

## ASPECTS OF STRATEGIC MANAGEMENT IN SMALL LATVIAN BUSINESSES

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**Abstract.** In recent decades, scientists have paid increasing attention to the strategic management process in medium and small enterprises. Authors are willing to study the strategic management of Latvian small businesses and to analyse the factors that affect these processes. Authors believe that the small businesses would need to pay more attention to the company's strategic management process formalization, that is, to define medium-term and operational goals, systematically collect and analyse obtained information, to increase the importance of analytical data in decision-making, to ensure greater flow of information between employees and managers in the company's development.

**Keywords:** strategic management, small business, decision making-process, competitiveness of small enterprises, manager and its personality.

**Jel classification:** M10, M19

### 1. Introduction

The strategic decision – making process in the last decades has been an essential part of the management studies. Despite the huge amount of researches related to the management topic, still the strategic decision-making process studies have been limited. It is crucial to research and draw conclusions regarding the strategic decision-making process influence on the company's success, as well as which factors and obstacles affect the decision-making process. It is worth mentioning that analyse of the strategic decision-making process is divided into two categories: the content analyse and the process analyse (Elebanna, Child 2007). The content analyse includes analyse of the strategies themselves, for instance, decisions of enterprise portfolio management, diversification or mergers. On the other hand, the process analyse focuses on the factors, which affect the strategic decision-making process and implementation. In the recent years especially the process analyse has got the biggest attention.

Small and medium size enterprises have got a special attention in the last years; they have been the developing force of the economy in a lot of countries. SMEs differentiate the country's economy, offer new job opportunities, and create new and innovative products. What is more important, SMEs react much quicker and more efficient to the changes in the economy; hence, at the time of crisis the stability and development of country's economy has been assured to a certain level.

In Latvia, the strategic management topic has not been researched so much; even less papers

about the decision-making process and its influence on the companies' success exist. The authors of this article are aware of two considerable papers related to this topic:

- In year 2003 Gints Mednis and Diana Tomberg have investigated the strategic management process in small and medium sized enterprises in Latvia and Estonia (Mednis, Tomber 2003);
- In year 2005 Jānis Caune has done a research about the creation of competitive advantage and its transfer between Latvian companies (Caune 2005).

The first of those could be treated as a process analyse paper, whereas the second analyses the content. Based on that it is obvious that the strategic management process analyse has not been actual neither for scientists, nor for entrepreneurs.

Considering such facts as the substantial amount of SMEs in Latvia's economy, globalization of entrepreneurship, economic instability, it is crucial to research the decision making and strategic management processes of small enterprises in Latvia, because various studies prove the positive correlation between the use of strategic management and company's success. In other words, the enterprises, which apply the concept of strategic management, are more competitive and are more financially and strategically successful.

Another discussion among the researchers is related to the extent of which the strategic management tools of large corporations could be applied in small enterprises. Most of the strategic tools from the last century's 70-80s are developed

for big corporations, which have a different organizational structure, resources and strategies compared to small enterprises.

The goal of this paper is to investigate the strategic management processes in Latvia's small enterprises and to identify factors that influence it. In this research the object is small business, but subject - strategic management. Authors employed well-established quantitative and qualitative methods of research: review of scientific literature, publications, and statistical data, as well deep and structured face-to-face interviews and analyses of acquired results.

## **2. Methodology of research**

The research was conducted in November, 2011, when deep and structured face-to-face interviews were carried out with 7 small enterprise directors. According to the Griffin's and Hauser's study (1993), 7 face-to-face interviews assure 85 % credibility of the acquired data (Ulrich, Eppinger 2003). The enterprises were selected based on the following characteristics: annual turnover less than 10 million euro, the number of employee does not exceed 25 and the enterprise had operated for at least 2 years. From the 7 questioned companies, 4 are operating in the service sector, while the rest of the businesses are in the production sector. The relevant companies have been in a business for at least 10 years. Therefore, one can assume that these organizations are experienced and have certain traditions. All the directors at the same time are also the owners or co-owners of the companies.

The main conclusion made while analysing the gathered data is that the managers of small enterprises understand the importance of strategic management for the enterprise's development; in addition, the directors are even applying some of the practices, however, it is an instinctive and non-standardized process. The authors believe that also small enterprises should pay more attention to the formalization of strategic management processes, i.e., they should define medium- and operational-term goals, systematically acquire and analyse the information, increase the importance of analytical data in the decision-making process, and improve the information flow between the management and employees regarding the company's development issues.

## **3. Macroeconomic situation in Latvia and its influence on the strategic decision-making in Latvian enterprises**

The world financial crisis has considerably affected the economics of Latvia. The GDP has de-

creased by ¼; the unemployment rate has almost quadrupled. The seriousness of the crisis in Latvia was strengthened by the misbalanced external sector shaped in the years of high growth rates (Ministry of Economics 2010 a). Huge amounts of foreign capital investments in the country supported the significant economy growth in years 2004-2007, but actually the FDI encouraged internal consumption, not the development of entrepreneurship practises. As a result, import of goods and services from foreign countries exceeded export of our goods. Currently because of the falling internal demand (high unemployment, lower wages, fewer credits, and consumer carefulness) and less imports, foreign trade balance has levelled off. Many producers have found new export markets; hence internally decreased demand is compensated. In the medium term the main growth stimulus is the extended export opportunities. Therefore crucial factor for continuous growth is industrial competitiveness in both, internal and external, markets (Ministry of Economics 2010 b). It is substantial to base the competitive advantage not on the cheap resources, but on the innovations and new product discoveries. This entrepreneurship model depends much on the strategic decision-making processes; therefore, the authors believe that the application of the strategic management methods in the management ensures the companies' competitiveness.

