

A Framework for Strategy Development in Small Companies The Case Study of a Telecommunication firm

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ABSTRACT

This study intends to offer an appropriate strategy development framework for a telecommunication firm (as the case of study) which works on Information and Communication Technology (ICT) projects, development of telecommunication networks, and maintenance of local networks, according to its dominant condition. In this approach, first the objectives were set and the mission was defined. Then, the capability was assessed by SWOT matrix. Using SPACE matrix, the strategy of the company was determined. The strategic direction is set and an appropriate and superior strategy was developed and offered employing QSPM matrix.

The theoretical framework or conceptual model of the present study first involves 4 stages of framework development and then from stage 3 (assessing capability) onward of strategic management model of Fred R. David. In this respect, the tools and methods offered in the framework are appropriate for all kinds of organizations, particularly small firms, and help strategists identify, evaluate, and select strategies

KEYWORDS: Strategy, Formulation, Firm mission, Strategic direction, QSPM matrix, Setting objective.

1. INTRODUCTION

Strategy is a pattern of objectives, purposes or goals defining what type of business you are in, or should be in [6]. Porter distinguishes between two kinds of strategy: namely competitive and corporate strategy. Competitive or business strategy refers to the distinctive competence of the firm whereas strategy refers to the firm's mission and what business the firm should be in.[11]

1.1 Strategy Formulation in Small Entrepreneurial Firms

There are a number of factors which shape strategy formulation in small businesses. Firm's external environment, including economic trends, industry structure and competition plays an important part in deciding what course of action the organization should follow. The internal capacity of the organization is equally important in shaping the strategic decision, including the

Small firm's resources, skills, strengths and weaknesses generally speaking, its distinctive competence.

Nevertheless, the internal and external capabilities of the organization are not the sole ingredients of the small business strategic decision-making process. Entrepreneurs and small business managers are greatly affected by what they personally want to achieve. That is to say, the internal and external capabilities of the small firm are filtered by the entrepreneur's perception his personality, values and expectations.

Mintzberg followed strategy formulation process of a retail chain over a period of 60 years. He found that strategy in the entrepreneurial mode tended to be more intuitive, on the basis of entrepreneur's judgment, wisdom and vision.[10]

1.1.1 Strategic Orientation

Some strategic directions mentioned in the literature of strategy can be of great help to entrepreneurs and small business managers.

Porter identified three types of generic strategies that can be pursued by almost any organization. These strategies help the organization achieve, build, defend and sustain its competitive advantage.[11]

A firm builds its competitive advantage via various tools such as cost leadership, superior product and technology, quality and reliability of service. Studies have shown that small firms must build competitive advantages to be able to effectively compete in the market[8].

For instance, Stoner studied areas of distinctive competence for small firms, and the extent to which they form a competitive advantage. He identified some common areas of distinctive competence including experience and knowledge, uniqueness of product or service, better than average service, location, low cost and price, quality of product, variety of products, friendly atmosphere, reputation and unique method of marketing.[17]

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The first generic strategy identified by Porter is focus (niche) strategy[11]. This strategy involves concentration on a specific market, group of customers, product or service. The firm pursuing a focus strategy creates a competitive advantage in an arrow and well-defined niche to avoid head-on collision with large competitors.

Focus strategy is very effective for small firms[18]

The second generic strategy described by Porter is cost leadership. This strategy implies that the firm intends to be a low-cost producer. Thus this strategy puts emphasis on cost efficiency which can be achieved through economies of scale, experience curve and capacity utilization. In fact, cost efficiency would be a strong competitive advantage if the small firm is able to sustain it over a long period of time. This requires an in-depth study of the small firm's cost structure as well as an efficient cost control system. [12]

Hughes concluded that the use of process technologies is less risky for small companies and leads to reduction of cost thereby building a strong competitive advantage [7]

The third generic strategy is differentiation which involves offering a unique product or service that makes it possible for the small firm to charge a premium price.

A small business can make its product or service distinctive by improving product design, features, appearance, reliability, durability, quality, faster or free maintenance and repair service and warranty [8, 11]

Cooper found that differentiation strategy is as effective as a niche type strategy in small firms [3]

1.1.2 Miles and Snow Typology

Miles and Snow's classical research identified three kinds of strategy that may be effective for a small business. These are the defender, the prospector and the analyzer.[9]

The defender type involves developing a narrow product/market niche and erects barriers (i.e., competitive advantages) to protect it.

