Solutions for small business strategic management

Assoc. Prof. Dr. Le Nguyen Doan Khoi

Department of Scientific Research Affairs, Can Tho University

Abstract: **This paper focused on discussing the possible ways small business can develop and adopt strategies in order to make some general concepts for the actors of a given environment. The study is about small businesses, their features and dynamics in the course of making use of the tools and techniques in strategic management. It investigates how small businesses, in their course of building competitive advantage, make strategic decisions, and the factors related to the mere smallness of such businesses as affecting strategic choice are discussed.**

Keywords: **Small business, strategic management, business environment**

I. INTRODUCTION

Small business possess fundamentally different resources and capabilities and these differences will and should affect their choice of strategy. Small businesses are different in their management style, decision making behavior and others, from their larger counterparts and are confronted with various challenges and blessed with a number of opportunities in their struggle to achieving a fit between their capabilities and their environmental context.

Understanding the features of small business and their management and decision making behavior is very important in the course of studying their strategic choice and mode of doing business. The number of publications on Strategic Management are many, and essentially most of them deal with large, established business corporations and until lately, has virtually ignored small-business firms. Small businesses however, are becoming increasingly important almost in every sector, and they can not be ignored when discussing strategic management.

In discussing strategy, the factors on which organizations differ are very important, as strategy is basically managing these factors in dealing with competitors who may or may not share the factors. Of the many factors on which organizations can differ, size is probably the most apparent one. The mere size of an organization can be a significant motive by itself to adopt or not to adopt a particular strategy. In applying the concepts and techniques of strategic management, the smallness of a business by itself can trigger many special considerations. As strategic management is concerned with utilizing internal capabilities to deal with environmental variables, small businesses can be in a different situation in this regard. What they can do not only to survive but also to grow and remain competitive is an important issue.

II. THEORETICAL BACKGROUND

The term Small Business is defined in different contexts differently. Many authors give a quantitative definition in terms of number of employees, capital, turnover etc.

Many governments also have similar 'statistical' definition of Small Business for administrative purposes. "Some use number of employees, some turnover, some capital employed 'variously defined', and some a combination of all three. Risking a broad generalization, one may say, however, that in Europe small firms are those with less than 200 employees and medium-sized firms are those with 200-500 employees. In the US, all firms employing up to 500 employees are regarded as small."

Thus there is lack of consensus as what a small business is. This lack of consensus is due mainly to the environment where the term is applied. When talking in statistical terms, I think it is apparent that the whole environment is taken into account and the size is measured in relation to the totality of actors in the given economy. In the small economies of many developing countries, it is very rare to find a firm employing 500 people. If there is one or few, then they should be 'giants' in that context and we can not regard them as small simply adopting the statistical definition of the US where to have firms with tens of thousands of employees is not uncommon.

The other way of looking at the concept of Small Business is to take qualitative factors and to describe it in relative terms. Even listing the qualitative specifications is not easy and differs from county to country. Mengisteab gives a list (but not exhaustive) of the general qualitative specifications in defining SMEs. The use of general qualitative specification that can be used in different circumstances would give a better understanding of the concept.

The management process in small firms is not the same as that of large ones. It bears little or no resemblance to management processes found in larger organizations. In managing their resources towards creating competitive advantage, small firms make use of their unique features (see above) available to them because of their size, and which are not available in the larger counterparts. Jennings and Beaver describe the management processes in small firms to be *adaptive* as opposed to the practice in their larger counterparts, which they described as *predictive*.

In the larger organizations competitive advantage is often created deliberately as a result of the pursuit of explicit policies designed to minimize operating costs and/or achieve product/service differentiation. Consequently strategic management becomes primarily a *predictive* process concerned with the clarification and communication of long-term objectives and the feedback of information to indicate successful or unsuccessful achievement of pre-determined goals.

In contrast, competitive advantage in the smaller firm often arises accidentally as a result of the particular operating circumstances surrounding the enterprise. Here, strategic management becomes primarily an *adaptive* process concerned with manipulating a limited amount of resources, usually in order to gain the maximum, immediate and short-term advantage. In the small firm efforts are concentrated not on predicting and controlling the operating environment but on adapting as quickly as possible to the changing demand of that environment and devising suitable tactics for mitigating the consequences of any threatening changes which occur.

In the small firms, the management process is characterized by the highly personalized preferences, prejudices and attitudes of the firm's entrepreneur, owner, and/or owner-manager. Mintzberg described such organization as having little or no staff, with a loose division of labor and a small managerial hierarchy. Little of its activity is formalized, and it makes minimal use of planning procedures or training routines.

