

From operating efficiency to competitive edge: lessons from small firms in Botswana

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- *Today's business environment is characterized by stiff competition, rapid technological advancements, and changing requirements of customers and employees. To grow and survive in this turbulent environment, Small and Medium Enterprises (SMEs) must balance the emphasis they put on the improvement of short-term operational efficiency and long-term competitiveness. Due to the apparent lack of resources and expertise, most SMEs pay very little attention to long-term competitiveness and dynamism. Preoccupied with operational bits and pieces, SMEs lack strategic awareness and orientation.*
- *Strategic awareness is a mental process of continually evaluating organizational and environmental factors and improving on how they are identified, recognized, influenced, and interpreted, and consequently used in making strategic business decisions. The widespread use of short-term-oriented, non-formal business planning practices indicates lack of strategic awareness and competitiveness among SMEs.*
- *This paper examines the degree of emphasis attached by SMEs, during their business planning, to the achievement of long-term competitive advantages by presenting evidence from a recent empirical study based on data collected from 91 SMEs and analyzed using descriptive statistics such as mean and standard deviation.*
- *The findings indicated that SMEs put greater emphasis on short-term profitability and operational efficiency than developing strategic awareness and long-term competitiveness. Although this could be attributed to the relative lack of resources required for the implementation of strategic planning, policy deployment, and positioning, SMEs should be assisted to think and act strategically if they are to survive and grow in today's turbulent and dynamic markets.*
- *Government agencies, policy-makers, consultants, non-governmental organizations, and other small business support agencies must redirect their efforts toward bridging the gap between short-term operational efficiency and strategic competitiveness and sustainability. This paper provides managerial and policy implications for SMEs, SME support agencies, government and non-government agencies, and future research.*

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Introduction

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Although the discovery of mineral wealth (mainly diamond) has propelled Botswana

into the middle-income category, the country still faces the problem of economic diversification, employment creation, income distribution, and poverty alleviation. Since the Botswana economy is highly dependent on the mining and beef sectors for its income and on foreign markets for the import of basic goods and services, the economy must be diversified into other areas of investment. The main strategy employed by the government to diversify the Botswana economy has been through the promotion of the development of SMEs.

Large firms normally tend to produce a small number of elite high-income earners whereas SMEs produce a significantly large number of relatively low-income earners. The development of SMEs would therefore help spread income to more people

The most common argument in favor of SMEs is that they create substantial job opportunities as they use relatively labor-intensive technologies. SMEs employ more people per unit of investment as compared to large firms. Thus, a given amount of money will create more jobs if it is spread over a large number of SMEs than if it is focused on few large companies (Abdullah and Baker, 2000). The prevalence of low-skill and unskilled intensive force in the economy, and the tendency of the government to reduce its role as primary employer, made the promotion of SMEs a primary source of employment creation. Large firms normally tend to produce a small number of elite high-income earners whereas SMEs produce a sig-

nificantly large number of relatively low-income earners. The development of SMEs would therefore help spread income to more people (Mohd and Aspinwal, 2000). Although the government of Botswana and other support programs have made great efforts in the past four decades, the current rate of development of SMEs is very slow and their contribution toward economic diversification, employment creation, income distribution, and poverty alleviation is minimal. The general business failure rate is estimated to be over 80%, over 70% of start-up firms fail in their first 18 months while only less than 2% of small firms actually succeed in expanding their business (Government of Botswana, 1998). This increasing rate of business failure, which is not peculiar to Botswana, has attracted the attention of many researchers, policy-makers, and SME support agencies worldwide.

Approaches to the study of small business problems

The problems and performances of SMEs have been studied from a variety of approaches to better understand why some firms fail and why others succeed. Recognizing the dynamic relationship between the firm and its operating and environmental characteristics, Keats and Bracker (1988) proposed a conceptual model of small firm performance. This model suggests that performance outcomes are a function of many variables, including owner characteristics, owner behavior, and environmental influences. Their model, grounded in strategic entrepreneurship and organizational theory, transcends the belief that small firms are merely miniature versions of large businesses and recognizes small firms as unique entities. The model proposes six constructs that have substantial influence on the performance of SMEs, and provides the basis for explaining how owner characteristics, behaviors, and contextual factors relate to the performance of SMEs.

