

Variety in strategic management, perceptions of strategy: A study of
entrepreneurship in fast growth medium-sized firms

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Occasional / Working Paper Series
Working Paper No. 4
December 2004

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ISSN: 1 901177 34 3

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Abstract

Small and medium sized firms (SMEs) and entrepreneurs strongly contribute to the development of new ideas and technologies, which drives growth of (new) industries, but they rarely utilize formalized strategic management concepts. Following the research goal to explore the entrepreneur's perception of strategic management this paper explores strategic management perceptions and conceptualisations in SMEs from a combination of the entrepreneurial research and a behavioural approach of managers. To explore the conceptualization and meaning of strategic management in an entrepreneurial context we have interviewed entrepreneurs in Europe whose businesses have grown rapidly from small to medium size in terms of employment over a five year period. We found typical and mixed entrepreneurial styles.

Original paper presented at the Strategic Management Society Annual Conference October 2004

Keywords: Entrepreneurship, Perceptions, Strategic Behaviour

Introduction

Small and medium sized firms (SMEs) and entrepreneurs strongly contribute to the development of new ideas and technologies, which drives the growth of (new) industries. Although management and ownership of SMEs as well as entrepreneurs develop new ideas and solutions they rarely utilize formalized strategic management concepts (Kisfalvi, 2002). Scholars argue that this phenomena is rooted in the lack of profound managerial knowledge, mental barriers against the need for or implementation of strategic management or limited resources to acquire knowledge and tools of strategic management. It could also be related to the entrepreneur's 'character and life issues' in which strategy formation is rooted in the entrepreneur's background and history (Kisfalvi, 2002: 489).

Pursuing the research goal to explore the entrepreneur's perception of strategic management, the central aim of this article is to examine the founder's conceptualization of strategic management. Scholars (Meyer et al, 2002: 19) have debated whether there is an 'integration' or 'interface' between the disciplines of strategic management and entrepreneurship. The researchers were also interested in examining possible similarities or variations in perceptions of strategic management due to differing contexts, namely the external industry environment in which the organizations operate and the mindset of the lead entrepreneur.

This article explores these issues from a combination of the entrepreneurial research and a behavioural approach of managers in order to investigate different perceptions of strategic management in SMEs. To explore the conceptualization and meaning of strategic management in an entrepreneurial context we have interviewed entrepreneurs in France, Germany and Italy whose businesses have rapidly grown from small to medium- size in terms of employment over a five year period.

Theory

The article develops knowledge and discussion derived from the literature and grounded in the participating organizations individual responses. We assume that individuals are not able to gain access to objective reality, because there is no possibility to realize an object and its character before realization. Observer and observation are always intertwined (von Foerster, 1984). The individual's reality is constructed by the processing procedures of the brain that always selects information. Distinction making and declaration (categorization) can be evaluated as the two basic mechanisms of perception (Luhmann, 1995; Spencer Brown, 1969). Distinction making and categorization implies finding redundancy and connections between the individual's mental concepts and observations. The individual's perception always embodies a selection. Selection represents a question of fit between experience and reality.

These processes of construction or re-construction of reality in the individual mind and within organizations can be described and represented with the concept of cognitive maps or mental models (Senge, 1992; Taylor & Lerner, 1996). In one meaning mental maps are a metaphoric description of all the processes of obtaining, storing, retrieving and adapting knowledge and of the structure of knowledge, which is emerging and continuously varying. In a second meaning, mental maps are the pictures of processes and structures the observer is drawing to visualize the items of knowledge and their relations, which have relevance for managers in certain situations. These pictures may concern individual managers or represent the view of a group of managers on average (Calori & Lawrence, 1991: 187). Such a picture or model of a real phenomenon must necessarily contain less than the real cognitive map, because a complete picture is not possible - the complexity of reality must be reduced in a picture or a model. They contain the systems of concepts and relations produced (Laukkanen, 1996: 28) or used (Taylor et al.,

1996: 260) by managers to understand their world and the strategies to cope with it. Managers and entrepreneurs develop mental models to conceptualize strategic management. These conceptualizations guide the perception and use of strategic management thinking, tools and style. The dynamic mental models are influenced by the experiences of the managers/entrepreneurs in firms and their environment.

