Advantages of the Lean Approach for Initiating and Developing a Small Business in a VUCA Environment

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Abstract: This paper explores the application of the Lean approach in the initiation and development of small businesses, particularly in volatile, uncertain, complex, and ambiguous (VUCA) environments. It contrasts the Lean methodology with traditional business planning, emphasizing its advantages in fostering adaptability and competitiveness. By leveraging iterative experimentation, rapid feedback loops, and flexible business modelling, the Lean approach enables entrepreneurs and managers in small businesses to mitigate risks and navigate market uncertainties more effectively. The study highlights how small firms can integrate Lean principles to enhance resilience and agility, ultimately improving their chances of business survival and success.

Keywords: Small Business Management, Lean Approach, Business Planning, VUCA Environment

JEL: M13, M21, L26

1. INTRODUCTION

Entrepreneurs and small business managers invest considerable effort in launching new ventures or business development activities to improve their firms' chances of survival and success. However, these endeavours often require substantial time and resources, and their outcomes remain uncertain, particularly in rapidly changing environment (Amit & Zott, 2010).

Contemporary business discussions frequently refer to the emerging challenges of the environment using the acronym VUCA (Jantunen et al., 2023). VUCA is a term coined from Volatility, Uncertainty, Complexity, and Ambiguity, originating in the U.S. military to depict the turbulent nature of warfare environments. It has been adopted by businesses to illustrate the unpredictable and dynamic characteristics of the modern global business landscape. Within this framework, "Volatility" signifies the rapid and significant changes, "Uncertainty" denotes the unpredictability of events, "Complexity" reflects the multitude of factors involved, and "Ambiguity" refers to the lack of clarity in interpreting events (Millar et al., 2018).

The difficulties posed by VUCA environments highlight the limitations of conventional business development methods, such as traditional business planning. These methods involve a lengthy implementation process prone to obstacles and mistakes. The traditional perspective of business organizations as economic entities, with futures that can be predicted and attained through fool proof business plans with predetermined results, appears increasingly inadequate in today's turbulent era (Jantunen et al., 2023).

In response to these challenges, a new flexible approach to starting and developing a business, known as the Lean start-up methodology, has emerged (Ries, 2011; Blank, 2013). This approach emphasizes flexibility, rapid experimentation and iterative product development, making it adaptable to the uncertainties of the VUCA environment.

While commonly associated with start-ups, Lean principles can be applied effectively to small business management and development. According to Womack (1996), the Lean approach is a management philosophy that focuses a firm's efforts on creating value and improving the quality of products and services. The Lean philosophy can be applied in every sector of the economy, including manufacturing, trade and services. Moreover, the concept and principles of the Lean approach are applicable not only in the context of start-up businesses, but also in the case of the established small companies.

In this context, the main objective of this paper is to outline the Lean approach for business start-up and development, highlighting its advantages in the VUCA environment compared to traditional business planning methods.

2. THE BUSINESS PLAN AS AN ESSENTIAL TOOL IN SMALL BUSINESS MANAGEMENT

The business plan serves as a comprehensive management tool suitable for small businesses, facilitating planning, resource allocation, and control to achieve specific objectives. It plays a pivotal role in new business ventures and small business development, requiring entrepreneurs and managers to gather and analyse pertinent information to make informed decisions. The process of crafting business plan is challenging, requiring entrepreneurs and managers to articulate their ideas, objectives, as well as present the business opportunities and risks to the main stakeholders.

One of the primary benefits of business planning is its ability to provide strategic direction. By outlining clear goals and objectives, business plans create a roadmap for small businesses, guiding their actions and decisions towards achieving long-term success (Todorov, 2001). Moreover, business plans facilitate efficient resource allocation by detailing the resources required to achieve business objectives. This helps small businesses allocate their limited resources effectively, maximizing their potential for success.

Additionally, business plans aid in risk management by allowing small businesses to identify potential risks and develop strategies to mitigate them. By conducting thorough analysis and forecasting, businesses can proactively address challenges and minimize their impact on operations. Furthermore, business plans serve as communication tools, enabling small businesses to convey their vision, goals, and strategies to stakeholders such as investors, employees, and partners. This fosters alignment and buy-in, enhancing collaboration and support for business initiatives (Todorov, Damyanov, Kolarov & Kereziev, 2004).

Also, business plans include key performance indicators that enable small businesses to monitor their progress and performance against objectives. This allows businesses to track their performance over time and make timely adjustments to their strategies as needed (Barringer & Ireland, 2012).

Ultimately, business plans include financial projections and budgets, facilitating financial planning and management for small businesses. By outlining expected revenues, expenses, and cash flows, business plans help businesses manage cash flow, secure financing, and ensure financial stability (Todorov, 2002).

Although the benefits of both the business plan and the planning process itself should not be underestimated, in reality it appears that entrepreneurs and managers in small firms use this tool most often to attract funding (Todorov, 2002). Regrettably, it's evident that most business plans fail to attract funding. Even among the few ventures that secure financing, a considerable portion ultimately end in failure. The reality is that many business plans are unnecessary and are often crafted prematurely, lacking substantial evidence to validate their claims (Mullins, 2009).