Many other studies (Dodge and Robbins, 1992; Dodge *et al.*, 1994; Huang and Brown,

1999) also used organizational lifecycle models to study the problems of SMEs. Organizational lifecycle models hold that organizational activities and structures in one stage of development are not the same as those in the preceding or following stage. Thus, with different emphasis and operating context, each stage of development will have a different set of critical problems or factors. The other assumption in this model is that what management of, say, an SME does or does not do with respect to current problems propels the transition to the next stage. Problems, therefore, may carry from stage to stage or be unique to a particular stage. These studies are centered on the argument that greater knowledge of how SMEs evolve and the major obstacles faced in various lifecycle stages has critical importance to fully understand their developmental process and types of assistance necessary for their survival and growth.

Understanding the sources of small business problems will substantially help policy-makers, practitioners, researchers, and others to better serve the SME sector. But most studies do not address the operational/strategic gap in responding to these problems

Small business problems are also studied based on functional models to study the various problems of SMEs. These models hold that SME problems can be conveniently studied by dividing problems according to business functions such as marketing, management, accounting, personnel, production, etc. There are also studies attempting to address the problems of SMEs by developing industry and size-related

models with the assumption that problems may vary from industry to industry, and from small to medium and large-sized companies (Haswel and Holms, 1989; Huang and Brown, 1999). Other studies divide small business problems into internal and external to see the impact of factors that are within and outside the control of management. Understanding the sources of small business problems will substantially help policy-makers, practitioners, researchers, and others to better serve the SME sector. But most studies do not address the operational/strategic gap in responding to these problems. Managerial responses to organizational problems could be limited to address problems affecting immediate, short-term, and operational performance or geared toward addressing problems affecting long-term survival, strategic direction, and competitive advantages.

Strategic awareness in small firms

Although small business problems are studied from different perspectives, very few have attempted to examine the strategic and operational implications of these problems. Based on a literature review, particularly drawing from the original works of Boyle and Desai (1991) and Keats and Bracker (1988), this paper proposes an integrated model of SME problem classification. As shown in Figure 1, the model is a simple 2×2 matrix, with the vertical axis distinguishing between internal and external problems based on whether they are part of the firm's internal environment and are under management's control or whether they are part of the firm's external environment and are beyond management's control. This division of SME problems into internal/external will help separate the critical factors within and outside the control of management, which in turn help to redirect organizational efforts to effectively address controllable factors while operating under the uncontrollable environment.

The horizontal axis divides the problems based on the nature of their impact on the firm — operational or strategic. Although it is not easy to put a clear demarcation between

E X T E R N A L	<p>External operational problems are external to the firm and affect operational efficiency</p> <p>E.g., death of owner/manager; important employees leaving the firm; unreliable suppliers; high liability; lack of training facilities; extraordinary event like fire or earthquake; forced to leave business premises; local competition; lack of barriers to new entrants; firm product harming someone.</p>	<p>External strategic problems are external to the firm and affect long-term competitiveness</p> <p>E.g., lack of integrated business development policy; unavailability of skilled labor; changing socio-economic trends; globalization of competition; lack of credit facilities; rapid technological changes; high bank collateral for loan/credit; stringent loan repayment terms; high interest rates on loans.</p>
I N T E R N A L	<p>Internal operational problems are internal to the firm and affect operational efficiency</p> <p>E.g., lack of functional planning and budget; ineffective recruitment practices and dependency on family labor; lack of delegation; lack of quality control; lack of financial record-keeping; poor working capital management; lack of effective product/service marketing; lack of information on markets/customers; lack of proper organizational structure.</p>	<p>Internal strategic problems are internal to the firm and affect long-term competitiveness</p> <p>E.g., lack of strategic business planning; ineffective human resources policy and procedures; poor financial planning and control; misperception of marketing as advertising; organizational misalignment; lack of participative management; lack of standardization of products and services; absence of formalization of working procedures.</p>
	O P E R A T I O N A L	S T R A T E G I C

Figure 1. Continuum of sources and impacts of small business problems.

operational and strategic issues, some problems exert greater influence in the short term than in the long term and vice versa (Lang *et al.*, 1997; Pineda *et al.*, 1998). This classification of problems as operational/strategic will have important implications for SMEs, policy-makers, and SME support agencies involved in the promotion of sustainable development of SMEs.