In this strategy type, the firm does not do any environmental scanning in search of windows of opportunities.

The owner/manager has a tight control over the firm and a high degree of cost efficiency.

Unlike the defender type, the prospector is continually scanning the environment for new opportunities, whether it is a new product or service or a new market. In order to be able to scan the environment, prospectors are highly flexible in every aspect of the operation.

Finally, the analyzer type strategy is a combination of defender and prospector strategies. In other words, while part of the organization is defending its niche, the other part is scanning for new opportunities.

Davig argued small firms pursuing either defender or prospector types achieve better performance in comparison to analyzer types[5]. Rugman and Verbeke found that prospector-type strategy is the most-pursued strategy followed by the defender type and Miles and Snow's strategies are more appropriate for small business than Porter's generic-type strategies.[14]

1.1.3 Framework developing

In the following a step-by-step approach to developing an effective strategy for the small business is presented:

1.1.3.1 Step 1 - Setting Your Objectives

The first step is to define clearly your objectives or what you want to achieve. Although that sounds almost patronizing, a large number of entrepreneurs and small business managers do not have a clear idea of what they want to achieve. For some entrepreneurs, it is maximizing their profit and/or a large market share.

For others, it is building long-term security, a legacy for their families, or even acting out a fantasy. Indeed this step may take some soul searching, but in the process can whittle many fuzzy and unachievable objectives.

1.1.3.2 Step 2 - Defining Your Mission

The second step in developing a strategic direction is to define what kind of business you should be in. Drucker noted that the key question for small business is who they are or what their mission in the business is.[6]

1.1.3.3 Step 3 - Assessing Your Capabilities

The Situation Audit. This step involves assessing the firm's real capacity to successfully carryout the intended mission. The situation audit allows the entrepreneur or manager to assess the internal and external capabilities of the small business. The internal assessment includes assessing the firm's strengths and weaknesses in different functional areas such as marketing, production, accounting and general management.

The external assessment includes scanning the environment for windows of opportunities or areas of threats.

1.1.3.4 Step 4 - Selecting a Strategic Direction

Having identified your objectives, defined your mission and assessed your capabilities, you should be able to identify different strategies, be it a niche strategy or cost leadership.

To select an appropriate strategy, Rumelt suggested the following criteria. First, the strategy must be internally consistent. Second, it must provide a fit between the firm and its environment. Third, the strategy must be feasible in light of the firm's resources.[15]

Table 1. Research procedure

Stage	Tools	Activity	Results
Stage 1	Framework development- Setting Objectives	Setting objectives	The objectives of the firm
Stage 2	Framework development- Defining Mission	Defining mission	Mission statement
Stage 3	Framework development- Assessing Capability -SPACE and SWOT matrix	Comparing internal and external factors	Strategy at firm level
Stage 4	Framework development- Setting a Strategic Direction-QSPM matrix	Quantitative strategic planning	Superior strategies and prioritizing them

2. The case study

The case studied in this paper is a telecommunication firm working on ICT projects. Development of telecommunication networks, optical fibers, maintenance and enhancements of local networks are some activities of this firm.

In order to develop strategy in this organization, the four stages of the framework mentioned in research procedure section are employed as the following:

2.1. Setting objectives

Long term objectives including : Increasing productivity using minimum resources – raw materials and human resources – in order to raise the accumulative profit of the firm and reducing probable losses; in sum, generating wealth;

2.2. Defining the mission of the firm

Firm mission and outlook including:

- Doing all works in predetermined time span according to contract
- Raising the income of every urban telephone center, reducing probable telephone breakdowns, and meeting the needs of the customers;
- Pleasing the customers;
- The firm makes investments to reduce its expenses which, in long run, result in increasing the income and decreasing the expenses, as well as more customer satisfaction. When the customer is satisfied with the situation, he does not refer to the firm for solving his problems such as breakdowns or lack of facilities.
- Providing new facilities and establishing urban phone lines for increasing the income and public welfare. Development of local telecommunication networks has direct relationships with the increase in the incomes. Moreover, creation of facilities reduces the possibility of future expenses. By increasing the facilities, more customers can be covered resulting in more income, as well.
- Paving the way for reducing possible phone line breakdowns through renovation, repairing, and improving urban telecommunication lines, as well as removing rusts and repairing wires, and telecommunication boxes; Replacing old and worn out posts which increase the possibility of breakdowns with new ones.
- The policy of the firm in conducting projects is employing the minimum amount of resources and human forces needed to achieve the maximum productivity in determined time.

