeltachta, so much so that one of the interviewee decided that in order to expand their business they would need to move into an EI region away from their local environment.

Another point highlighted by one of the interviewees was at the initial start-up phase, he felt that finding the best point of contact within the respective support agency was difficult, and also their lack of practical expertise in a lot of areas in terms of advice and the risks associated with starting the business.


In light of all of this the government needs to review the existing state support structures,

- a)** To ensure that they are equal in terms of their support and financial aide.
- b)** There is easy access to all the relevant personal
- c)** To ensure that the expertise in business start-up and expansion is in place.

The introduction of a national entrepreneurship policy should be a key deliverable for the government. This would enable a total review of all policies and support structures that are currently in place as well as examine the current entrepreneurship activities within Ireland today.

This point is supported by the 2007 GEM report where by they recommend that “the National Entrepreneurship policy should demonstrate a commitment at the highest levels of government to further strengthening the environment for entrepreneurship and should provide a clear direction for a coherent approach to its implementation.”

Source GEM Report (2007: Pg 17)

 Note: We mark this as point two in the road map,  
**Environment and Government Policy!**

### **5.2.3 Strategy and Growth**

For the entrepreneur the strategy adopted is crucial as it determines the competitive moves and business approaches to produce a successful performance. As we saw for the literature review there are many entrepreneurs who operate their business today who feel that strategic management does not apply to them. This is also reflective in the survey where 46% of respondents did very little strategic planning if any at all. This could also explain the high failure rates of SMEs reflected in Table 3 of the literature review. If a company fails to realise its true potential that potential in terms of future employment and innovation are lost to the economy, this results in a constraint for the future of economic growth.

Johnson and Scholes (2002: Pg 10) describe strategy as “the direction and scope of an organisation over the long term, which achieves sustainable competitive advantage for the organisation through its configuration of resources within a changing environment to meet the needs of markets and to fulfil stakeholder expectations.”

While strategic planning is not the only factor in determining the success of an SME, findings from the research supports the argument that there are greater advantages to strategic planning than not planning. Another interesting statistic coming from the survey was that only 18% of the respondents took the strategic option of utilising partnerships with customers, suppliers or universities as a strategic option toward co-development of new products. This is reflected in the survey where by 64% did very little in the way of new product strategy for growth.

As we saw from the literature, small firms will perform better by competing in niche markets with high quality products or services. By adopting a strategy of operating in niches SMEs can attain more sustainable growth by addressing the needs of customers that are not been serviced by the mainstream providers as well as enable them to develop the necessary resources to survive.

This point is supported by Perry (1986-87) where concluded that the most appropriate growth strategies for the SME are niche strategies, market development and product development in that order.

In SMEs growth objectives are tied in with the entrepreneur’s personal goals so it is important that they are in harmony and given the current downturn in the economy one of the prerequisites of growth for the SME today is survival.

However as we have seen from the literature aversion to growth has been said to be the principal reason why most SMEs stagnate and decline (Clarke et al., 2001).

Performance in the SME is often measured by growth, profitability, and survival. It seems that survival and growth may be the most appropriate measures of success in small firms. Storey (1994) integrated that the three main factors that influence growth are the entrepreneur, the firm and strategy. The literature showed that growing organically is perceived as the natural kind of growth for the SME a style of learning by doing, where management and employees alike become more productive over time as they become accustomed to their tasks through internal organic growth.

From the survey 73% of the respondents cited finance as the key barrier to growth and innovation. This is also reflected by some of the respondents where they saw an acquisition by a larger MNE as being the way to globalise their company due to the lack of finances. However as we have also seen this strategy for growth has consequences for the SME and the economy where the current trend from MNEs is in moving business abroad to cheaper economies.

✚ Note: We mark this as point three on the roadmap,

### **Strategy and Growth!**

#### **5.2.4 Culture and Knowledge**

With globalisation now well and truly upon us the future for the SME in Ireland is dependent on the acquisition of new knowledge as innovation is now seen as the way forward in driving growth within the economy.