Internal operational problems are within SMEs and within the control of management and require immediate administrative response. The most appropriate way to counter these types of problems is through routinely

administered procedures. These routine actions generally produce the expected results, as there is little uncertainty in what to expect after taking action (Cowan, 1990). A routine review of financial and cost accounting information, for example, can often yield, without uncertainty or ambiguity, information necessary to take appropriate actions. It is another matter if the firm decides not to take action. Urgent managerial actions must be taken when the firm misses deadlines, experiences high labor turnover, increased production costs, and/or decreased sales volume. Otherwise the company will be forced to close its doors for

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good. It is the degree of managerial competency and skill in solving these problems that determine the short-term survival of SMEs. Larson and Clute (1979) have long recognized that the numerous characteristics shared by failed firms are directly related to (1) personal decision-based characteristics of the owner/manager — lack of insight, inflexibility, emphasis on technical skills, lack of delegation, etc.; (2) managerial deficiencies — lack of management skills, training, and experience, etc.; and (3) financial management shortcomings — lack of accounting background, cash flow analysis, financial records, financial planning, and control. All these problems are within the control of management.

From this model it can be observed that inability to respond to the administrative problems is the major cause of business failure. Most SMEs believe that solving these problems ensures success in the future. This may improve short-term operational efficiency, but by no means will guarantee the long-term competitiveness of SMEs. Achieving competitive advantage calls for strategic awareness, moving beyond the operational bits and pieces. The inability of SMEs to effectively address these internal and operational problems will seriously affect their survival and long-term competitiveness.

Internal strategic problems are internal to the firm, but require a response and actions that reduce their strategic impact in the future. A strategic response affects the long-term prospects of the firm and the results are usually uncertain. Formalized strategic planning, human resources management, marketing research, financial planning, and control all do not necessarily guarantee market success (Haswel and Holmes, 1989). The human resources problem, for example, looks at human resources from the strategic point of view and illustrates how certain human resource issues (such as small business owners' inability to perform both administrative and planning functions; high employee turnover; problems of excessive reliance upon family labor; lack of employer legitimacy and recruitment policies; extended employee benefits and incentives) can be of strategic importance to the firm (Williamson, 2000).

Many SMEs put more emphasis on short-term issues and problems and fail to foresee their cumulative impact on survival and growth

Many SMEs put more emphasis on short-term issues and problems and fail to foresee their cumulative impact on survival and growth. Imagine a problem caused by an unexpected resignation of a key employee who has been the backbone of the company for several years. The traditional approach to problem-solving has two alternative solutions, either to provide the employee with additional incentives and get him back to work, or stop business for a time and find a replacement. The problem is not solved successfully until a contingency plan is prepared to reduce the negative impacts of employee turnover on the firm's immediate and future performance. It is

therefore argued that SMEs must understand the long-term strategic implications of the various problems they are dealing with, if they want to lay the foundation for growth and competitiveness.

An increase in debt from time to time requires an administrative response from management; otherwise, it could lead to liquidation of the business

External operational problems are products of the firm's external environment and require managerial response to minimize their impact on firm operations. Although these problems are beyond the control of management, they can cause sudden and irreparable damage to SMEs. In fact, their effects can be devastating. How management responds to these factors is of critical importance to the survival of SMEs. Elenkov's (1997) study found that most firms do not effectively respond to these external factors. Small business owners do not usually delegate part of their authority and responsibility to others and prefer to do everything themselves. This leaves the firm vulnerable when the owner is incapacitated and cannot manage the firm (Williamson, 2000). The prevalence of unreliable local suppliers in the market affects the day-to-day operations of the firm and requires immediate response from management. This response could be in the form of creating partnerships with some suppliers to ensure timely delivery of products and services. An increase in debt from time to time requires an administrative response from management; otherwise, it could lead to liquidation of the business. If there is a lack of low-cost training facilities in the area, management should use various alternative training methods to help employees

achieve organizational goals effectively and efficiently. SMEs require a proactive, rather than a reactive, response to problems that are external to them if they are to improve or maintain their short-term operational efficiency.

Hambrick (1983) studied external factors affecting SMEs and identified inability to analyze their external environment as a major factor affecting their survival and competitiveness. SMEs, for example, should know what will happen to the business if the owner dies, if the manager or other key employees leave, if they are forced to leave the business premise, if an extraordinary event like a fire happened, if a product harms somebody, if no training facilities exist at all in the community, if competition is getting tough, or if new entrants are coming to share the market, and so on. All these factors affect organizational performance and can be effectively addressed if they develop strategic awareness.