The preparation of a business plan is time consuming, requires a lot of information and research, and specific knowledge and skills that are often not available to entrepreneurs and managers in small firms (Papazov & Mihaylova, 2014). Accordingly, it is rarely used as a start-up and management tool in the business practice of small companies (Bianchi, Winch & Grey1998).

Typically, a business plan includes a thorough sales revenue forecast for a period of three to five years, accompanied by an operations plan detailing the resources required to achieve the projected sales. Given the anticipation of changes in both business and external environmental conditions over the planning period, it is advisable to periodically revise the business plan. This prompts the question of why it is necessary to create a detailed plan that is bound to evolve and necessitate ongoing updates.

Creating a business plan is primarily a research endeavour that typically occurs before entrepreneurs and managers embark on launching development initiatives or a new business. This process assumes that key factors and parameters of the new business initiatives can be predicted and controlled even before their start of implementation. However, it overlooks the reality that in today's dynamic and uncertain environment, traditional management techniques are progressively less effective in forecasting future developments and trends (Blank, 2007).

Despite widespread adoption, doubts persist regarding the business plan's effectiveness in ensuring success, with many start-ups failing despite thorough planning. Market research, a cornerstone of planning, frequently leads to inaccurate predictions, undermining the plan's reliability. Such challenges prompt reassessment of the benefits of traditional planning methods for small businesses (Blank, 2013).

Moreover, the traditional way of starting and developing business, involves going through a long development path that involves a number of labour and resource intensive steps, including developing a business plan, presenting and defending it to investors, fundraising, forming a management team, product development, bringing the product to market, sales, etc. The likelihood of encountering uncontrolled obstacles or making fatal mistakes along this difficult path is very high (Blank & Dorf, 2012).

The advantages of traditional business planning methods often prove inadequate in VUCA environments due to their inherent rigidity and inability to adapt to rapid changes and uncertainties. Traditional business planning relies heavily on assumptions and predictions about the future, which may not hold true in volatile and unpredictable conditions (Wang, 2022).

Furthermore, the lengthy and detailed nature of traditional business plans may hinder agility and responsiveness, making it challenging for businesses to pivot quickly in response to changing market dynamics or unexpected events. Also, the focus on long-term projections and fixed strategies may not align with the need for flexibility and iterative decision-making required in VUCA environments. As a result, businesses operating in VUCA conditions may find that traditional business planning methods do not adequately address the challenges they face and may need to explore alternative approaches such as the Lean start-up methodology.

3. ADVANTAGES OF IMPLEMENTING THE LEAN APPROACH IN STARTING AND DEVELOPING A SMALL BUSINESS

The newness, complexity, and scale of the VUCA environment have compelled companies to explore unconventional management approaches, leading them to improvise and adapt many aspects of their practices on the go (Denning, 2020). Similarly, small enterprises, like many other businesses worldwide, have faced a turbulent and uncertain landscape, where conventional routines and processes are no longer effective (Jantunen et al., 2023). In this context, a new flexible approach to starting a business, known as the Lean start-up approach, has become popular in recent years. The Lean approach to starting a new business is often associated with the work of Eric Ries, who introduced the concept through his book “The Lean Startup”. Ries” approach emphasizes the importance of rapid experimentation, validated learning, and iterative product development in the process of initiation and developing new business (Ries, 2011). The Lean approach emphasizes experimentation and incremental shaping of a business concept, at the expense of meticulous planning, customer feedback, at the expense of intuition and prediction, and iterative design, at the expense of pre-planning and designing everything needed for launch new business initiatives.

While the Lean approach is commonly associated with start-ups, its methodology and principles can be applied effectively to small businesses management and development as well. It offers principles and practices that can help small businesses effectively navigate the challenges of launching new products, entering new markets, and scaling their operations. The lean thinking enables small businesses to test their innovation ideas quickly, gather feedback from customers, and make informed decisions to drive growth and innovation. Ries (2011) outlined several fundamental principles of the Lean start-up methodology, including:

- Prioritization of learning from real-world feedback through iterative experimentation instead of relying solely on assumptions and forecasts;
- Follow a cyclical process of building a minimum viable product (MVP), measuring its performance, and learning from the results to inform decision-making and product refinement;
- Develop and release a basic version of the product (in the form of MVP) with essential features to swiftly gather feedback from early users and validate hypotheses;
- Recognize the need to make significant adjustments to business models or product strategies based on feedback and market insights, allowing for flexibility and adaptation in response to changing circumstances; Be ready to pivot, making significant adjustments based on insights gained, or persevere by doubling down on successful strategies;
- Implement rapid and frequent updates to the product to respond promptly to feedback and market changes;
- Apply lean production principles such as waste elimination and value maximization to enhance operational efficiency;
- Employ metrics and key performance indicators to measure progress, validate assumptions, and guide decision-making.

These principles aim to assist start-ups and small businesses in navigating uncertainty, minimizing risks, and accelerating growth by focusing on customer value, iterative development, and continuous improvement.