2.3. Measuring capabilities

The resources used by the firm for conducting projects include human resources, raw materials, and instruments the amount of which vary according to the nature of projects. For instance, in maintenance of urban phone centers, people with higher level of expertise and familiarity are mostly valued. Maintenance of urban phone centers include air and land networks (wiring team, correction linesman ship team, control group, jointing team, test and evaluation team, channel and dock team, and gas control team) that work as administrative forces in the city based on primary divisions, as well as office workers who act as the personnel of subscribers’ affairs office, personnel of transferring phone lines, and office personnel of cable and air networks. Meanwhile, personnel of M.D.F hall and personnel of plant hall play a part.

2.4. External opportunities and threats:

- Fluctuation of the prices of raw materials and consumable equipment;
- Sudden stoppage of equipments necessary for projects;
- Impossibility of preparing some raw materials obtained from other countries due to change of economic, financial or taxing policies of the government;
- Work overload in sector a job is delegated. When there is a need for outsourcing part of a job, work overload makes the firm to pay high expenses for outsourcing or lose more time.
- New competitors in the area or strengthening of previous competitors;
- Sudden increase of salaries which is not predictable.

2.5. Internal strengths and weaknesses:

One of the major strengths of this firm is employing technical staff with high working experience and using high quality raw materials. Having equipments and machinery related to the job is another advantage.

The most important weakness is the impossibility of full-time supervision of technical staff working in the city. Linesmen, jointers, and other technical staff are not accessible to supervisors due to working in different parts of the city.

Hence, there is the possibility of time waste. In other words, it is not possible to complete the jobs in predetermined time. The only way to solve this problem is considering the job volume of the personnel which is not so accurate.

Table 2. Internal strengths and weaknesses scoring matrix[4]

Analysis of internal environment	Key internal indices	Weight	Ranking	Weight value
Strengths				
Management	Having specialist skill and technical knowledge	0.03	4	0.12
Management	Having collective mentality and acceptable character	0.03	5	0.15
Management	Offering specific training to managers and personnel	0.03	3	0.09
Management	Employing highly experienced top management in administrative affairs	0.04	4	0.16
Management	Planning for success with a focus on people, products, places, price, and advertising the products	0.10	4	0.40
Management	Offering consultation to other firms	0.03	4	0.12
Marketing	Having a well-known and popular brand name	0.10	5	0.50
Marketing	Having a large share of the market in the region	0.08	4	0.32
Marketing	Capability of attracting capitals and obtaining better position in the market	0.06	4	0.24
Marketing	Being the representative for materials and equipments used in projects	0.03	3	0.09
Marketing	Having access to the sources of valid raw materials	0.03	4	0.12
Marketing	Powerful participation in the province	0.04	4	0.16
Marketing	customer-orientedness	0.04	4	0.16
Finance and accounting	Acceptable financial position and turnover	0.08	3	0.24
Production and operation	Automation and use of technology	0.05	2	0.10
Production and operation	Capability of conducting projects following the standards	0.06	3	0.18
Production and operation	Capability of adding new branches and expanding activities	0.03	2	0.06
Production and operation	Familiarity with the needs of the customers and meeting those needs	0.04	3	0.12
Production and operation	Specialist skill and technical knowledge of the personnel	0.04	5	0.20
Production and operation	High performance in the market	0.06	3	0.18
Weaknesses				
Management	Traditional approach and not using up-to-date methods	0.06	4	0.24
Management	Relocation of the personnel, even top management	0.04	4	0.16
Marketing	Traditional marketing and weak advertisement	0.04	4	0.16
Marketing	Losing customers due to high competition	0.04	4	0.16
Marketing	Losing opportunities and handing the market to the competitors	0.06	5	0.30
Research and Development (R&D)	Not predicting risk of unprecedented events	0.04	5	0.20
Research and Development (R&D)	Not predicting inflammation rate and resulting changes	0.04	4	0.16
Research and Development (R&D)	Not introducing new products	0.06	5	0.3
Finance and accounting	Low working capital	0.08	4	0.32
Finance and accounting	Lack of on-time payment of debts and expenses	0.08	4	0.32
Finance and accounting	Problems arising from insurance and taxes	0.06	4	0.24
Administration and support	Lack of documented and categorized activities	0.06	3	0.18
Administration and support	Lack of an organized supervision and management on warehousing	0.06	3	0.18
Production and operation	Lack of an organized supervision on projects and activities of the personnel	0.06	3	0.18
Production and operation	Inability in completing the projects in due time	0.04	4	0.16
Production and operation	Trivial changes in technological methods of conducting projects	0.04	3	0.12
Production and operation	A wrong image of bad performance of the firm among customers	0.06	3	0.18
Production and operation	Too many personnel and inconsistency of performance	0.08	5	0.4
Total		2		-0.07