Further managers and entrepreneurs have been designated as having contrasting cognitive processes. The emergence of cognitive approaches to how entrepreneurs think and make strategic decisions (Busenitz & Barney, 1997; Baron, 1998; Forbes, 1999) contributes to the understanding of strategy in the contrasting environments of small, medium and large firms. Busenitz and Barney (1997) argue that heuristics are used more extensively by entrepreneurs than managers in large organizations. Heuristics is defined as simplifying strategies that are used to make decisions when less complete or uncertain information is available (Busenitz & Lau, 1996; Wright et al, 2000). Further, the more experienced and confident the entrepreneur the more they rely on what they know through informal contacts in their network (Cooper et al, 1995).

The concept of the entrepreneur as a tacit and socially complex asset or resource (Alvarez & Busenitz, 2001) contrasts significantly with managerial cognition processes of systematic decision-making. This tacit and socially complex cognitive process or 'high order thinking' (Lei et al, 1996; Krabuanrat & Phelps, 1998) allows entrepreneurs to respond creatively to opportunities (Tversky & Kahneman, 1974). This differs from 'lower order' managerial cognitive processes focused on repetitious observations and routine learning. Furthermore, the use of heuristic approaches to decision making serves to influence the organization throughout its history and creates what is referred to as path dependent behaviour (Nelson & Winter, 1982; Barney, 1986; 1991; Reuber & Fischer, 1997).

Entrepreneurial cognitive processes have been referred to as a mindset here referring to a firm's strategic orientation and the specific aspects of *decision-making styles, methods, and practices* (Wiklund and Shepherd, 2003). The entrepreneurial mindset is defined as individual or team characteristics and strategic responses. These characteristics are an opportunity seeking, proactive, prospector mindset in pursuit of attractive opportunities, engaging the energies of others, focusing on execution of innovative ideas, willingness to take risks, driven by a desire to be autonomous and competitively responsive to customer needs (McGrath and MacMillan 2000).

The research draws upon the central role of the cognitive processes of entrepreneurs or managers in SMEs as an influence on perceptions of strategy by other organizational members. Entrepreneurs as leaders set the 'rules of the game' (Schein, 1968; Van Maanen, 1979) for important strategic decisions. They develop 'shared meanings' emerging to form an organizations culture (Smircich, 1983; Weick, 1995) or 'habits of thinking, mental models, and linguistic paradigms' that guide the perceptions, thought and language used by members of a group (Douglas, 1986). Leaders and culture are intertwined whereby in new organizations the leader(s) consciously or unconsciously define the culture for a group or organization. This culture will be founded on the entrepreneur's norms, values, personal visions, goals and how things should be (Schein, 2004). Culture is an ambiguous term but for the purposes of this research is defined as:

"a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has 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" (Schein 2004: 17).

The theoretical discussion leads us to conclude that individuals construct reality around what they know and are unable to view this objectively. They transfer their experiences into organizational life and as entrepreneurs or managers use their values and norms to define the vision and goals based on 'habits of thinking' or 'mental models' which become deep rooted assumptions which other members of the organization use as a guide to behaviour. These experiences form the perceptions which leaders and organizational members will have of the world and may lead to a variety in perceptions of strategy.

External environment conditions have been found to impact on perceptions of strategy (Lawrence & Lorsch, 1967; Manu, 1992). Miller (1983) provides a useful typology of firms operating in three environments; simple firms operating in homogeneous, highly competitive markets where leadership is centred on the owner; planning firms where the emphasis is on efficiency and control in stable and predictable environments; and organic firms in relatively complex industries where entrepreneurs adopt an organic structure in response to environments in which customer requirements, product-technology innovations and competitor reactions change unpredictably. Organizations in such environments have been defined as having 'plastic' (Lawrence & Lorsch, 1967) or 'adaptive' strategy making styles (Mintzberg, 1973). Bantel (1998) conceptualized six strategic management types for adolescent firms influenced by the variety in their external environments.

In summary, the concept of variety in strategic types has been established in the literature. However, whilst there has been some empirical research to support the concept of variety this has been viewed from the perspective of the external environment. There has been far less development of the influence of the cognitive and cultural process on perceptions of strategy, which is the central issue of this research.

The authors acknowledge these past theoretical developments and research which they have used to develop the following research questions.

Research questions

1. How do entrepreneurs articulate and perceive strategy-what artifacts symbolise this perception of strategy (language, responsiveness to customer needs organizational processes, planning/non planning; organizational structure and culture, product-technology)?
2. Do these perceptions and influences lead to typical or varied approaches towards strategy?