Barney (1991) argues that knowledge is the source of growth and profitability within organisations when competitive advantage accrues from configurations of resources that are unique, imperfectly imitable and non-sustainable, including those associated with human capital.


The literature has shown that learning new knowledge within the SME will need to be an on-going process if the organisation is to grow and be competitive in the market place. Another key point is, in order to maintain advanced knowledge within a firm, continuity of key persons and the ability of the employees to work in unison is important. From this perspective the key role will be played by the entrepreneur who will need to drive a culture for new technology and innovation.

Knowledge is seen to exist in two separate forms tacit and explicit. Tacit knowledge being the knowledge inside a person's head, while explicit knowledge is what is already known and can be expressed in the form of manuals or procedures. A key element coming out of the literature is that tacit knowledge needs to be transferred into explicit knowledge for an organisation to develop and grow. This is done through what Nonaka and Takeuchi (1995) call the spiral, where knowledge is seen as a continuous cycle moving through four integrated processes, socialisation, externalisation, internalisation and combination. The importance of this cycle is that knowledge is passed on enabling the organisation to continue to grow even if some key people are lost through attrition.

The survey results in Figure 23 have shown that only 18% of the respondents took advantage utilising the knowledge from partnerships with customers, suppliers, and universities, while 27% did not avail of this option at all. This gives a clear indication that more need to be done if new knowledge for innovation is to be achieved.



However the results also showed that 91% of the respondents cited that education was not a hindering factor in Ireland, showing the within Ireland there is a very highly educated workforce.

 Note: We mark this as point four on the roadmap,

### **Culture and Knowledge!**

#### **5.2.5 Innovation and Intellectual Property**

Given the current downturn in the today's global economy, more than ever productivity growth in Ireland is essential towards economic competitiveness and key to this will growth through the innovation of new products and services. As we saw in the literature review innovation can mean many things to many people, a better quality product for the customer, new knowledge or skills for the employee, and for the entrepreneur innovation means sustained or improved growth, all leading to a better standard of living.

Given that innovation can be either, product, process, marketing or organisational related, what was interesting to see from Figure 14 was that only 40% of the respondents actually cited new product development as a key strategic goal over the coming three years. This ranked only third in the overall responses received, the main strategic goal listed by the majority of the respondents was growth in sales and market share coming in at 70% this would suggest using Ansoff product/market matrix that selling existing products into new markets is the strategic choice adopted by the majority of SMEs. This is in-line with the second option chosen by the respondents where expansion both locally and internationally was seen to be a key strategy.


From the experience of this author a strategy of using existing products for expansion will only sustain a business for the shorter period however if the entrepreneur is truly serious about developing the business for the longer term then there has to be a mindset of New Product Development (NPD) or else they will lose out to their competitors.

It is also worth noting that adopting a NPD strategy does not mean that innovation needs to be radical it can be achieved through incremental improvements either in products and/or processes, from the experiences of this author this has proven to be highly successful ploy when servicing current markets while developing into new markets.

In today's business environment many SMEs operate in niche markets and as such for both survival and then future growth and development, innovation should be seen as a necessity as failure to do so will lead to stagnation and eventual job loss or worse closure. Quoting from the NCC (2004: Pg 4) "It is therefore vital to ensure that all of the elements of a knowledge economy and society are properly understood and that there is an innovation mindset in those sectors where it will be needed most."

Source: NCC (2004: Pg 4)

Given this quote by the NCC (2004) our view is that innovation should be viewed as a fundamental part of a strong and vibrant SME.

 Note: We mark this as point five in the road map,

### **Innovation and Intellectual Property**

### **5.3 Section Two:**

This section will now aim to answer the five secondary questions to enable us to reach the research conclusion and answer the primary question as well as enable us to create the strategic roadmap for the small to medium size enterprise.

