

ENVIRONMENTAL SCANNING, STRATEGY ALIGNMENT AND LEADERSHIP STYLE AMONG MANAGERS OF SMALL MANUFACTURING FIRMS IN MEXICO

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ABSTRACT

An exploratory study of 25 small business managers of manufacturing companies located in Guanajuato Mexico was conducted to assess environmental scanning, strategy alignment and leadership style. The study was done through on-site interviews and an hermeneutical data analysis was performed. Results show that presidents act more like managers than like entrepreneurs, and environmental scanning to align firm strategy is done by considering only local environments, which is not appropriate for highly competitive or international markets.

KEY WORDS: Environmental scanning, strategy alignment, leadership style, small business, Mexico

RESUMEN

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Se realizó un estudio exploratorio de 25 administradores de pequeñas empresas de manufactura localizadas en Guanajuato, México con el fin de evaluar el escaneo ambiental, la alineación de la estrategia y el estilo de liderazgo. El estudio se realizó a través de entrevistas y el texto se analizó mediante el método hermenéutico. Los resultados mostraron que los directivos actúan más como administradores que como emprendedores y que el escaneo ambiental para alinear la estrategia de la organización solamente considera aspectos locales; por lo que no es apropiada para mercados altamente competitivos o internacionales.

PALABRAS CLAVE: exploración del entorno, lineamientos estratégicos, estilo de liderazgo, pequeños negocios en México

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An exploratory study of 25 top managers of small manufacturing businesses located in Guanajuato, Mexico, was conducted to assess and identify the relationships among the variables of environmental scanning, strategy alignment and leadership style. The study was conducted through on-site interviews, and a hermeneutic text analysis was performed. Results show that managers of these organizations tend to act more like owner-managers than entrepreneurs. Further, the level of environmental scanning done to align their respective firm's strategy considers only local environments, a level not appropriate for highly competitive or international environments.

The level of a country's economic development is commonly measured through its annual gross domestic product (GDP) and its GDP per capita. Countries with higher GDPs typically have higher standards of living, such as, generally, all Western European countries. Countries with mid-level GDPs per capita, such as México, Argentina, Chile, Russia and South Africa, tend to struggle with national development issues on several fronts. Another area critical to a country's development is the issue of unemployment. Unemployment is measured through a numerical ratio that indicates the number of people who could be employed in an area but do not have a job. High rates of unemployment are not a unique problem in underdeveloped nations; the phenomena can also be found in several European countries. Increasing the amount of entrepreneurial activity in countries that have the challenges of unacceptable levels of unemployment and economic development appears to be an excellent approach.

Entrepreneurship then is a strategy used by many governments in the world to achieve economic development. The entrepreneurship phenomenon is gaining the attention of scholars, practitioners and economic policy officials, particularly in developing countries.

The Influence of Small Business Ventures

Because they generate higher levels of employment, the two primary forces currently

changing the Mexican economy are increasing levels of entrepreneurship and foreign direct investment (OECD, 2006). An interesting fact is that, in general, the ratio of "small business" (less than 500 employees) to "big business" (more than 500 employees) is similar across all countries - only one percent of all companies in the world are in the category of "big business." Therefore, encouraging and developing small business and entrepreneurial ventures within a country are critical.

A review of the entrepreneurship literature suggests that developing new business ventures generally depends upon the following five factors:

- economic and political context
- national regulation
- facilities for the development of small business
- type and number of big business
- market

In addition, the particular strategy a small business follows depends upon managers adequately scanning the environment that the business will operate in (Beal, 2000).

Environmental scanning allows a firm to learn about its environment and evaluate the impact of competitors (Bierly & Daly, 2007.) Thus, this study looked at the level of organizational scanning and strategy alignment. Because of the implications it has with managerial practice, leadership has been one of the most studied phenomena by researchers (eg., Covin & Slevin, 2002; House & Aditya, 1997; Sinha, 1996) in the field of organizational behavior. Therefore, the leadership style of small business managers was also considered.

Based on a review of relevant streams of literature, the following research questions guided our exploratory analysis:

1. Do small business managers in Mexico (Guanajuato) perform environmental scanning to properly

align the strategy of their respective firms?

2. Is an adequate level of environmental scanning used to develop business strategy?
3. What are the principal factors in the leadership styles of small business managers?
4. Do small business managers behave like owner-managers or entrepreneurs?