External strategic problems are external to the firm and require a strategic response. These factors are related to issues essentially out of the control of management. Responding to these factors often necessitates a change in the firm's strategic direction, and the results of managerial decisions are often uncertain due to many uncontrollable factors (Pineda *et al.*, 1998). Lack of strategic response to these factors will drastically affect the long-term competitive potential of SMEs. Strategic business planning will have greater contribution to building long-term competitive advantages than improving operational efficiency. Although these actions are manageable and can be identified as being necessary, their outcomes are less certain compared to the internal operational problems. Owners/managers in SMEs can minimize their impact by developing an outward-looking behavior and strategic awareness. Lack of integrated business development policy, unavailability of skilled labor in the economy, economic recession, lack of credit facilities in the economy, high interest rates or others, will have strategic influence on SMEs. However, anticipating such problems and planning for them will significantly reduce their negative impacts. This is the main

reason why many companies achieve competitive advantage in an unfavorable business environment, which forced many others into liquidation.

SMEs put excessive emphasis on factors affecting their short-term performance and put relatively little emphasis on problems with greater influence on long-term competitiveness on the grounds that the company must first survive to think about long-term competitiveness

In summary, the model showed the need to place a balanced emphasis on all factors in the internal-strategic and external-strategic continuum. SMEs put excessive emphasis on factors affecting their short-term performance and put relatively little emphasis on problems with greater influence on long-term competitiveness on the grounds that the company must first survive to think about long-term competitiveness. Thus, while attempting to respond to routine problems, SMEs do not take into account the long-term implications of their operational decisions (Abdullah and Baker, 2000). Moreover, they do not even relate their response to routine internal problems to the possible influences of external problems. While a key employee resigns, for example, a decision would be taken to find somebody to replace him/her. This is a good and fast response to an administrative problem. But, SMEs with some reasonable degree of strategic awareness will develop or revise employee training and development policy with a view to minimizing the impact of external uncontrollable problems such as future

employee turnover. Thus, lack of long-term perspective in responding to administrative issues can seriously affect the survival and growth of SMEs. To support the argument that SMEs lack strategic awareness, empirical evidence is presented on the planning behavior of SMEs.

The planning behavior of SMEs in Botswana

Major research was conducted on the strategic business planning behavior of SMEs in the Republic of Botswana in 2001, with data collected from 91 SMEs through questionnaires. Although the study conceptualizes planning as having several dimensions, only two of them (the planning process and the planning content dimensions) were found to be relevant indicators of level of strategic awareness.

Small firms are defined as formally registered companies with the number of paid employees ranging from 6 to 25. Those with 26–99 paid employees are defined as medium-sized enterprises. The sample firms were taken from manufacturing, merchandising, and service sectors. Over 70% of the firms had been operating in Botswana for over 6 years and the managers had, on average, over 4 years of managerial experience. The questionnaire contained, among other things, eight selected items to measure the degree of emphasis placed on planning as a process using a 5-point Likert-type scale with anchors ranging from 5 (very high) to 1 (very low). The respondents were also asked to rate the degree of importance attached to 11 planning contents using the same scale. The results are presented in Tables 1 and 2.

Business planning processes. A business planning process is influenced by the level of formality or informality of planning procedures, deductive or incremental approaches used in the planning process, the participation of other important staff in the planning process, communication of plans to others in the organization, and documentation of plans and results. Table 1 shows the degree of

Table 1. Degree of emphasis on selected planning process indicators by firm size

Items	Small		Medium		All firms	
	Mean	SD	Mean	SD	Mean	SD
Intuition/informality	4.31*	0.74	4.02*	0.71	4.22	0.70
Incremental	4.26*	0.91	3.93*	0.90	4.17	0.91
Documentation	2.81	0.97	3.10	1.02	2.89	0.98
Participative	2.62	0.91	3.17	0.96	2.78	0.92
Communicative	2.58	0.81	3.22	0.80	2.76	0.81
Deductive	2.26*	1.01	3.41*	0.98	2.59	1.00
SWOT analysis	2.18*	1.12	3.18*	1.01	2.47	1.09
Formalization	2.11*	0.82	3.11*	0.79	2.40	0.81
SAMPLE SIZE	61 ^a		23 ^a		84 ^a	

*Indicates statistically significant difference between small and medium firms at 5% significance level, two-tailed.