**5.3.1 SQ.1:** *“Given the current size of the business what are the strategic goals in developing and maintaining the business over the next three years?”*

Our research showed that all of the businesses that participated in the study had a strategy for growth and sales by gaining market share through the selling of existing products and services into new markets both locally and internationally. This is in-line with the literature where by a strategy of market development using existing products gives the SME the time in establishing their business within the market place while at the same time it enables them the scope towards developing the necessary resources to survive and then grow exponentially.

**5.3.2 SQ.2:** *“What is perceived to be the best marketing approach for the company toward ensuring the future development of the business?”*

Good marketing practices were cited as playing a key role by the majority of the respondents in the survey toward ensuring the successful future development of their businesses. The results also indicated that a Business To Business (B2B) approach was perceived to be the main marketing approach for their business, however networking scored below average and one other concerning fact highlighted the reliance of the business on one customer.

For the SME we would advocate a focused approach toward developing a deeper understanding of the market place and the needs and requirements of their customers through a more networked approach.

**5.3.3 SQ.3:** *“How influential is knowledge and a learning culture perceived as part of the development within the organisation?”*

The survey revealed that educational levels of the workforce across all the respondents was seen to be very high, this indicates that there is currently a very well educated workforce within Ireland today. However while a learning culture toward new knowledge development was evident across all the respondents, the survey also showed that only 18% of the respondents took advantage of knowledge utilisation from partnerships with customers, suppliers or universities. Here state intervention by the respective government agencies can play a pivotal role by educating the entrepreneur on the benefits of utilising these and by also introducing a series of networks of similar style industries all geared toward developing and nurturing new knowledge with the key aims being in building a stronger economy in Ireland.

**5.3.4 SQ.4:** *“In light of the current economic downturn are the government and their relevant support agencies doing enough to support the small to medium enterprises in Ireland?”*

The resounding response from the survey indicated that the government and their respective agencies while being helpful were still not doing enough in support of the SME sector within Ireland. Given the current economic climate the future for growth and prosperity in Ireland will depend on the actions and achievements of the SME.

The focus for the government should be on the introduction of policies and regulations that favour the SME and not be seen to encumber them. The results showed the high costs involved in setting up a business in Ireland as one of the major barriers for the SME today.

This is where the government needs to create the right environment that is seen to encourage and nourish the future development of entrepreneurship and the SME in Ireland.

**5.3.5 SQ.5:** *“Is intellectual property seen by the owner/manager as way forward in developing the business or as an exit strategy?”*

IP is seen by over half the respondents of the survey as been used to a great extent as part of their strategic business development process. This is a really encouraging sign as the future for Irish competitiveness will depend heavily on the productivity advances which accrue from innovations by the SME sector. Another point to note was that only one respondent saw it as a way of exiting the business through acquisition.

### **5.4 Section Three**

This section now answers the primary question, *what are the key attributes within an SME that would attract an acquisition by a Multi-National Enterprise*, and we set out how best to achieve this by creating a new strategic roadmap for the SME in Ireland.

**5.4.1 PQ.1:** *What are the key attributes required by an SME that would make them an attractive proposition for acquisition by a Multi-National Enterprise?*

Based on all of the data that has been researched within this study we put forth that for an SME to be at a stage in their development to be seen as a good proposition for acquisition, they would need to have the following attributes;

- Have products or services where there is a perceived value being provided to their customers
- There is an existing culture within the SME that is built on knowledge and technologically based activities
- They operate within a market with the potential for further growth and development
- There exists some form of intellectual property or R&D for spurring innovation
- They have a demonstrated commitment towards continual investment in long-term growth

**5.4.2:** *A Strategic roadmap for the Small and Medium size Enterprise*

To attain the key attributes set out in the primary question we propose a new strategic roadmap seen in Figure 29. At the heart as its centre is the entrepreneur and the SME, it is the actions and decisions taken by the entrepreneur that will determine the outcomes and future development of the business. Surrounding the entrepreneur there are four key points that we define as the inner sanctum, these include the environment, strategy adopted, the culture within the organisation and their capacity for innovation.

