SME MANAGEMENT – WHAT CAN WE LEARN FROM ENTREPRENEURSHIP THEORY?

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ABSTRACT
Small business is often regarded as entrepreneurship-driven. There are many reasons for this, e.g.: (1) The entrepreneur as a person plays a much more vital role than in large firms and (2) entrepreneurial spirit is not weakened by considerable hierarchies and can more easily pervade the firm. Welsh & White’s (1981) statement on the differences between small and big businesses seems to apply. Management research, in particular in the area of small business, is by now not sufficiently linked with entrepreneurship theory. However, entrepreneurship theory offers a lot regarding the evolutionary management of SMEs. It is the intention of this conceptual and theory-based paper to scrutinize this linkage and to identify useful insights for the management of SMEs.

Entrepreneurship theory is not a homogenous body. We can find research streams in economic theory and in other disciplines as well (e.g. Baum et al., 2007). For the purpose of delineation, this paper deals with the economic theory of entrepreneurship which builds on a long tradition (e.g. the seminal work of Cantillon 1755, for a historical overview: Hébert & Link 1988). This paper intends to identify those parts of entrepreneurship research which help to recognize those entrepreneurial functions being relevant to understand and structure the managerial challenges of the small business and to develop a managerial framework rooted in entrepreneurship theory.

To this end, the paper starts with a literature review identifying the most important strands of entrepreneurship research concerning entrepreneurial functions. The different approaches are scrutinized in order to assess their relevance to SME management.

The paper concludes that a multi-functional approach fits the managerial challenges of the small business best. Based on market process theory an integrated model is developed that addresses all the relevant functions in a commensurable way regarding the fundamental assumptions, the cause and effect structures and the underlying reasoning. The model developed builds on the work of Barreto (1989) and Schneider (1987). It responds to the challenges of system renewal, system exploitation, and system protection as anchor points being particularly relevant to SME management. As a part of the integrated model, the execution of the following functions contribute to coping with the managerial challenges: (1) the innovation function regarding system renewal, (2) the coordination function (internally) and the market-making function (externally) concerning system exploitation, and (3) the risk management function with regard to system protection.

A causal model, developed within the scope of the paper, proposes that the situation-specific mix of the entrepreneurial functions explains the entrepreneurial performance of the firm which explains the strategic and financial performance of the small firm. By the help of this model, it is possible to identify managerial challenges connected with the execution of the respective functions as well as the management of a specific situation the small firm is in.

INTRODUCTION

Many contributions from management theory and strategy research remind us to consider the entrepreneurial and creative dimension of management – even in situations where SMEs are confronted with fierce and dynamic competition, complex and turbulent business environments, demanding and powerful customers, and limited resources. In fact, it is not easy for SMEs to find or develop a promising strategic path of organizational development when the ordinary business seems to attract almost all the available forces of the firm. Nevertheless, the innovative potential and the high flexibility due to low formal complexity of the organization, the closeness to the customer, the independence in terms of being free from outside control and the deep impact of the owner on the business are typical attributes of small business firms often mentioned in literature (e.g. Stanworth – Curran, 1976; Storey, 1994; Beaver, 2002). It reminds us that SMEs are in no way powerless. Instead there are numerous ways in order to shape even difficult market situations. When searching for theoretical frameworks which address voluntarism regarding the relationship between the firm and the external business environment, we can find some interesting approaches. E.g., the resource-based view (Barney, 1991), the dynamic capability perspective (Teece et al., 1997), and the competence movement (Hamel – Prahalad, 1994) emphasize the proactive potential of the firm by referring to certain types of resources and capabilities. Their basic reasoning is well adopted in management research and is already on the way to penetrate small business management (e.g. Shepherd – Wiklund, 2005). More surprisingly, the potential of entrepreneurship theory is not well scrutinized so far, although it offers a rich tradition and is close to the particular circumstances SMEs have to cope with. Against the mentioned background, the question arises: What can we learn from entrepreneurship theory?

The paper is organized as follows: The first step is about a brief and structured overview of entrepreneurship theory and its development over the last centuries. The different strands of entrepreneurship research are useful in order to identify those being relevant to SME management. This is up to the second step which requires the uncovering of the managerial peculiarities of SMEs in more detail in order to recognize relevant strands. Step three is about refining an approach of entrepreneurial functions dedicated to small business management and to position it within the scope
of management and organization theory. Finally, in step 4 a causal model is introduced which is the anchor point in order to derive hypotheses from the former considerations. The model in connection with the entrepreneurial functions helps to identify priorities in SME management and to summarize the things we can learn from entrepreneurship theory.