^aThe sample size changed due to missing values.

Table 2. Degree of emphasis on selected planning content indicators by firm size

Plan contents	Small		Medium		All firms	
	Mean	SD	Mean	SD	Mean	SD
Short-term goals	4.51	0.61	4.22	1.02	4.42	0.73
Personnel plan	4.39*	0.88	3.16*	0.91	4.03	0.89
Inventory	4.21*	0.71	3.82*	0.70	4.09	0.71
Financial plans	4.12*	0.60	3.29*	0.65	3.88	0.61
Sales plans	3.69	0.88	3.99	0.84	3.78	0.87
Production plans	3.68	0.72	4.19	0.92	3.82	0.78
Marketing plan	2.52	0.88	4.31	0.58	3.03	0.79
Quantitative targets	2.16	1.24	3.87	1.01	2.65	1.17
Mission statement	2.11*	1.18	4.13*	0.99	2.69	1.13
Long-term goals	2.08*	1.08	3.27*	0.89	2.42	1.03
Scanning data	2.02*	1.06	3.06*	0.98	2.32	1.04
SAMPLE SIZE	62 ^a		24 ^a		86 ^a	

*Indicates statistically significant differences between small and medium firms at 5% significance level.

^aThe sample size changed due to missing values.

emphasis the sample SMEs put on the selected planning process indicators.

As shown in Table 1, informal planning, as opposed to formal planning procedures, was rated highest by both small (mean = 4.31) and medium-sized (mean = 4.02) companies. The lowest emphasis was put on the need for formalization of the planning process (overall mean = 2.40) and the need for SWOT analysis (overall mean = 2.47). Regarding the planning methodology, both small and medium enterprises prefer the incremental approach (overall

mean = 4.17) as opposed to the deductive approach (overall mean = 2.59). This shows that SMEs derive their long-term plans from their short-term plans by means of extrapolation. This is unacceptable practice if one believes that the whole is greater than the sum of its parts and tomorrow is always different from today.

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The need for staff participation in the planning process (overall mean = 2.78) and communicating goals and objectives (overall mean = 2.76) to others in the company are also rated below average by both small and medium firms

below average by both small and medium firms. Some important relationships between firm size and planning process can be observed. The degree of importance attached to the incremental approach by small-sized firms (mean = 4.26) is greater than that by medium-sized firms (mean = 3.93). Significant differences are also observed between small and medium-sized firms in their use of the deductive approach. Small firms (mean = 2.26) attach less importance to the deductive approach than do medium-sized firms (mean = 3.41). Medium-sized companies rated strategic or long-term issues (formalization of plans, use of deductive approach, SWOT data analysis, etc.) higher than smaller firms. As firm size increases, the degree of involvement in the planning process also increases.

The gaps between the incremental (mean = 3.93) and deductive (mean = 2.26) approaches, and between formal (mean = 2.11) and informal planning (mean = 4.31) as perceived by smaller firms are very wide, showing a perceptual gap between strategic orientations and short-term-oriented planning activities. SMEs generally put much emphasis on informal planning processes and prefer incremental to deductive planning approaches, though medium-sized firms are placing relatively better emphasis (all values are greater than average — 3.00) on all planning process factors compared to small firms.

Contents of the business plan. Eleven planning content indicators were identified, mainly from the literature, and the respondents were asked to rate the level of emphasis they placed on each indicator. In line with the general trend in small business research, SMEs in Botswana incorporate more short-term and fewer strategic issues in their plans. The preparation and establishment of short-term goals for a period of less than 12 months has received the highest emphasis by both small (mean = 4.51) and medium (mean = 4.22) enterprises as opposed to the little emphasis paid to long-term strategic goals by small (mean = 2.08) and medium (mean = 3.27) firms. All firms put much emphasis on short-term operational planning-related items such as personnel, inventory, sales, and production plans. The use of quantitative targets (overall mean = 2.65) and development of company mission statements (overall mean = 2.69) have received little emphasis. Moreover, the need to incorporate the results of environmental scanning (overall mean = 2.32) in the long-term or short-term plan is seen by firms as least important.