Due to the table 2 and its results SWOT Matrix is as follow:

Table 3. SWOT Matrix [4]

SWOT Matrix	Strengths: 1. Employing specialized and experienced personnel in telecommunication and optical fiber projects; 2. Managements' attention to new ideas and suggestions for improving jobs and project; Using the best types of cables and raw materials available in Iran's market	Weaknesses: 1. Too many personnel in the projects; 2. Improper use of raw materials and cables; 3. Lack of an organized supervision and management on warehousing
Opportunities: 1. Ever-increasing need to development of telecommunication networks and use of optical fibers for expanding IT; Complete familiarity with operational regions using native personnel	SO Strategies: S1/o1 participation in relevant tenders, conducting more projects, and offering consultation to other companies	Wo strategies Conducting more projects using extra resources and correctly allocating them to jobs
Threats 1. Increasing the number of competitors in the region; 2. Lack of on time payment of statements by the employer; 3. Yearly increase in wages according to labor law	St strategies S1/T1: better conduction of projects using expert staff and following the standards	WT Strategies 1. using human force regulation plan; 2. using modern systems for warehousing and documenting present documents

3. Selection of strategic plan

The working limit is determined through specification of the project and according to the existing map of the telecommunication facilities in the city. In order to work in the specified area, general strategies are defined based on the soil type of the area (for excavations to expand the network), city structure of the area, and type of buildings (for renovating and repairing air telephone lines). Then, the most appropriate strategies are selected. Here, the first following tool is used for strategy selection:

Table 4. Strategic Position and Action Evaluation Matrix [4]

Financial Strength (1 in the worst and 6 in the best case)	Score
The ability to pay current debts	4
High working capital	3
relatively good inventory turnover	4
Mean	3.7
Industrial units' Strength (1 in the worst and 6 in the best case)	Score
The ability to establish new branches in islands	4
having access to a valid resource of raw materials	4
having specialist skill and technical knowledge	6
the ability to conduct large projects in the shortest time possible	3
Mean	4.3
Environment stability (1 in the worst and 6 in the best case)	Score
very few changes in technological methods of doing optical fiber projects	-1
High inflammation rate and its ascending trend	-6
Risk of natural disasters such as earthquake and flood in excavation and optical fiber projects	-3
Entrance of many competitors into the region	-3
Mean	-3.3
Competitive advantage (1 in the worst and 6 in the best case)	Score
Having high share in the area market	-1
The ability to conduct projects following the standards	-4
Being the representative of most vendors of materials and instruments used in projects	-3
employing top managers highly experienced in telecommunication	-2
Mean	-2.5

According to the Strategic Position and Action Evaluation Matrix (SPACE) used in the study, the following calculations are done and the diagram is drawn.

Financial strength + Environment stability = 3.7 - 3.3 = 0.4 (FS)

Industrial strength + Competitive advantage = 4.3 - 2.5 = 1.8 (IS)

As it is shown in the diagram, the drawn line is located in the region of invasive strategy which is selected for this firm.