Steve Blank, through his work on customer development, has also had a significant influence on the Lean start-up methodology. According to Blank (2013) initially entrepreneurs and managers have only a few untested hypotheses, at best well-informed guesses about their business ideas for start-up or product development. Blank suggests that small businesses should go through a customer development process. Customer development requires continuously engaging with customers to understand their needs, preferences, and pain points. It involves a systematic process of hypothesis testing and iteration to refine the product or service offering based on real-world feedback from potential customers (Blank, 2007). This process can be implemented repeatedly with the goal that this leads to small improvements or significant changes while defining what the customers need from the product in the fastest way possible. Part of the process is going through several failures before finding the right path. This saves time and resources as it does not rely on figuring out customer needs and preferences in advance, but on verifying them through a low-cost process and MVP (Ries, 2011).

Additionally, Blank (2013) integrated the business model CANVAS (BMC) in the Lean start-up methodology. The BMC allows entrepreneurs and managers to visually represent their business concept as a canvas of nine elements on just one page (Osterwalder & Pigneur, 2010). Instead of a business plan, it is more appropriate for them to develop a business model that visually represents how the company creates value for itself and for customers. The nine elements include customer segmentation, value proposition, sales, distribution and communication channels, customer relationship, revenue sources, key resources, key activities, key partnerships and cost structure. BMC therefore comprises the basic business logic of how a business organization creates, delivers, and captures value (Osterwalder & Pigneur, 2010). Each of the nine components can be presented as a kind of hypothesis or set of hypotheses that are subject to testing. The main purpose of the CANVAS business model is to give entrepreneurs and managers an easy and convenient tool to continuously test and refine their business ideas and innovation concepts. Testing affects all elements of the business model such as features and benefits of the products and services offered, prices, sales, communication and distribution channels, customer service, key activities, resources and partners required and last but not least financial viability (Cooper & Vlaskovits, 2010).

The Lean approach stands out from traditional business planning by prioritizing rapid and cost-effective testing of business and innovation ideas, early establishment of customer feedback channels, and introducing a MVP to gauge customer reactions. In this context, the primary focus for small businesses is to identify and develop a viable business model, contrasting with established companies whose primary objective is to optimize existing operations efficiently. Thus, a fundamental aspect of the Lean start-up methodology is the pursuit of a viable and scalable business model for new product or business concept.

The key advantage of the Lean approach is that it allows companies to develop and offer their customers the products and services they would like, faster, cheaper and less risky than the practice of business planning. In contrast to the business planning, the Lean approach relies on the incremental creation of a business model which, after a successful test, becomes the basis for the physical implementation of business and innovation ideas. It seeks to significantly reduce the risk of failure, particularly in the early stages of business development.

The Lean approach is particularly well-suited for small businesses operating in VUCA environment due to several key factors. In VUCA environments where conditions can change rapidly and unpredictably, small businesses need to emphasizes flexibility and responsiveness, enabling businesses to quickly adapt to evolving market dynamics and customer preferences (Maurya, 2012). The Lean thinking requires small businesses to regularly review and refine their processes. This continuous feedback loop allows businesses to identify and address inefficiencies or emerging challenges promptly. In VUCA environments, resources may be scarce or unpredictable. Lean principles help small businesses optimize resource allocation by minimizing waste and focusing on value-added activities. This enables businesses to operate more efficiently and effectively, even with limited resources.

Ultimately, the Lean approach places a strong emphasis on understanding and meeting customer needs. In VUCA environments where customer preferences can change rapidly, this customer-centric focus allows small businesses to stay ahead of the curve and maintain relevance in the market (Blank & Dorf, 2012). VUCA environments are inherently risky, with factors such as market fluctuations and regulatory changes posing ongoing challenges. Lean practices help mitigate these risks by promoting proactive problemsolving, continuous improvement, and resilience. By regularly testing assumptions and iterating based on real-world feedback, small businesses can reduce the likelihood of costly missteps.

4. CONCLUSION

Undoubtedly, the Lean start-up approach has rapidly gained substantial success and widespread acceptance. Its potential for enhancing the management of small businesses is considerable. For instance, the Lean concept has been extensively implemented in initiatives concerning new product development and market introduction, aiming to reduce uncertainty and minimize inefficient resource utilization

While the Lean approach offers numerous strengths and advantages compared to conventional methods of initiating and advancing small businesses, it is not without its constraints. Importantly, it does not assure the success of every business venture or development initiative. The utilization of the Lean approach is especially suitable for companies with an innovative focus and a desire for growth, typically found in technology sectors of the economy, operating within swiftly evolving environments characterized by considerable uncertainty.

The application of the Lean approach helps small companies to increase their chances of survival, and to implement a fast and efficient process of developing and commercializing innovations (Jantunen et al., 2023). Moreover, the Lean approach provides small businesses with the tools and methodology they need to navigate the uncertainties of VUCA environments effectively. By fostering flexibility, continuous improvement, customer-centricity, resource optimization, and risk mitigation, Lean principles enable small businesses to thrive and succeed amidst volatility and uncertainty.

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