The management process in small firms is also characterized by the nature of power balance and decision making behavior of the manger(s). According to Mintzberg, in small firms, which he refers them to have a *simple* structure, power tends to focus on the chief executive, who exercises a high personal profile. Formal controls are perceived as a threat to the chief's flexibility and that the manager drives the organization by sheer force of personality or by more direct interventions. Decision-making is likewise flexible, with a highly centralized power system allowing for rapid response. Thus the small firm management process can not be separated from the personality set and experience of the key role player or players.

Organization structures in small firms, in so far as they exist, are likely to develop around the interests and abilities of the key role players. Such organization structures are likely to be organic and loosely structured rather than mechanistic and highly formalized.

According to Porter, there are essentially three generic strategies which an organization can follow: *overall cost leadership*, *differentiation*, and *focus*. "Being all things to all people is normally a recipe for strategic mediocrity and below-average performance because it often means that a firm has no competitive advantage at all".

III. SMALL BUSINESSES AS MARKET CHALLENGERS AND AS MARKET FOLLOWERS

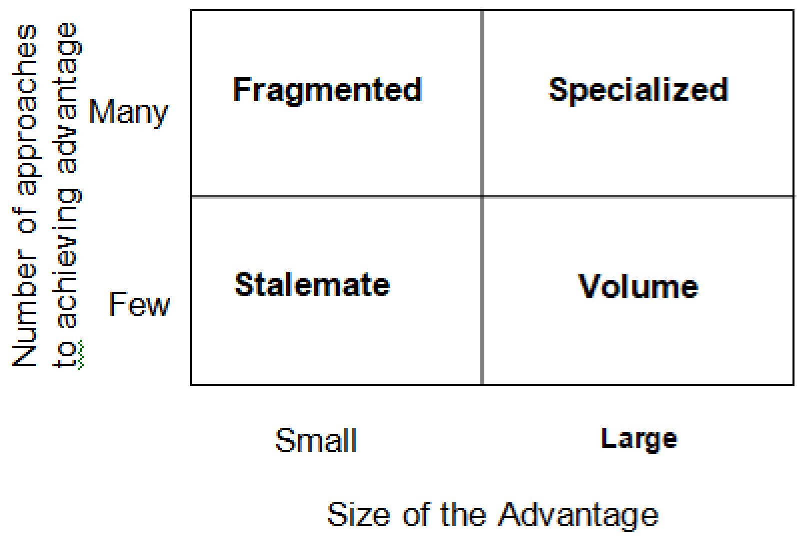
Small businesses, by their very nature (also as defined at the outset of this study) are not dominant in their areas of operation. And companies that are not dominant are faced with a straightforward strategic choice: either they attack other firms-including perhaps the market leader -in an attempt to build market share and achieve leadership themselves (*Market challengers*), or they pursue a far less aggressive strategy and in doing so accept the status quo (*market followers*). In deciding between the two, several factors need to be taken into account, the most significant of which are the costs of attacking other firms, likelihood of success, the eventual probable returns, and the willingness of management to engage in what in most cases will prove to be a costly fight.

In making this choice again a variety of factors need to be considered, but particularly the competitive consequences. Perception of the leader's likely response, the availability of the resources needed to launch an effective attack, and the possible pay-offs are also factors likely to influence the strategist in choosing among the various targets. Picking off a series of small regional players is, for example, often far more profitable than attacking the market leader.

Attacking the market leader can have severe consequences, as the leader, by virtue of its preemptive position, can afford to cut prices, rain down new products on rivals, or bury their offerings under an advertising blitz - in short the big guy can make the business miserable for everyone else. But as Lee Khai et al tried to describe above it should not be assumed that every time a big firm is challenged by a small rival it will take retaliatory measures. There are situations where the big firm would prefer to ignore the challenger than to retaliate. Thus the small firm should be careful in selecting the segments (niches) in which it wants to challenge bigger firms. The issue of why certain market segments are ignored by the big firms has been widely discussed in the literature and include "anti-trust considerations, fear of self-cannibalization, small size of the niche, low perceived potential of the niche, and inefficient practices of the bigger firm which leads to its inability to adapt to the demands of the market niche.

IV. INDUSTRY TYPE AND THE SCOPE OF COMPETITIVE ADVANTAGE

Although the discussion about small business, strategy and environment above has a lot of useful insight as to the competitive advantage and relative position of small businesses, in practice the very strategic behavior and competitive position of a small (and for that matter of any) business, vary from industry to industry. Recognition of this has led the Boston Consulting Group to develop a matrix in which they distinguish between four types of industry, as shown in the following figure.