The unit of the analysis of this paper is the firm level. It has to be emphasized because the small business is characterized by the owner-manager (personal level) and entrepreneurship theory often deals with the action of the entrepreneur but not with corporate action. This paper, however, intends to clarify the managerial foci of a firm. Actions of single agents of the firm have to be taken into account, therefore, but do not represent the primary unit of analysis. With regard to the organizations under scrutiny, SME management seeks to identify the roots of competitiveness and corporate success which is frame-giving for this paper as well.

ENTREPRENEURSHIP THEORY IN OVERVIEW

Entrepreneurship theory responds to the question which functions entrepreneurs have to perform in order to make sure that they can survive or be successful in competition. The term “entrepreneur” was coined in the French language in the 17th Century and disseminated rapidly. In 1725, Cantillon, seeking to understand the very nature of commerce, wrote his seminal work on the entrepreneur as a person willing to take risks and able to manage uncertainty which was published posthum in 1755 (Cantillon, 1755). Many follow-up publications enriched the initial thoughts in the following decades and up till now there is a considerable variety of entrepreneurial functions under discussion (Hébert – Link, 1988; Schoppe et al., 1995). There are static and dynamic functions as well. Hébert and Link (1988) differentiate among three different schools of entrepreneurship which are based on research in different countries:

- There is an American School (Chicago School) referring to the problem of managing uncertainty (e.g. Knight, 1921).
- Von Thünen (1826) and Schumpeter (1934) constituted and influenced the German School, dealing with the function of innovation.
The Austrian School focuses upon disequilibria in competition, the nature of human action and stresses the need for arbitrage profits (von Mises, 1949; Kirzner, 1973).

Although contributions from other countries (e.g. U.K.: Smith, Ricardo, Mill, and France: Savary, Quesnay, Turgot, Baudeau) had considerable impact on the status of entrepreneurship research and some of the researchers cannot be easily assigned to one of the more or less country-specific schools, the three schools of thought give an almost complete overview of the most important functions of the entrepreneur. The only function to be added is the one of coordination. In particular Casson (1982) made important progress in this regard.

What do these and other functions tell us? First of all, it turns out that management will be poor in terms of performance measures as long as the execution of entrepreneurial functions is neglected. If firms are confronted with complexity and turbulence and do not consider the management of uncertainty, they are more likely to fail. Secondly, the functional discussion tells us that it is possible to operationalize and concretize entrepreneurship and entrepreneurial behaviour by referring to certain functions to be executed. Thirdly, it seems to be difficult to isolate one and only one function fitting all the (important) requirements of management. The protagonists of entrepreneurship theory considered this problem. Some drew the conclusion to point to a focused function. Others favoured a certain complex of entrepreneurial sub-functions that are integrated into a cohesive meta-function. By studying the literature on entrepreneurship theory there is one important impression. The concepts differ significantly by the chosen focus (Freiling, 2006):

- There are **mono-functional approaches** with one function to be executed in order to be successful. Kirzner’s (1973) arbitrage function belongs to this category.

- **Meta functional approaches** indicate that in case of alertly blending sub-functions entrepreneurs and their firms are in a position to attain their performance goals. Schumpeter’s (1934) innovation function consists of product, process, organizational, purchasing, and marketing innovations. Casson (1982) deals with the coordination function and argues that the coordination process is made up of (1) taking the opportunities of
coordination, (2) making judgmental decisions, and (3) market-making. It turns out that in both cases all the potentials of a firm can contribute to executing the respective meta functions.

- **Multi-functional approaches** go one step further and respond to the problems of (over-) loading all the managerial challenges in one function – be it a mono-function or a meta function. Since these approaches did not play any important role in earlier discussions, it is worth the effort to introduce the particular reasoning a little bit more in detail.

Schneider (1987) was one of the first protagonists of this research stream and developed a system of different inter-related functions the execution of which ensures the organization’s competitiveness. It is important to state that performing the functions is by no means restricted to a single person. Instead it is up to the company as a whole to manage the execution process. Schneider argued that there is one function which is necessary to set up a firm: the function of entrepreneurs to take other persons’ risks of income. Taking and managing risks is a function that has to be executed not only in times of the start-up of a venture but later on as well. However, there are two additional functions coming into play. The arbitrage function, well-known from Kirzner (1973), is required in order to keep the firm’s competitiveness in the outer context (in particular in market processes). In order to maintain the firm’s responsiveness and ability to act, performing another function is important with regard to the inner context of the firm: the implementation of change in leadership against internal resistance. The latter corresponds to the coordination issues raised by Casson (1982).