In the outer circle we define as the outer sanctum there are also four key points with each of these being a sub-set of the points on the inner circle. These points include government policy, attitudes to growth, knowledge development and intellectual property. Each of these points is implicitly linked and need to be in place for the SME to achieve its true potential.

For the entrepreneur to be successful the right environment needs to be in place to support them. This point is supported by Birch (1979) who reports that small enterprises create almost ninety percent of all new jobs and thereby highlighted entrepreneurship as the engine of growth in the economy. To create an environment for entrepreneurship to thrive then the sub-set of the outer circle shows that the government need to have policies and support structures in place. This is the key responsibility of government and their respective agencies.

Adopting the right strategy is a key deliverable for the entrepreneur as the strategy adopted will define the competitive moves and business approaches that will determine the successful performance of the SME. Strategy can be seen as the “direction and scope of the organisation over the long-term.” Johnson and Scholes (2002: Pg 10)

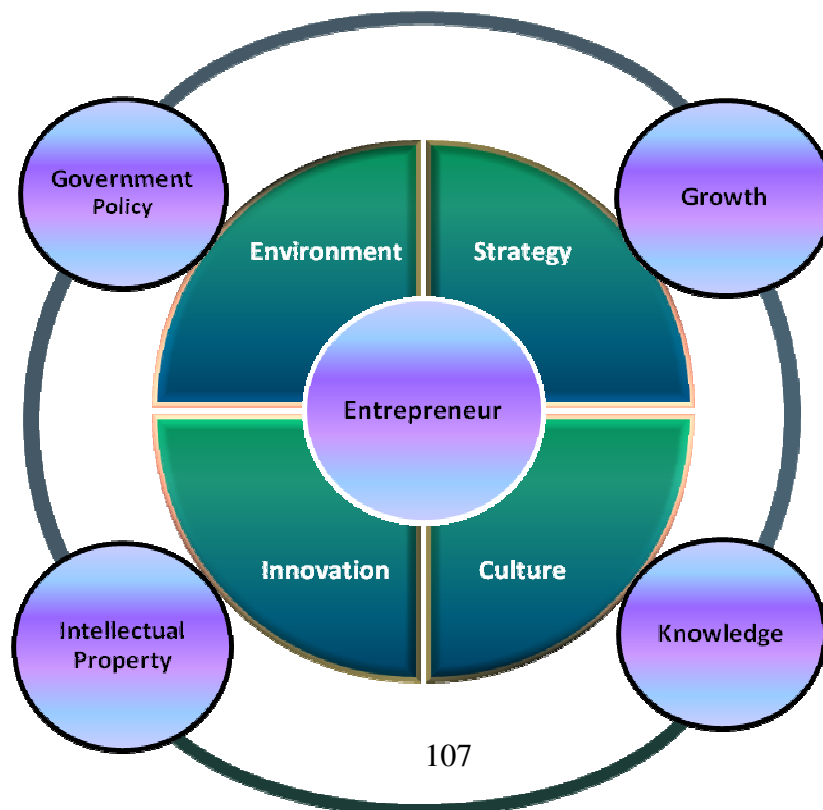
As a subset of this it is the strategy adopted by the entrepreneur that will also determine the growth patterns and future development for the business.

Culture within SMEs is often viewed as an extension of the entrepreneur’s personality and leadership style such is the influence they have on the people that work for them when developing their business. Therefore the leader’s vision and drive must be focused on a culture that fosters the creation of new knowledge within the business.

In today's economy knowledge is considered as being one of the key attributes to creating and sustaining a competitive advantage. Therefore if a culture of innovation it is to be successfully incorporated in the organisation then a key deliverable will be in the creation and nurturing of new knowledge. We define knowledge as being a sub-set of the culture within the SME.