Methodology

To explore the conceptualization and meaning of strategic management in an entrepreneurial context we have interviewed entrepreneurs in Europe whose businesses have grown rapidly (in terms of employment) from small to medium- size over a five year period. We questioned the entrepreneur's on their orientation towards strategic management, decision-making and future opportunities for growth from the organizations foundations to the present day. The sampling logic was purposeful to select firms that met the criteria and research aim.

The research is exploratory, and the authors are aiming to develop understanding and knowledge grounded in the experiences of entrepreneurs and the literature. A qualitative methodology was purposeful because

we explored in-depth, often and somehow unconscious internalised knowledge, perceptions, and behaviour that precludes large-sample, standardized questionnaire based quantitative research. Qualitative methodology is considered appropriate for the exploration and understanding of a phenomenon (Eisenhardt, 1989; Locke, 2001). The qualitative data was collected from a sample of organizations selected from a population of fast growth medium-sized firms in France, Germany and Italy.

This, we believe, provides a new context for study of strategic management and entrepreneurship. Prior research has focused on the study of small firms (Sathe, 2003) and corporate entrepreneurship in large firms (Ahuja & Lampert, 2001; Birkinshaw, 1997; Covin & Morgan, 1999; Hitt et al, 1999; Burgelman, 1983, 1984). It also means that we can observe any changes in perceptions and approaches towards their understanding and conceptualization of strategic management. However, we cannot avoid the problem of 'false memories' and retrospective rationalization but five years is a relatively short time perspective. The second context for the research is contrasting industry sectors, namely high-tech (software and electronics) and 'conventional' (metal and mechanical engineering) in three countries. This context was selected to explore any variety in perceptions of strategy and entrepreneurship between sectors and countries.

Selecting the case studies

From a data set of 500 European firms (European Commission, 1997) 8 owners of fast growth medium-sized firms in France, Germany and Italy were selected for interview. The specific selection criteria (based on the two contexts outlined above) were that the organizations had to be designated high growth in terms of employment (minimum growth of 150%); to have between 100-499 employees in 1996 (middle-sized rather than small firms); to be independent (not a subsidiary of another company or group and have no shareholder with more than 15% of the company's equity) and predominantly privately owned (entrepreneur (s) own a minimum of 15% of the company's equity). The firms also had to meet the research criteria of operating the high-tech (electronics) or conventional industry (mechanical engineering) sector.

We interviewed either the individual entrepreneur or, if a team venture, a member of the board. The companies were founded at different times in the past 25 years ranging from 1979 to 1994. The individual in-depth interviews lasted 1-3 hours and generated rich data based on open-ended questions. The interviews were triangulated with internal company archives, and external data such as press releases on each firm. The questioning probed the strategic management style of the entrepreneur in an open discussion in the language of the entrepreneur, leaving it to the respondent to articulate their conceptualization of the firm.

The analytical method

The data from the interviews was transcribed by the researchers as this is an important stage in the analysis of qualitative data (Strauss & Corbin, 1998). The data was put into the Nvivo software for qualitative analysis and questions were coded according to themes relating to the respondents conceptualization of strategy. These conceptualizations are operationalised in the outward manifestation of cognition in the form of language used and expressions of the culture of the firm through statements relating to vision, approaches to decision-making, organization and planning. These open codes were then compared across the different responses from the 8 firms to search for common or unusual patterns. These two stages of coding allowed the researchers to go through several iterations and interpretations from micro-analysis to the linking of concepts.

The analysis and discussion of the research questions

Research question 1: How do entrepreneurs articulate and perceive strategy-what artifacts symbolise this perception of strategy (language, organizational processes/planning/non planning; organizational structure and culture)?

Language referring to "entrepreneurship"

The respondents in the software, electronics and telecommunications firms frequently referred to strategy in terms of *vision* and the mindset of the entrepreneur and the employees. The term 'entrepreneurial' is defined as the freedom and authority (*autonomy*) to make decisions without interference from the centre. A respondent in one firm spoke of the owner-entrepreneur's involvement in the recruitment of most staff and the selection of country general managers, with a sense of autonomy and independence (*leadership and control*). The culture was one of action and rapid decision-making, based on short but effective meetings (*focus on execution*) and *adaptation* to emerging circumstances. The founding entrepreneur was still in control but trusted the general manager to manage each business.

"Find people that have the entrepreneurial drive to really push a business forward" [respondent German electronics company-high-tech].