Such an approach is useful in order to structure and understand the multitude of managerial challenges and stresses the necessity of alignments while executing these functions. Accordingly, a low degree of the execution of the functions and a bad alignment explain failure in competition. Entrepreneurship theory in terms of these entrepreneurial functions takes the economic development into account and scrutinizes how entrepreneurial decisions form an organizational path. Developments of internal and external conditions are considered so that a co-evolutionary angle is applied. However, in order to apply the findings the following questions are open: What do entrepreneurial functions tell us for the purpose of small business
management? What are the strands of entrepreneurship research which fit to the particular profile of SMEs?

ENTREPRENEURIAL FUNCTIONS AND SME MANAGEMENT

Facing the fact that about 98% of all companies belong to the small business, it is not easy to outline features of the general kind. However, there are indeed some typical characteristics mentioned in literature which are relevant to describe the nature of SMEs and the peculiarities (e.g. Jennings – Beaver, 1997):

- **Structural peculiarities of coordination.** Due to the smallness of the firm the degree of structural complexity is low. Extensive hierarchies are often not required due to the fact that the management can often easily overlook and therefore control the whole business. The design of the business processes is lean since administrative back-up is only required to a limited extent. Consequently, the flexibility is usually higher compared with larger firms. This precipitates in coordination advantages of the small business.

- **Managerial peculiarities of coordination.** Small business is particularly characterized by the influence of the owner-managers. The management process is therefore to a large extent personalized (Storey, 1994; Beaver, 2002) and dependent on the entrepreneurs’ dominant logics (Prahalad – Bettis, 1986). The low degree of structural complexity allows them to control and steer the whole organization or at least considerable parts of it. As a consequence, formal planning procedures are not so much required than in large organizations. This does not mean that planning does not take place. However, it is practised the more implicit way which is much more effective in such settings. Facing the considerable impact of the owner-managers on the management process, entrepreneurship is much more depending on single persons compared to larger companies. As a consequence, many of the findings from those parts of entrepreneurship theory which refer to single persons (e.g. the entrepreneurial traits school, see Low – MacMillan, 1988; Gartner, 1989) can be transferred to SMEs. Finally, considering the key role owner-managers play, capacity restrictions (managerial bottlenecks and lack of specialized knowledge and professionalization) turn out and highlight the
liabilities of coordination small business is confronted with. This might end up in reactive strategies of small companies (Welter, 2003) which is, however, not necessarily so. A strong countervailing effect among others is e.g. the unity of ownership and leadership which helps to avoid a good deal of conflicts at the interface to the financial markets. The situation SMEs are in simultaneously fosters the nurturing of strategic potentials and a long-term orientation which is sometimes out of reach in case of shareholders expecting short-term profits.

Risk-taking peculiarities. (How far) Is the risk situation of SMEs really different from larger companies, as e.g. Beaver (2002) argues? Following the above train of thoughts, the small business is much more personalized. This affects the risk situation as well. The owner-managers usually invest considerable amounts of capital for a long time. These (strategic) investments are reliable and at the same time outline the (financial) restrictions many SMEs are confronted with. Other risk factors are well documented in literature (e.g. Jennings – Beaver, 1997; Beaver, 2002): E.g. SMEs usually depend on a rather small customer base, have limited bargaining power and have to specify their assets to a large extent in order to find an attractive position in niche markets. In a nutshell, the vulnerability in case of crises is high and there is a strong necessity to develop a reliable protection belt from the negative consequences of uncertainty.

Peculiarities of innovation. Innovation and renewal in the meaning of Schumpeter (1934) comprises product, process, organizational, and market innovations. As for the innovation profile of SMEs we cannot simply consider SMEs to be generally more innovative than large firms. Nevertheless there are some important features regarding the input, throughput, and consequently, the output of the innovation process which bring about an advantageous state (Gibbons – O’Connor 2003): There is typically neither a well-equipped R&D department nor specialized R&D personnel in SMEs. Concerning the R&D output this situation is rather meaningless since the logic and the run of innovation processes is quite different from larger companies. Many employees and owner-managers are involved and rethink the given processes and products more fundamentally. The reason for this is the limited structural
complexity so that they can easier overlook major issues the company is concerned with and start processes of innovation and renewal. The low degree of structural complexity in case of SMEs is furthermore one reason why the innovation processes run smoothly and rapidly compared to large companies. Given these throughput advantages of innovation processes of the different kind SMEs are in a promising position to achieve high levels of R&D productivity and innovativeness as well. This helps SMEs to make their way even in turbulent environments.

