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Strategic Management for Small Businesses

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To most owners of small businesses, strategic management is a task that is only done in large businesses and is performed by individuals who have been freed from demands related to the daily operations of the firm. They believe strategic management might possibly offer some benefits, but the downside is it requires time and energy they just can’t afford to give.

In a sense, their assessment of the situation is correct. Big businesses do have planning departments and executive teams that are tasked with the development of long-range plans, while operation managers are busy implementing previously developed initiatives. Conversely, managers of small businesses are usually responsible for multiple organizational functions, and most of the time they are more concerned with short-run survival than long-term goals and objectives.

However, in challenging economic times characterized by intense competition, technological change, changing demographics and a global marketplace, the savvy small business manager will give some time to think about the future. Since most small businesses can’t afford to dedicate resources on a full-time basis to the strategic management process, they need to limit their strategic sessions to panning the answers to three basic questions:

• The first question is: “Where are we today?”
• The second question is: “Where do we want to be in three to five years?”
• The final question is: “What do we need to do to get from where we are now to where we want to be in the future?”

The answer to the first question is usually well known by the company’s decision makers. The process needs to involve an assessment of current products, customers, operational results and human resources. Additionally, the analysis needs to consider opportunities and threats presented by the external environment. Are there technological, governmental, social or economic changes on the horizon that can impact the firm in a positive or negative way? What about the competitive environment? Are there significant actions in place or being contemplated by competitors that threaten success? Finally, the company needs to critically examine its functional areas and ask itself what are its distinctive competencies? That is, what do they do as well as or better than anyone else?

The answers to these questions are important because they tell the managers whether they’re prepared for growth or need to concentrate on shoring up their weaknesses so they can withstand competitive threats.

The answer to the question, “where do we want to be in three to five years?” flow from the information gathered while answering question one. If the company has significant operational deficiencies or if the external environment is especially unfavorable, the focus would probably be on improving internal operations or cautiously moving ahead while monitoring changes in the environment.

If the outlook for the external environment is favorable and the firm has significant internal strengths, it needs to look for opportunities to take advantage of distinctive competencies and pursue some type of growth strategy. This action may involve providing current products to new customers, providing new products to current customers or moving into a new line of business.

The answer to the third question, “how do we get from where we are to where we want to be?” may be the toughest part of the process. Having a vision for the future is important, but having a plan that implements that vision is absolutely critical. To reach some future condition, the company needs to develop specific, measurable and verifiable goals and objectives.

There needs to be an action plan related to each objective that states the timing and sequence of major activities, resources required, responsible individuals and contingency issues if things don’t go as planned.

This is the step that converts hopes and wishes into reality. When it comes to strategic management, an average plan that is superbly implemented is much better than a superb plan with an average implementation.

The good news for small businesses is that all three steps in this process can be accomplished by key company personnel in twelve to sixteen hours of dedicated time. So my advice to small business owners is to dedicate a couple of days to a retreat with your key managers and work through the answers to these questions.

The result will be a proactive plan for the future that can greatly improve your chances for success.

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