"The company is focused on sales and recruits people who are entrepreneurial and autonomous. The firm's values are based on trust, entrepreneurship, business oriented. We do not have long meetings quick decision making" [respondent French software company-high-tech].

"This is a strategy of an owner-managed enterprise. We have to-day 3 types of owners 2-300 type of intellectuals, people who work permanently for the company, all entrepreneurs, innovators" [respondent French electronics company-high tech].

The mindset of the entrepreneur is discussed in terms of intuition and experience rather than formalized managerial analysis and decision-making. The respondents also refer to the involvement of the top managers in the *leadership of business growth* and strategic direction and *vision*. There is also reference to how decisions are made based on *limited information*.

"The owners and the top managers in the subsidiaries are strong leaders and have strong opinions but make decisions based on limited information [respondent German software company high-tech].

"Yes we are a company that is always looking to the future. The entrepreneur decides on the direction" [respondent German electronics company-high-tech].

The firms in the German and French high-tech businesses use the language and rhetoric of entrepreneurial cognition or 'mindset'. However, in contrast to these firms the conventional mechanical engineering and firms located in Italy rarely used the language associated with entrepreneurship in the interviews.

However, one particular area where there is a common language in all of the firms, irrespective of country or sector, is that of customer responsiveness and the market place, referred to by the respondents as 'customer orientation'.

“The customer has a parallel project in London and Singapore, you have to deliver, you go where the customer wants you to go, we have to go where they want us. Following the call of the customer” [respondent-German software company].

“We follow our customers. If they request this then we must work with them wherever they want us to” [respondent-German electronics company].

"Have to check that the needs of the client are being met. We want to satisfy our customers. Most important thing I (the entrepreneur) developed products with the clients, they decided on the product” [respondent-French software company].

“We are very close to our clients. When you transfer an industrial unit it is necessary to work with trust because in such a project you are responsible for many things, and it is important that the client can trust you” [respondent-French mechanical engineering company].

“We have to be close to our customer, our technical department, our engineering department they work very closely with the customer” [respondent-Italian electronics company].

“We are driven by our customers who are reducing the number of suppliers, we must be able to service their global needs and co-ordinate other suppliers” [respondent-Italian mechanical engineering company].

Language referring to ‘strategy’

The term strategy was frequently used by respondents as part of the entrepreneurs thinking, expressed as the entrepreneur’s vision or mindset or in such terms as strategy, segmentation, market/competitor analysis and portfolio management. In one firm portfolio management was referred to as a tree with the *need at times to prune the "brown bits" and grow the "green bits"*.

“The top managers do not use the term strategy they prefer the term vision” [respondent German software company high-tech].

“We have marketing professionals, with an in-house marketing function-16 people in Marcoms, 13 people involved in product management and competitor and market analysis” (respondent-German software company).

“So our current strategy is to be a premier provider of internet access and graphic solutions for the PC as well as services....in all the market segments that we service, we have occupied one of the top three positions in our domestic territory” [respondent-German electronics company].

“Our strategy was just judgement, depends on the market, people” [respondent-French software company]

“The niche was not so important for a large group, but it is good for us, following a niche strategy (a company of our size) is of sufficient interest for us” [respondent-French electronics company].

Use of strategy and planning

Whilst typically SMEs rarely employ formalized business strategies and plans, three firms referred to business plans from an electronics, software and one mechanical engineering company. Some of the other respondents mentioned the use of budgets but not a sense of long term planning.

“We use a global control system from SAP We have a strategy, vision; we want to be a leading supplier of Java platform. We use flexible plans; we do not have textbook plans. We want to retain entrepreneurship versus control” [respondent-German software company].

“We did this planning stuff because when we established this new acquisition, this company was planned from a spreadsheet. It's not a success now (the new acquisition); it means the academical (planning) way as we describe it has a negative image now. However, it is does not make sense unless you have a strategy. Strategy should be a corporate philosophy and communicated to the company in a written document so that it can help decision-making and act as a guide for action. The problem we have now is to convert the company, to be more focused, to be more structured, to do things more strategically” [respondent-German electronics company].

“We started to prepare business plans as the firm had grown to a size where the investments were at a high level and therefore levels of risk were higher. The firm did not have formal business plans at the beginning and quite late into the life of the firm. The plans are for 5 years, adjusted and reviewed annually for any changes in the market” [respondent-Italian mechanical engineering company].

Interestingly one entrepreneur is attempting to retain the entrepreneurial drive with a flexible responsive planning system. It appears that the use of planning and strategy is influenced by the entrepreneur's personal choice and increasing firm size.