- **Peculiarities of the market interfaces.** SMEs are, by definition, characterized by the firm size. This smallness affects the firm’s positioning on factor, product, financial, and personnel markets in terms of bargaining power, name recognition, and brand awareness (Beaver, 2002). SMEs are by no means restricted to a focus on niche markets. However, the size limits market penetration and diversification as well and goes along with predominantly focused product programs.

If we regard the findings of the SME features which are well documented in literature, it transpires that all the peculiarities are connected with certain entrepreneurial functions discussed in the previous section of this paper. Coordination, managing uncertainty (risk management), innovation, and ‘market-making’ represent the featured areas. This gives rise to the impression that the managerial peculiarities can be best understood and considered in case of multi-functional approaches of entrepreneurship theory, as already introduced above. However, the Schneider (1987) approach – dealing with a system of three functions that explain the emergence and evolution of the firm – does not seem to cover all the mentioned aspects. Another approach introduced by Barreto (1989), instead, seems to address the above-mentioned peculiarities. The next session dwells on the opportunities of multi-functional approaches and the considerations of Schneider (1987) and Barreto (1989) in more detail. The objective is to introduce a multi-functional approach matching the peculiarities of SME management in turbulent business environments.

**A MULTI-FUNCTIONAL ENTREPRENEURSHIP APPROACH FOR SME MANAGEMENT**
Barreto (1989) analyzed the development of entrepreneurship theory and identified four striking functions: coordination (referring to Say), arbitrage (with reference to Kirzner), innovation (based on Schumpeter), and risk management (according to Cantillon, Hawley, and Knight). The functions fit perfectly to the discussion in the above section. However, they are not derived the way Schneider (1987) did who intends to explain the evolution of firms as institutions. The different functions are more or less collected from a literature review but not aligned within an overarching framework with functional contexts explaining the start-up, the development and the potential breakdown of firms. Schneider’s approach is appealing from this point of view, although we can ask ourselves whether we consider the risk-taking function original for the constitution of a firm. If we want to understand why firms are founded by entrepreneurs we arrive at the point that something new has to be created as a source of income. According to that, innovation appears to be much more basic than bearing uncertainty. Nevertheless, managing uncertainty is closely connected with any kind of innovation. However, it cannot be regarded as the usual trigger of venturing.

Therefore, the following considerations focus upon developing an approach being relevant to SME management by addressing the basic features of SME management as outlined above and mirrored by the functional catalogue offered by Barreto (1989). This approach should be equipped with the formal rigor of the Schneider (1987) system and help to explain organizational evolution in the context of survival in competition. Accordingly, the respective approach should address the formation of firms and how to keep the competitiveness over time. This corresponds with the following functional contexts:

- start-up and (continuous) renewal of the firm as a system,
- (purposeful) exploitation of the firm and its given asset endowment, and
- protection of the firm in often complex and turbulent environments.

System renewal is a pervasive task, in particular in changing business environments. It implies that not many things can be regarded as given. Products and assortments have to be adapted to the (anticipated) changes in markets and environments. Processes need to be improved in order to avoid being outpaced in competition. Organizational structures are usually effective in a given internal and external context but need to be assessed and maybe adapted, modified or replaced if any kind of change occurs. It
transpires, that every firm and in particular the SMEs are challenged to manage system renewal thoroughly. The system renewal puts a certain organizational structure and strategy in place.

Another challenge is to make use of the potential offered by the given organizational structure. System exploitation responds to this fundamental task. This implies that internally the given potentials are to be activated and allocated in order to find the most effective applications. Externally the firm has to manage transactions for using the potential of the value-added facilities. Insofar system exploitation has an external and internal dimension as well.