The future for sustained competitiveness within the SME will depend on their innovate based strengths which can be in the form of new product development, successful access to new markets or the application of new technology. For the entrepreneur innovation means sustained or improved growth within the business. A sub-set of innovation is intellectual property, the SME has a lot to gain through the use of intellectual property by way of patents, trademarks and industrial designs, and this can be seen as a good way of differentiating their products and marketing their goods and services.

**Figure 29: A Strategic Roadmap for the SME**







## *CHAPTER SIX*

## **Chapter Six: Conclusions and Recommendations**

### **6.1 Introduction**

The purpose of this research was to examine the current status of SMEs across a number of industry sectors in Ireland, the aims being to determine where they are currently in terms of their strategic development or “Here” and where they need to be to make them attractive to a foreign direct investment or “There”. We hypothesised that if an SME was seen as an attractive proposition to a larger MNE then they were doing something right. This research therefore examined many aspects pertaining to the SME operating in today’s business environment. These areas included strategy, growth, knowledge & development, innovation, entrepreneurship, culture, patents and support structures all with the aims of reaching our final conclusion that is in creating;

#### ***A strategic roadmap for the Small to Medium Size Enterprise***

To achieve our goal in answering the research questions we reviewed the literature relating to our chosen subject. The use of on-line surveys and one-on-one personal interviews were used in gathering the primary data. These findings were presented and discussed in Chapters 4 and 5 respectively.

The aim of this chapter is then to draw a final conclusion on our findings as well as outline the limitations associated with the research and we finish by presenting the recommendations for future research.

## **6.2 Conclusions**

There is widespread acceptance that the future for economic success for Ireland is linked to the vitality of the SME sector. Therefore it is crucial that government and their respective agencies are seen to be supportive in all aspects of the SME sector by creating an environment that allows the entrepreneur to thrive and grow. The research findings revealed however that the high costs involved in setting up a business in Ireland today was one of the major barriers. The findings have also shown that at present there is a level of disharmony amongst the respective agencies that are supporting the SME today depending on the location of the business and government agency the business is affiliated to. It is the opinion of this that a total review of the current state support organisations should take place to ensure consistency in all aspects of support and financial aide.

If the SME sector in Ireland today is to attain a level of sustained growth and innovative competitiveness then it is the actions of the entrepreneur that will play the pivotal role in making this a reality. However as we saw from the findings there is a distinct lack of a national entrepreneurship policy that would enable a review of all current policies and support structures as well as current entrepreneurship practices. This point is supported by the 2007 GEM report where by they recommend that “the National Entrepreneurship policy should demonstrate a commitment at the highest levels of government to further strengthening the environment for entrepreneurship and should provide a clear direction for a coherent approach to its implementation.”

Source GEM Report (2007: Pg 17)

From an entrepreneurial perspective the strategy they adopt is crucial as it determines the competitive moves and business approaches to produce a successful performance. However, as we saw from the research findings that 46% of respondents did very little in the way of strategic planning if any at all. This could one way to explain the high failure rates of SMEs reflected in Table 3 of the literature review. Another point emanating from the findings was that only 18% of respondents took strategic advantage of utilising suppliers, customers or universities toward co-development of new products with only 40% citing new product development as a key strategic goal over the coming three years. It is the views of this author that innovation should be viewed as a fundamental part of a strong a vibrant SME. This point is supported by National Competitive Council (NCC) (2002) where they state “it is therefore vital to ensure that all of the elements of a knowledge economy and society are properly understood and that there is an innovation mindset in those sectors where it will be need most.”

Source: National Competitive Council (2002: Pg 4)

### **6.3 Limitations**

One of the main limitations associated with the research was the complete lack of statistical information surrounding the whole area of the SME and entrepreneurship and businesses that were acquired. Once a small business has stopped operating information concerning the business becomes difficult to obtain. Typically most of the information resides with the owner as there is no systematic reporting of information on small businesses currently in place. This is one area that would need to be addressed by the relevant governmental department as this information will stand to benefit the industry as a whole in the long term.