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There is also an important relationship between firm size and level of emphasis placed on the contents of the business plans. Small firms put greater emphasis on the need for short-term goals, personnel plans, inventory plans, and financial plans than do medium firms. But they put less emphasis on strategic issues such as mission, scanning, long-term goals, and quantitative targets than do medium firms. From this it can be concluded that

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although both small and medium firms put considerable emphasis on short-term as opposed to long-term issues, the planning approaches are incremental and informal in nature. Since long-term plans are formulated by extrapolation only, operational issues will dominate the contents of the plan.

Conclusions and implications

Since the sample firms used in this study are mixed from different industries, and since the degree of intensity of strategic awareness that a firm requires varies from industry to industry depending on size and resource endowments, the conclusions drawn from this study should be considered tentative. The above evidence shows that SMEs indeed lack strategic awareness and plan for long-term competitiveness. They lack vision, dynamism, and innovativeness. They focus on operational bits and pieces and forget the big strategic advantages in front of them. Most decision-making in SMEs has only operational rather than strategic implications. Problem-solving in SMEs is limited to improving only day-to-day operations. These are what constitute 'poor management' in SMEs. As shown in the model, most of the problems are internal (within the control of management) and affect both the short-term and long-term performance. Lack of strategic awareness is exhibited by the inability of owner/managers to solve these internal-operational problems strategically, and to link them with external uncontrollable factors as a means of reducing the risk of being surprised

by what is happening in the external environment. Failure to properly and adequately respond to long-term strategic issues will consequently lead to misperception of the problem as external to the firm and beyond management's control.

Most SMEs may be unaware of their own needs for strategic as well as basic business skills. They may misdiagnose their needs or problem areas, and there may be a lack of critical information about the performance impacts of investment in strategy designing and development. At the same time, SMEs may not adequately focus on the business skill requirement of the global economy. There is strong need for a national standard of business skills for SMEs. Many developed and newly emerging countries such as the UK, USA, Australia, and Singapore have developed national standards for business skills. They are also creating strategies to include professionally qualified mentors as part of their national small business policy. In Singapore, for example, a National Growth and Productivity Center focuses on training small firms with growth potential to become medium-sized global trading firms with a view to eventually leading toward sustained economic growth and national wealth-building. The other important strategy is networking among SMEs and other firms. International research shows that SMEs seek opportunities to work in synergy with other SMEs and with larger organizations to gain new knowledge, increase competitive advantage, and find new business opportunities. SMEs in successful networks can generate better financial performance than firms that work in solitude. SME support agencies and policy-makers should foster networking and cluster learning environments as well as encourage clusters of large and small firms with similar issues of competitiveness and technologies. Thus, if SMEs are to sustain their competitiveness in the global economy, it is critical that support providers should pay more attention in the areas of achieving competitive advantages in the long term, growth strategies, best practices, skills development, and access to mentoring.

There is, therefore, strong need to promote the development of strategic awareness and orientation among SMEs. The main implication is that understanding the lack of strategic awareness and prevalence of excessive short-termism in SMEs would enable policy-makers, support agencies, consultants, and researchers to better service SMEs. Entrepreneurial education and training programs, for example, should redirect their curricula to develop not only basic business skills but also strategic management to guide companies in turbulent markets and environments. Few studies have attempted to investigate the strategy process and content of SME management. Future research is therefore expected to develop a model of conceptualization of strategic management of SMEs as opposed to the traditional models used by large multinationals. Future research must also address the appropriate approaches to be employed in the development of strategic awareness of SMEs. Moreover, SME support agencies should move from focusing on assisting SMEs to solve their day-to-day problems toward achieving long-term competitiveness and sustainable development.

Thus, the managerial and policy implications can be summarized as follows. (1) Policy-makers need to redirect the small business assistance programs toward sustainable long-term competitiveness. (2) Owners/managers of SMEs need to balance their focus on short-term and long-term benefits and success. This calls for laying the foundation for organizational learning. (3) SME support agencies, including educational institutions, should aim at not only providing basic operational skills for entrepreneurs but also developing strategic awareness and sustainability. (4) Researchers and consultants need to redefine their research agenda so as to develop a framework for the achievement of long-term competitiveness by SMEs.

Biographical note

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