Table 5. Quantitative Strategic Planning Matrix (QSPM). [1]

superior strategies		importance coefficient			stage 2: adaption
Strategy 2: SO2 Extension of previous contracts for maintenance of the center	attraction score	Strategy 1: SO1 Participation in relevant tenders	total score (importance coefficient and attraction score)	attraction score 1<x<4	stage 1: entrance
total score (importance coefficient and attraction score)	1<x<4	total score (importance coefficient and attraction score)	attraction score 1<x<4		
Major external factors					
0.24	4	0.06	1	0.06	presence of many investors in the region
0.08	4	0.06	3	0.02	Increased interest in wireless services
0.18	3	0.12	2	0.06	Increase in the population of the area
0.20	2	0.20	2	0.10	New marketing attractive to the customers
0.10	1	0.30	3	0.10	New complaint laws
0.07	1	0.21	3	0.07	Increase in service fees
0.24	2	0.24	2	0.12	Changes in economic condition and inflammation rate
0.02	1	0.06	3	0.02	Violating the privacy of consumers
0.20	2	0.40	4	0.10	Low payments by the consumers
0.20	4	0.10	2	0.05	Decrease in the demands for fixed telephone lines
0.24	4	0.18	3	0.06	Increase in errors in different telecommunication areas
0.08	4	0.06	3	0.02	Increase in the competitions among data service providers
0.24	4	0.12	2	0.06	Increase in the number of wireless service providers
0.12	2	0.18	3	0.06	Changes of the work market and wage rate in the area
0.20	2	0.30	3	0.10	Changes in the supportive policies of the government
Major internal factors:					
0.12	4	0.12	4	0.03	Having specialist skill and technical knowledge
0.09	3	0.12	4	0.03	Having collective mentality and acceptable character
0.09	3	0.09	3	0.03	Offering specific training to managers and personnel
0.08	2	0.12	3	0.04	Employing highly experienced top management in administrative affairs
0.20	2	0.40	4	0.10	Planning for success with a focus on people, products, places, price, and advertising the products
0.06	2	0.12	4	0.03	Offering consultation to other firms
0.40	4	0.40	4	0.10	Having a well-known and popular brand name
0.09	3	0.03	1	0.03	Representativeness of the vendors of materials and tools used in projects
0.09	3	0.12	4	0.03	Having access to valid raw materials providers
0.16	4	0.12	3	0.04	Powerful presence in province
0.16	4	0.08	2	0.04	Customer-orientedness
0.24	4	0.12	2	0.06	The ability to conduct project following standards
0.03	4	0.12	4	0.03	The ability to add new branched and expand activities
0.16	4	0.08	2	0.04	Familiarity with customers' needs and meeting them
0.06	1	0.06	1	0.06	Traditional view and not using updated methods
0.04	1	0.16	4	0.04	Frequent relocation of the personnel, even top managers
0.04	1	0.04	1	0.04	Traditional marketing and weak advertisement
0.04	1	0.12	3	0.04	Losing customers due to intensive competition
0.06	1	0.24	4	0.06	Losing available opportunities and delegation to competitors
0.08	2	0.08	2	0.04	Not predicting risk of unprecedented events
0.12	3	0.04	1	0.04	Not predicting inflammation rate and resulting changes
0.15	3	0.10	2	0.05	Inability in completing projects in due time
4.97	2<S<8	5.47	2<S<8	2	Total