The second limitation to the research was the number of responses from the survey was small in size and as such only represents a small proportion of the SME sector even though it examined various industry sectors.

#### **6.4 Recommendations for Future Research**

The limitations of the study highlight a number of areas for further research. Firstly given the small size of the study we would suggest that a more detailed and longitudinal study is carried out to give a more in-depth insight into the attributes and workings of the entrepreneur and the SME sector in general, such knowledge would be extremely valuable particularly for nascent and acting entrepreneurs.

Secondly as we have seen from the research there seems to be a distinct lack of cohesion between the different government support agencies that are supporting the SME. We would recommend that a detailed study be carried out across all support agencies to address these concerns and to see if some form of standardisation in both support systems and financial aide can be put in place. This would also enable entrepreneurs to locate to a region of choice and not feel restricted by politics.

Finally, given that this study was conducted solely within an Irish context, a recommendation would be for a comparative study to be carried out across other EU member states to see if the same factor conditions are applicable. This would give a valuable insight into the workings of other SMEs and entrepreneurs within other countries and how they address their requirements and needs. As with the current research this would prove to be very beneficial for the Irish economy in the longer term.

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## Appendices:

### Appendix A: The Survey Questionnaire

#### **About the Company:**

(1) In what year was the company established? \_\_\_\_\_

(2) Is the Company:

100% Irish Owned

☐

100% Foreign Owned

☐

Foreign minority holding

☐

(3) What is your position in the business? \_\_\_\_\_

(4) How many employees are in the business? \_\_\_\_\_

(5) What Industry sector is your business in Ireland? Please tick the sector most applicable to your business.

Manufacturing Industry		Software Development		Information Technology	
Consumer goods		Engineering		Construction	
Healthcare		Information		Medical Devices	
Pharmaceutical		Telecommunications		Finance	

Other, please specify:

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(6) What products and/or services are offered by your company in Ireland? If More than one product/service please list to list in order of value added to the company.

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(7) Please rank your top three strategic goals as they apply to you company's plans for the next three years:

Growth in sales and market share	
Provide returns on investment	
Develop new products and services	
Expansion either locally or internationally	
Reduce costs	
Growth in profit	
Improve Margins	
Diversify	
Become socially responsible	
Merge with or acquire a competitor	
Sell the business	
No plans in place yet	

## **Personal Traits:**

(8) For each of the following please indicate how would you rate yourself on the following abilities?

	Strong				Weak
Building relationships with customers	1	2	3	4	5
Are you open to change in business	1	2	3	4	5
Do you have an open mind when it comes to modernising the business	1	2	3	4	5
Do you constantly try and stay ahead of your competitors	1	2	3	4	5
Do you try and seek out new clients for the business	1	2	3	4	5
Do you try and seek out new markets for the business	1	2	3	4	5
Do you take risks in order to further the business	1	2	3	4	5

## **Education:**

(9) Please tick the box which indicates the highest level of education completed by you.

Junior Certificate	
Leaving Certificate	
Certificate / Diploma	
Degree	
Masters	
PhD	

(10) In what year did you graduate? \_\_\_\_\_

(11) If you have a degree what discipline is it in?

Business   Engineering   Science   Humanities   Other please specify

(12) Was business management studied as part of your degree?

Yes

No

(13) Was entrepreneurship studied as part of your degree?

Yes

No

If no have you taken any part time courses that included  
entrepreneurship in the course outline? Yes, No, Please specify.

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(14) Please state your age:

18-24

25-49

50-65

65+

## **BUSINESS:**

(15) Please rate yourself in the following business skills:

	Excellent	Very Good	Good	Fair	Poor
Networking	1	2	3	4	5
Negotiating	1	2	3	4	5
Oral Presentation	1	2	3	4	5
Writing Ability	1	2	3	4	5
Problem Analysis	1	2	3	4	5
Numeric Competence	1	2	3	4	5
Team building and Management	1	2	3	4	5
Motivating employees	1	2	3	4	5
Developing personal business relationships	1	2	3	4	5
Fluency in foreign languages	1	2	3	4	5

(16) What has been the most often used method of selling your products/services to customers?