Source: Wilson S. et al., Strategic Marketing Management: planning, implementation and control, Butterworth-Heinemann Ltd. London, 1992. P 247

This shows that in analyzing of businesses and strategies, it is useful to be industry-specific before making firm-specific judgements. The above theoretical discussion is mainly to give an overview of the available tools and techniques in strategic management. In practice, however one needs to carefully look at the specific nature of the industry in which the small business operates in order to come up with relevant arguments as how such firms [should] behave in their course of strategic management. In this regard, I will take the case of Eritrean footwear industry and make a practical study of the small businesses and their strategy as a follow-up of this literature.

V. CONCLUSION

The analysis of strategic management in small businesses as a topic is too general to lead to concrete and specific results, and can be discussed only at theoretical level. As the concept, definition and nature of small businesses differ from environment to environment and from industry to industry, so will the study and analysis about them. In practice, in addition the need to be specific to a firm's business environment, one needs to carefully look at the specific nature of the industry, in which the small business operates in order to come up with relevant arguments as to how such firms [should] behave in their course of strategic management. Each industry has its own unique features to affect the choice and management of small business strategy.

The study of strategic management in small businesses is the search for the dynamics of interactions between various factors influencing the practice, including the firms' owner's or entrepreneur's objectives and characteristics, managerial practices, nature of industry, markets and their competitive structure, and so on. Lack of adequate resources to push further with an already established strategy is an impediment for small businesses, and this may force them to abandon the route when confronted with a threat, mainly a bigger rival, and look for alternatives, unless they have some means to confront or challenge the rival. On the other hand, the ownership structure and decision making behavior in small businesses allow them to act swiftly and to seize emerging opportunities, and thus to be much better efficient and effective.

As has been indicated earlier the question of which strategic options result in optimal small firm performance has been addressed but not resolved. Moreover, much of the research on the strategic management of small firms has dealt with the formality of strategic planning rather than the content of the strategies or reasons for their adoption. However, strategic choices of small firms and the factors that influence these choices are being identified. The strategic options available to the small business are not limited, and can vary from industry to industry and from context to context. The generic strategies, Cost leadership, Differentiation, and Focus are applicable to small businesses. Unlike in the larger businesses, in selecting any strategy, small businesses need to pay special attention to the possible reaction especially from the larger rivals, and the way of handling such reactions, as this is the way to *sustain* any competitive advantage gained for a fairly long time.

REFERENCES

[1] Baird, I.S, and Lyles, M.A (1994) 'The choice of international strategies by small businesses', Journal of Small Business Management, **32** (1), PP 48-60.

[2] Burns, P. and Jim. D. (Eds.), (1989). Small Business and Entrepreneurship, Macmillan Education Ltd., Hong Kong.

[3] Clark, S. (1999). 'How to take a SWOT at Strategic Management', Puget Sound Business Journal, **20** (19) PP.22-

[4] Dean, T.J, Brown, Robert, L. B. and Charles E.B. (1998). 'Differences in Large and Small Firm Responses to Environmental Context: Strategic Implications from a Comparative Analysis of Business formations', Strategic Management Journal **19**, PP.709-729

[5] Gadenne, D. (1998). 'Critical Success Factors for Small Business: An Inter-industry Comparison', International Small Business Journal, **17** (1) PP. 36-51

[6] Hunger, J.D. and Thomas, L.W. (1993). Strategic Management, 4th Ed. Addison-Wesley Publishing Co.

[7] Jennings P. and Graham, B. (1997). 'The Performance and Competitive Advantage of Small Firms: A Management Perspective', International Small Business Journal, **15** (2) PP. 63-73

[8] Johnson, G and Kevan, S. (1989). Exploring Corporate Strategy, Text and Cases, Prentice Hall, New Jercy.

[9] Lee K. S, Guan, H. L, and Soo, J.T, (1999). 'Dealing with Resource Disadvantage: Generic Strategies for SMEs' Small Business Economics, **12** (4) PP.299-311

[10] Mintzberg, H, and James, b. Q. (Eds.), (1996). The Strategy Process, Concepts, Contexts, Cases, 3rd Ed. Prentice-Hall International, New-Jersey.

[11] O'Gorman, C. and Roslyn. D. (1999). 'Mission Statement in Small and Medium-Sized Businesses', Journal of Small Business Management **37** (4). PP. 59-66

[12] Porter, M. (1985). Competitive Advantage, Creating and Sustaining Superior Performance, Free Press, New York.

[13] Proudfit, C. Competitive Strategy through Low Cost Leadership, http://www.skillsource.com/articles11.html

[14] Vossen, R.W. (1998). 'Relative Strengths and Weaknesses of Small Firms in Innovation', International Small Business Journal **16** (3) PP 89-93.

[15] Wilson, R.M. S, Colin, G. with David J.P. (1992). Strategic Marketing Management: Planning, Implementation and Control, Butterworth-Heinemann Ltd. London.