Innovating and exploiting the system carefully is not enough in order to withstand the menacing forces of competition. Uncertainty goes along with opportunities to be taken by system renewal and system exploitation. However, uncertainty also implies threats and unfortunate developments because present and future cannot be perfectly overlooked. This comes along with the need for system protection. The stream of entrepreneurship theory which we dwell on here (multi-functional approaches) is useful since it creates a balanced picture of opportunities and threats. For the purpose of clarification, mono-functional approaches based on innovation or arbitrage on the one side or risk-taking propensities on the other are not able to address the multitude of effects in the light of uncertainty. This is one reason for referring to this part of entrepreneurship theory which is now to be introduced in more detail and to be refined.

Entrepreneurship theory does not rely on a uniform system of basic assumptions. Moreover, the grounding in streams of organization theory is different. E.g. Casson (1982) refers in many cases to the New Institutional Economics. Schumpeter’s (1934) benchmark is sometimes the market equilibrium whereas Kirzner’s (1973) reasoning relies on market process theory. This reminds us to carefully point out the assumptions and the basic reasoning of the multi-functional approach we refer to. The antecedents are typical for market process theory and to be summarized as follows:

- Agents make their decisions in a world of uncertainty.
• The agents’ knowledge, skills, and motivations are asymmetrically distributed. A position of subjectivism is applied.
• The distribution of knowledge, skills, and motivations is not given but subject to on-going developments. Path relatedness of agents and firms is a pervasive feature of business life. Asset development and asset erosion are the consequences and reveal the evolutionary perspective which is chosen.
• Decision-making intends to follow the typical criteria of rationality. However, due to incomplete information decision-making is nothing else but a process of “trial and error”, best-known from the tradition of the Austrian Economics (e.g. von Mises, 1949).
• (Entrepreneurial) Agents intend to improve their given situation in terms of economic benefits and do not treat the circumstances they are in as given and unchangeable. Instead they strive for fostering fortunate and weakening unfortunate forces in order to attain advantageous positions in the long-run. It is assumed that agents are equipped with enough power in order to change their situation at least partly. However, the influence is, by far, not unrestricted. There are in fact some restrictions which cannot be modified. This implies concerning the relationship between firms and the business environment that a position of moderate voluntarism is chosen. Such a position fits to typical understandings of the role of entrepreneurs. Entrepreneurs question the situation and look out for new horizons what the business can be and how it could be done.

Facing these antecedents, the fundamental positioning of this stream of entrepreneurship theory in management and organization theory transpires. A subjectivist point of view is chosen. Change plays an important role. However, the path dependence of decision-making suggests that radical changes can take place but usually once in a blue moon due to embeddedness reasons. Agents and firms are embedded in a sequence of decisions, in lots of different stakeholder relations of the internal and external kind, and often face high levels of commitment. Radical change might be possible but minor (not unimportant) changes are typical for business life. Consequently, the multi-functional approach favoured here belongs more or less to the so-called “interpretive paradigm” as introduced by Burrell and Morgan (1979)
who tried to structure the heterogeneity of organization theories by four paradigms. It is important to notice that the interpretive paradigm is in many regards far away from common economic theory which predominantly belongs to the functionalist paradigm according to Burrell and Morgan (1979).

The next step is about how to respond to the functional framework of system renewal, system exploitation, and system protection in the light of entrepreneurial functions being relevant to small business. The basic idea is to make use of the (too eclectic) functional catalogue developed by Barreto (1989) in order to categorize the functions the way Schneider (1987) did. The result is introduced below.

As outlined in figure 1, system renewal corresponds with the innovation function. The function includes product, process, organizational, and market-related innovations – all of the major and the minor kind as well. More importantly, the different kinds of innovations are not to be regarded as stand-alone tasks but have to be well aligned in order to avoid organization/environment misfits in the long run. As a consequence of performing the innovation function as a whole, the structures of the firm will be permanently questioned and – if necessary – renewed. The innovation function in this wider understanding according to Schumpeter (1934) provides the firm with a structural context to be exploited by the other functions which are introduced below. The more the different kinds of innovations are aligned among each other and correspond with external developments, the more the respective SME is in a position to accumulate power and to trigger a process of creative destruction, as Schumpeter (1934) already stated.