Business to Business (B2B)	
Business to Customer (B2C)	
Retail	
Networking through existing clients	

(17) Is there another enterprise in your sector that you would benchmark your organisation against? Please give reasons for your answer.

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(18) What markets do you currently operate in?

Local/domestic ☐ European ☐ EMEA ☐ Global ☐

(19) If your answer is local/domestic have you any plans to go International?

Yes ☐ No ☐

(20) Please rate the importance of the following in your firm,

	Very Important	Important	Moderately Important	Of little Importance	Not Important
Creating Business Networks	1	2	3	4	5
Entrepreneurial Activities	1	2	3	4	5

(21) What barriers have your businesses experienced in attempting to sustain growth and innovation? Please rate your answers 1 being strongly agree and 5 being strongly disagree.

	Strongly Agree				Strongly Disagree
Lack of finance	1	2	3	4	5
Lack of expertise	1	2	3	4	5
Lack of funding from state agencies	1	2	3	4	5
Marketing and sales	1	2	3	4	5
Competition from abroad	1	2	3	4	5
Competition in the domestic market	1	2	3	4	5
Lack of Education	1	2	3	4	5
Access to information	1	2	3	4	5
Access to technology	1	2	3	4	5
Lack of proper support	1	2	3	4	5
Management capabilities	1	2	3	4	5
High costs involved	1	2	3	4	5
Choosing the right market to enter	1	2	3	4	5
Opposition from staff	1	2	3	4	5

(22) Given the globalisation of the market place, in your opinion, what changes in government policies and/or programmes should be enacted to overcome barriers faced by your company at the moment?

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(23) Is your organisation affiliated (ambiguous) to any government or other agencies? If so which one?

Enterprise Ireland:

IDA Ireland:

Udaras Na Gaeltachta:

Shannon Development:

FAS:

Other: please specify

(24) If so how do you rate their service in terms of?

	High				Low
Performance	1	2	3	4	5
Accessibility	1	2	3	4	5
Information Sharing	1	2	3	4	5
Investment Initiatives	1	2	3	4	5
Educational Support	1	2	3	4	5
Managerial Support	1	2	3	4	5
Grant Aid	1	2	3	4	5

(25) Have you ever thought about selling the business? If so what would your reasons be?

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(26) Have you been involved in any other previous companies that have either been sold or failed? If so what were the reasons?

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(27) To what extent do you:

	Very great Extent	Great extent	Some extent	Very little	Not at all
Carry out strategic planning	1	2	3	4	5
Form a new product strategy	1	2	3	4	5
Utilise knowledge from partnerships with customers, suppliers, competitors or universities	1	2	3	4	5
Identify what factors make your competitors successful and /or profitable	1	2	3	4	5
Identify solutions for your customers to these factors	1	2	3	4	5
Compare technology or product opportunities with your internal business strengths	1	2	3	4	5
Carry out Market analysis	1	2	3	4	5

(28) To what extent would you say that it is true of your organisation that:

	Very great Extent	Great extent	Some extent	Very little	Not at all
Marketing is very important to company success	1	2	3	4	5
There is an emphasis on price rather than other product attributes	1	2	3	4	5
You have guaranteed business and do not need to carry out marketing to ensure survival	1	2	3	4	5
You have a heavy reliance on one customer	1	2	3	4	5
Networking is very important to company success	1	2	3	4	5

(29) To what extent do you use the following methods of Intellectual Property Protection (IPP)

	Very great Extent	Great extent	Some extent	Very little	Not at all
Patents	1	2	3	4	5
Secrecy	1	2	3	4	5
Lead Time i.e. fast time to market	1	2	3	4	5

(30) To what extent does the Owner/Manager assume control over decisions affecting the business development process?

Very great Extent	Great extent	Some extent	Very little	Not at all
1	2	3	4	5