Organizational structures

In general the responses and analysis of company documents point to a retention of relatively simple functional organizational structures with senior managers and subsidiaries reporting to entrepreneur (s) at the centre. This is considered to be a typical structure of SME firms. Some of the entrepreneurs in the larger firms have divisionalised their structures; however they allow the general managers high degrees of autonomy in order to retain an entrepreneurial culture. This is reinforced through the use of share options and managers buying into the organization through share purchase. In one French electronics company with 7 divisions structured around technological applications the general managers hold between 25 and 51% of the shares of their division:

“Each division is headed by an entrepreneur responsible for business development and sales working in a small team for domestic and export sales” [respondent-French electronics company].

Another firm whilst having a relatively simple functional structure was re-structuring the business away from functions to a system of line management around themes of importance to the entrepreneur:

“The company is going through a period of organizational change from one line reporting to the owner to a system of 5 senior managers based around four themes: Innovation; Thinking; Leading; Doing” [respondent-German mechanical engineering firm.]

These two cases are examples of adaptation and untypical behaviour of SME firms. The first firm is attempting to avoid the layering affect of size where firms can become disconnected from their markets. The second firm is innovating in its organizational structure to encourage key attributes of entrepreneurship, namely innovation, thinking, leading and doing (action orientated).

Organizational cultures

The organizational cultures of the firms reflect the values and beliefs of the owners but was only articulated by 2 of the firms in the high-tech sector. None of the mechanical engineering sector respondents discussed their firm’s culture.

“The average age of staff is 29. People who work here are very entrepreneurial. A democratic organization. I left a warm safe environment of a big bank to the colder sharper environment of this company, to face a challenge, more freedom, without the crutch, a better environment for innovation” [respondent-French electronics company].

“Yes, they need freedom to do something. I have discovered that top down management decisions does not work at all, here its bottom up. You cannot be totally strict (need flexibility), if we are too strict then it can de-motivate people in the company” [respondent-German electronics company].

Having explored the perceptions of strategy in terms of the entrepreneur’s language, responsiveness to customer needs, organizational processes, planning, organizational structure and culture the paper now seeks to answer the second central question posed in the research:

Research question 2: Do these perceptions and influences lead to typical or varied approaches towards strategy?

The tentative, exploratory findings indicate *typical* patterns of entrepreneurial perceptions of strategy particularly in the high-tech firms. Interestingly, the high-tech sector itself represents a quite young industry, compared to the metal mechanic sector. Consequently, we propose this sector to have bred more intensively typical entrepreneurial management styles and entrepreneurial behaviour. However, there is evidence of *variety* according to the context, in that there is less evidence of typical entrepreneurial language or strategic behaviour in the conventional mechanical engineering firms. Further, there appears to be a mixture of ‘entrepreneurially’ based strategic management styles in the high-tech sector with some firms’ combining this with ‘formalization’ and ‘planning’. However, one common *typical* attribute of entrepreneurs in SMEs was present in both high-tech and conventional companies, namely the orientation and responsiveness to customers.

In continuing to have typical entrepreneurial behaviour it could also be the case that a growing industry, with its flexibility and often hard to predict new technical solutions and markets, diminished the use of formal strategic planning. Some of the entrepreneur’s in the high-tech sector ‘blurred’ the boundaries between strategic management and entrepreneurship in a hybrid form straddling the ‘interface’ between the two conceptualizations.

There is evidence that over time a few of the entrepreneurs were reflecting on and considering changes in their perceptions of strategic management as the firm grew in size and scope. The responses varied from considering the introduction of a more formalized approach towards strategic management (strategy and planning). Another entrepreneur responded to growth through innovative organizational structures such as spin-offs in a loose federation of firms led by owner-entrepreneurs to maintain the entrepreneurial culture. In one case the entrepreneur of a mechanical engineering company demonstrated that variety exists irrespective of sector in introducing an innovative organizational structure with many of the attributes of entrepreneurial firms (innovation, leadership, thinking and doing). This is an example of variety in perceptions of strategy.

Contribution and future research

The empirical research contributes to the knowledge of how entrepreneurs perceive strategic management suggesting that future theoretical development would benefit from a framework built around variety as well as typical behaviours. The paper contributes to the emerging and growing literature on strategic management and the interface with entrepreneurship, and the call from researchers to build on the transferable knowledge in the two fields.

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