The (permanently renewed) structures, consisting particularly of the products and assortment, the activities, and the asset endowment, provide the firm with a potential to act. This potential is to be exploited internally and externally – the latter regarding any transaction in the markets and the business environment. Internally the coordination function enables the firm to activate the given potential whereas externally the arbitrage function is required to manage the transactions the profitable way in the long run.
In more detail, coordination does not only comprise managing the value-added process which is, in fact, a core part of internal coordination. One can argue that value-added activities are not exclusively an internal issue facing the fact that customer participation in the value-added process might take place (Lovelock, 2001) which particularly holds true in particular in case of service production. This, however, can easily be subsumed to internal coordination since it has the only purpose to bring customized products to the market interface. Moreover, internal coordination is about putting the available assets in place so that they can unfold their potential and enable both effective and efficient activities. Managing the value-added activities and the basic asset endowment represent core issues of organization. Finally internal coordination comprises issues of motivation. As pointed out earlier, SMEs offer a rich potential of motivation due to their structural advantages. However, SME management in the area of internal coordination goes far beyond structural issues and addresses sense making in organizations as well. To develop sense making values and cultural elements triggering creativity at work is therefore a pervasive task of coordination which is in SMEs to be fostered and directed by the entrepreneurs.

Whereas internal coordination refers to exploiting the system internally, the arbitrage function is about the external issues of system exploitation. In particular by executing
the arbitrage function, the SMEs intend to bridge the gap between the individual supply conditions of the firm and the requirements of the demand. This requires to *identify opportunities of transaction* (Kirzner, 1973) and sometimes to proactively *generate and shape* such opportunities (Lachmann, 1984). Having achieved this, arbitrage is about managing the terms of trade the profitable way in the long run. This helps to *exploit* the potential transactions offer. Executing the arbitrage function includes screening relevant information, accumulating knowledge and making use of alertness (Kirzner, 1973). From an SME angle, the search for business opportunities is not restricted to the actual market niches small business firms might be (or feel) committed to. Instead of this, arbitrage in the sense of Kirzner (1973) includes being open-minded for any kind of business where the entrepreneurs believe that they could fill given gaps between demand and supply by alert moves. The only criterion being relevant to consideration is the opportunity to raise arbitrage profits. Due to the flexibility mentioned above, SMEs are in good positions, indeed, to open new markets in order to exploit the firm’s conditions more comprehensively.

System renewal and system exploitation are accompanied by system protection. In predominantly complex and dynamic, sometimes turbulent business environments SMEs are well advised to equip the firm with a protective belt. The *risk management* function directly refers to this issue and intends to protect the firm from the negative consequences going along with uncertainty. This delineation is necessary because the opportunities in connection with uncertainty which are basic to raise superior profits in competition are already addressed by the other functions mentioned above. Subject to risk management is first of all the *recognition of risks* which highlights the pervasive role of knowledge management. There is in fact no entrepreneurial function the execution of which can abstain from managing knowledge thoroughly since otherwise opportunities of innovation, challenges of coordination, and potentially advantageous transactions cannot simply be recognized. With regard to SME management it transpires that ‘radar systems’ should be available to ensure that even weak signals of risky and dangerous developments can be accessed and interpreted as early as possible for preparation reasons. Having identified risks, a *risk assessment* allows the firm to make decisions on *taking or distributing/transferring risks*. It is almost needless to say that this is only possible in case of scanned and evaluated risks. Ex post surprises which are possible in case of uncertainty as well are subject to a
more or less ‘ad hoc’ risk management that often ends up in the management of ‘ad hoc crises’ (Burmann et al., 2005). Risk management is about making such situations unlikely although we know that those surprises are, in principle, not avoidable. Accordingly, the firm is confronted with taking risks both the planned and the unscheduled way. Risk-taking implies to find adequate solutions in case of occurring negative consequences. For SMEs this part of executing the risk management function is difficult as well since slack resources are usually restricted. An integrated management of risks in order to protect the system needs to take this into account which usually goes along with emphasizing the other sub-functions (risk scanning, risk transfer).

As an interim result, entrepreneurial SME management rests upon the execution of the four entrepreneurial functions introduced above. It is worth mentioning that the single functions should not stand alone. Defined as outlined in this section they are mutually exclusive and collectively exhaustive enough in order to cover the managerial issues SMEs have to cope with. Accordingly, a core task is to put these functions in place in such a way that they are internally aligned and well adapted to the situational context, the firm is confronted with. This leads to a debate on dynamic fit (Itami, 1987) which considers the notion of moderate voluntarism: The things cannot be shaped completely the way SMEs want to but there are, in particular in the long run, opportunities to set new standards so that both organizational and business environment paths of development might be subject of influence. These considerations play a role in the final step of this paper where first hypotheses are derived.