Method

Interviews were conducted with a sample of 25 small business managers from five industries –agronomy, crafts, food, metal-mechanic, and textiles– in the state of Guanajuato in central Mexico over the period of year-year. All interviews were conducted in person by the same researcher during a prearranged appointment on-site at each company. An open-ended questionnaire was constructed from items identified in the previous literature review and was used to gather data. The resulting responses from each interview were registered in a computer text file and then analyzed using hermeneutic text analysis (Gadamer, 1989) by one of the researchers. A hermeneutic approach for analysis was chosen to gain a deeper understanding of top managers' behavior and actions of how and at what level they scanned their external environments, the style they used to lead their organizations, and if their actions revealed a tendency to act more like owner-managers or entrepreneurs.

Results

The size of the 25 companies included in this study ranged from 11 to 50 employees; 48 percent had between 11-25 employees, 36 percent had 26-40 employees, and 16 percent had between 41-50 employees. Seventeen percent of the firms had been in business from two to five years, 21 percent had been operating

from six to ten years, 37 percent between 11 and 20 years, and 25 percent were from 21 to 29 years old.

The results of the hermeneutic text analysis are presented in Table 1. In general, it was determined that small business managers included in the sample do engage in environmental scanning, but in an informal way, to align their respective company's strategy. Further, their leadership behavior is more like that of an individual termed "business owner" rather than "entrepreneur".

Table 1: Results of the Hermeneutic Text Analysis

| Variable | Questions | Answers |
|--|---|---|
| Environmental Scanning & Strategy Alignment | Organizational needs | Credit for financial operations Machinery renewal/technology Better trained and loyal workers Increase sales and new market search |
| | Product needs | Increase product quality Supplier development |
| | Production needs | Improve production planning Improve personnel training Improve supplier quality and service |
| | Marketing needs | Increase sales Search new markets (domestic and foreign) Increase quality |
| | Strategy for competitors | Increase quality Reputation of the business Search new markets Customer service |
| | National economic environment | Decrease in sales Raw materials price increases Increment in product pricing Opportunity for new strategies |
| | Financial environment | Cost of loans Develop new partners Recovery of accounts payable |
| | University-Business relationship | Financial and management assessment Market studies |
| | Strengths | The personnel The product |
| | Weaknesses | Lack of financial resources The personnel Lack of administrative controls Sales |
| Leadership Style | Assessment needs | New production techniques Export potential Management and finance |
| | Participation with other business managers? | Only if there is a win-win relationship |
| | How was your business started? | Selling the product first and now producing it Family tradition Identifying opportunities working for similar companies |
| | Your strategy for development? | Quality of the product Customer service Improve product process & technology Cost reduction New markets |
| | Opportunities? | New products Innovation of existing product Develop new markets |
| | Threats? | Competitors Economic crisis |

| Variable | Questions | Answers |
|----------|--|---|
| | Pride in? | My business My personnel My achievement as business owner My personal effort in building this firm |
| | Don't like about your business? | Disorder Not enough time for family Lack of technology |
| | Anecdotes of the firm | Begin with nothing, no money and build a firm that provides for my family Export to other countries Loyalty of the customer Develop new products |
| | What would you like to say to other entrepreneurs? | Effort and hard work Constancy Patience Appreciate your workers |
| | What would you like to say to the government? | More support for small business Serve the well being of all the people Reduce taxes |
| | What is your contribution to society? | Provide employment Beneficial programs Handicap assistance Support university students with internships Being honest |

Conclusions

Our primary interest in and focus of this research was to conduct an exploratory investigation of the extent that managers of small manufacturing businesses in Guanajuato, Mexico, engaged in environmental scanning and strategy alignment for their firms. We were also interested in identifying the leadership style of these managers to better understand new venture creation and how suitable the current or prevalent style of leadership is to increase the number of small businesses via entrepreneurship in Mexico. Based on the information gathered through in-person interviews of top managers at 25 companies, we can conclude that this group of managers does perform environmental scanning, but in an informal way, and these managers tended to scan their local external environments and develop or adapt strategies based on their personal knowledge and experience rather than searching for more complete information about their external environments. In almost every company

included in the sample, managers developed or aligned their firm's strategy after environmental scanning, but rarely considered any input outside the local environment.

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Further, text analysis showed that these leaders show little initiative in creating new opportunities for their companies or taking risks to develop new products or to enter new markets. The main leadership traits that emerged for these small business managers are conscientiousness, resource building, resource access, resource mobilization, and legitimization. They reported that their primary concern was firm performance, and they do not delegate authority or decision-making responsibilities for company operations to subordinates.

Of course, there are limitations to any study, and this one is no exception. The survey instrument must be refined and validated, and a larger sample interviewed to confirm findings from the small group of subjects in this exploratory

study. Also, the sample participants were all located in a relatively small area in central Mexico, and therefore, results cannot be generalized beyond the group or geographic region. Again, a larger sample of managers from small manufacturing companies across an increased number of industries located throughout Mexico will help confirm the results of this study.

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