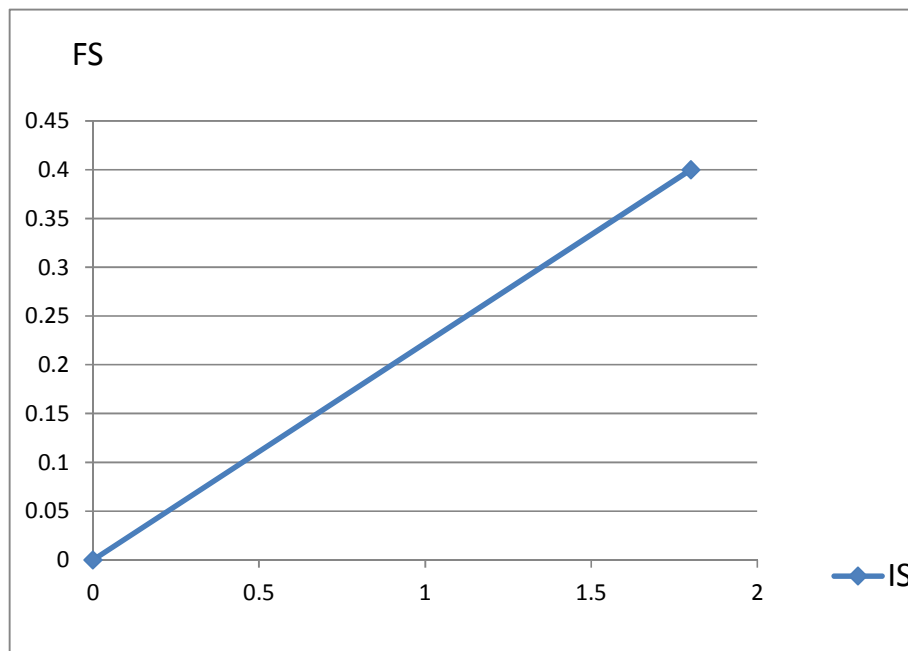


Fig.1. The SPACE Analysis Matrix Diagram

And then second tool is used for strategy selection:

Table 6. Determination of the Attraction of the Firm's Strategies (QSPM) [1]

total score	attraction of external factors	attraction of internal factors	strategy code
5.47	2.88	2.59	SO1
4.97	2.56	2.41	SO2

Table 7. Prioritizing the Strategies of the firm [1]

priority	Attraction score	description	strategy code
1	5.47	participation in relevant tenders	SO1
2	4.97	Expanding previous maintenance contracts	SO2

The results obtained from QSPM matrix indicate that the strategies of invasive situation are of priority and the firm must focus all its efforts on using its opportunities and strengths.

4.Evaluation

In order to evaluate the above-mentioned stages of the firm, two stages or methods are used.

In the first stage, all processes are internally reviewed and evaluated by the personnel and all deficits or faults are detected and introduced to top management. The management, considering existing barriers and resources, devises and administers a set of corrective activities.

In the next stage, the perspective of an external supervisor is used to evaluate the performance. In this stage, the operations are supervised from the outside and lists about each project are filled with an external supervisor. The negative and positive points are marked in those lists and are offered to the top management to perform corrective activities.

5.Advantages and requirements

The company, after administering strategic management, gains more capability in managing simultaneous projects. Moreover, when it deals with several projects, it can handle them harmoniously regarding allocation of resources and human forces.

Through this managerial method, the company gains more capability in confronting shortage of raw materials and instruments and can quickly respond to them, as solutions are already devised and can be used when necessary. For example, in shortage of a specific kind of imported joint coats, its Iranian types offered by representatives, are replaced.

Planning for future projects is done with great accuracy with respect to projects at hand in order to be able to select new projects at the beginning and take part in the tenders.

6. Conclusion

In this study, the concept of strategy development in small firms was investigated. To this aim, a framework was introduced which is mostly focused on the specification and values of the organization. The following results are obtained:

Change is recognized as the main feature of the environment, particularly the commercial environment. From organizational perspective, change is divided in different ways, one of which being the classification of changes into environmental changes and intra-organization changes. Meanwhile, each category has its own features, and results in specific outcomes for the organization; they interact with each other and affect each other.

Due to the interaction and relationships among intra-organizational components and these components and external environment, the change of any of these components can result in changes in others. Regarding the fact that change in external environment is out of the control of organization and is considered as an undeniable fact in it, the management can only make necessary changes in the internal factors through creating flexibility and dynamicity in the organization and adapt it with changing condition and necessities of environment. This goal can be achieved by principled methods of strategy development in every business.

According to the invasive strategy of the firm, exploiting external opportunities, removing internal weaknesses, avoidance from external threats in the firm are necessary. Penetration in market, developing market, developing product, combinational strategy, vertical integration are some points to be considered by the management.

Additionally, according to 3 types of general strategies introduced by Porter in the literature, and invasive strategy of the firm, it can be concluded that the strategy type of the firm must be differentiation to improve the services.

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