**HYPOTHESES AND CAUSALITIES**

By now, the approach mentioned above is not tested empirically. The reason for this is the early state of entrepreneurship theory in strategic management. The section above pointed out that entrepreneurship theory can offer a lot for the purpose of (strategic) SME management. This requires to sharpen the entrepreneurial functions and to develop a system of multiple functions to cover the multitude of managerial challenges in uncertain, complex, and dynamic, sometimes turbulent environments. Empirical work is required in order to explore how far (which) entrepreneurial functions play a role. In order to prepare empirical fieldwork of the different kind, this
section seeks to derive causal relations between the functions under scrutiny and the consequences in economic terms. These causalities are simultaneously a first step in order to develop testable hypotheses and to integrate them in the structure of a causal model.

The first consideration in this context is about the observation that neglecting the execution of entrepreneurial functions leads to shrinking competitiveness of the firm. E.g. SMEs that do not care about innovation for the purpose of organizational renewal find themselves in an outpaced position and in vicious cycles of development due to the structural constraints they are confronted with. The same holds true for other functions as well: How can a firm survive if there is no protection from the menacing forces of rivals and business environments as well? Therefore one basic assumption is that the execution of single entrepreneurial functions contributes to entrepreneurial behaviour and will increase the firm’s competitiveness – immediately or later on due to transmission processes (cf. figure 2). We can develop four respective hypotheses that address the relationship between the execution of the function and its influence on (increasing) competitiveness via the construct of entrepreneurship.

![Figure 2 The Multi-Functional Approach and its Cause and Effect Structures](image-url)
The second consideration rests upon the notion that the stand-alone management of entrepreneurial functions is not enough in order to contribute to the firm’s competitiveness which can be conceptualized according to Schneider (1997): the ability to withstand menacing forces of competitors or the business environment and the ability to prove oneself in transactions with the counterparty (customer or suppliers). Accordingly, the next hypothesis section is about the internal alignment of the entrepreneurial functions to be executed. This means for instance that innovation is not enough in order to increase the firm’s competitiveness sufficiently but should be accompanied by an alert management of business transactions which make use of the improved value-added structure. Moreover, innovation allows for other ways of internal coordination and requires new approaches of bearing the risks of the business. Improving the execution of one function is a promising first step but the full potential can only be achieved by finding a new “balance” among the entrepreneurial functions. As for a hypothesis in this area this means that an integrated management of the entrepreneurial functions triggers synergies and enables the firm to increase the competitiveness.

A third consideration touches on the notion of external fit as mentioned above. It is simply not useful to “maximize” the efforts regarding the execution of an entrepreneurial function. More is not always simultaneously better. Therefore, the situational context in the long run has to be taken into account. There are contexts where innovation plays the most important role and only those SMEs will survive that manage the renewal process comprehensively and fast enough. In other contexts, however, closeness to the customer might be the most important factor of success and the like. Although entrepreneurship theory suggests that critical success factors are, by far, not given and new factors can (and should) be permanently created, moderate voluntarism tells us that certain surroundings cannot be modified immediately. Therefore, SME management from an entrepreneurial angle has to take the external conditions into account. The way of alignment among (integrated) entrepreneurial functions on the one hand and external surroundings on the other is subject to our last hypothesis.

In a nutshell, figure 2 highlights the mentioned cause and effect structures and comprises the understanding of entrepreneurship of this paper: *Entrepreneurship*
means executing the *entrepreneurial functions* under consideration. As a construct, entrepreneurship affects the level of competitiveness as conceptualized above (Schneider, 1997). The degree of the firm’s competitiveness influences the emergence of competitive advantages (not mentioned in figure 2) and the financial performance, measured the typical way (ROI, ROCE and the like).

**FINAL REMARKS**

Entrepreneurship theory has traditionally been a market theory, not a management theory. The paper points out the potential to contribute to a management theory. This, however, requires much conceptual work. First attempts are outlined within the scope of this paper; other attempts need to follow in order to unfold the considerable potential entrepreneurship theory offers to management science. The transfer of knowledge from the macro to the micro level is an indispensable precondition in this regard.

The purpose of this paper was to demonstrate that useful managerial approaches for SMEs can be found in market theory and transferred to management and organization theory. By now, the character of the considerations is only conceptual. To stimulate more conceptual and even empirical work is another intention. The results of empirical surveys on growth and profitability of SMEs (e.g. Meffert – Klein 2007) give rise to the impression that the chosen multi-functional approach of entrepreneurship supports (and explains) the findings. This, however, needs substantiation.

**REFERENCES**