Every year the World Economic Forum in cooperation with the Harvard University delivers an Index about overall country competitiveness. In year 2009 Latvia was placed 68<sup>th</sup> out of 131 countries. The global competitiveness index is based on 12 indicators, which characterize the main factors for country's competitiveness. The mentioned factors are divided into three groups: the basic requirements (institutional burden, infrastructure quality, macroeconomic stability, quality of the educational and health system), efficiency supportive factors (quality of the higher education system, product market efficiency, labour market, financial market sophistication, development of technologies, market size) and innovation and development factors (the quality of entrepreneurship, innovation) (Ministry of Economics 2010 b) .

The basic requirements for Latvia have been evaluated as good, efficiency supportive aspects have received moderate evaluation, but innovative and development factors- very low. For example, Estonia regarding technology acquisition is 29<sup>th</sup>, while Latvia- in the low 88<sup>th</sup> place (Ministry of Economics 2010 b). In this research, authors are interested in the third factor group. Innovation and the quality of the entrepreneurship development are the main factors in the creation of knowledge

based economy model. Latvia scores very low when compared to neighbour countries, as well as internationally. The low score of cluster development (113<sup>th</sup>), the quality of research facilities (66<sup>th</sup>), as well as the weak cooperation between universities and industries in the field of research (86<sup>th</sup>) could be highlighted. The current economic crisis has detected the vulnerability of the development of the Latvian economy and inability to compete in the global markets. Therefore, economic recovery should be solved in the same time with competitiveness problems, which consequently is not possible without the changed economic model (Ministry of Economics 2009, 2010 b). Additionally, the research conducted in 2011 (Innovation Union Scoreboard) places Latvia as the last one amongst other European countries. However, indicators related to innovation have increased by 2.71 % in the last 5 years in Latvia while the average growth in European Union has remained as low as 0.85 %. On the other hand, the investments in research and development have been 0.47 % from the GDP in Latvia, whereas Europe average is 2.07 % of GDP (Ministry of Economics 2011).

Analysing the structure of the Latvian enterprises outlines that in 2009 most of the entities have been micro or small sized companies. 82.5% out of all entities are micro enterprises with no more than 10 employees and turnover is less than 2 million euro per year. Meanwhile small enterprises account for 14.1 %. The amount of employees can be up to 25, but the turnover- up to 10 million euro per year (Ministry of Economics, 2011). Regarding their legal forms, limited liability companies, farms and sole proprietorship are the most common forms (Lursoft 2011). This suggests that the enterprise structure in Latvia is fragmented. Furthermore, if the amount of entities per 1000 inhabitants is calculated, this indicator is far behind others in EU, even though it has increased almost twice in the recent years in Latvia (In 2011 seventeen entities/ 1000 inhabitants, in 2009 thirty-two companies per 1000 people, while in EU 51 entity per 1000 inhabitants) (Lursoft 2011).

The statistics of Latvian established – liquidated enterprises (LLC) show that in the first business years the amount of established LLC exceeds the liquidated ones, but in the next years the proportion changes inversely. Currently out of 115 245 operating Latvian companies (LLC) only 14650 have been in a business for more than 15 years, while 53 643 entities have less than 6 years (Lursoft 2011). According to the authors, the life cycle of the companies is rather short in Latvia compared to the enterprises in other countries. The reasons might be as following:

- Rather short entrepreneurship experience
- In the last 20 years Latvia has experienced 2 serious financial breakdowns: Crisis in Russia (20<sup>th</sup> century, the late 90s) and the world financial crisis (2008-2010)
- The absence of a clear economic policy in the country
- Strategic management levers are rarely used in the enterprise management
- The processes of globalization has supported international and aggressive competition

Considering the dynamics of macroeconomic, national economy's weak ability to compete, enterprise structure (large amount of micro and small enterprises), entrepreneur individual parameters (education, experience, responsibility) and the culture of decision-making, it is crucial to search for the best strategic management model that could be applied to Latvia's micro and small sized companies.

#### 4. Strategic management process in small enterprises

Strategic management enables the company to be the initiator when building and controlling the company's future, not the passive observer. The results of the survey suggests that organisations, which use the principles of strategic management, gain more money and are more successful than the companies, which do not use those principles. Successful organisations plan systematically in order to be prepared for the future changes in the internal and external environment (Caune, Dziedons 2009).

Various studies have been made regarding the factors that affect strategic processes of small enterprises. The authors in this research have chosen the most common parameters of SMEs strategies summarized by Sandu:

- The majority of small enterprises apply the strategies that have been developed intuitively; these strategies are not formalized and mostly arise from the company's future perspectives;
- Strategic choices depend on the individual entrepreneur: on his personal characteristics, values, future aims;
- Strategies just slightly influence the organizational structure. Companies are kept compact; they offer just as much job positions as need to maintain the business running;
- In small enterprises it is very important to assign the available resources to the company's aims, as mostly the resources are more limited compared to big corporations. Hence, the aims should be realistic and reachable;

- The planning period of small enterprises normally is shorter than for big enterprises due to the unstable external environment;
- A quick reaction to the changes in the market is crucial for small enterprises in order to take possible opportunities;
- Small enterprises tend to specialize in certain activities (Lobontiu 2002).

In this study, all respondents acknowledged the role of intuition when making strategic decisions. However, when the business cycle of these companies of more than 10 years is taken into consideration, the directors agree that they have gained a valuable and practical business experience, which means – intuition is not just seen as feelings and hopes, but rather it is a combination between their experience and feelings. Some respondents emphasized that they would like to reduce the role of intuition in the decision-making process and develop a system to acquire and analyse the data, which would result in analytical information that could be used to make decisions in the future. This wish was especially expressed by the production companies, as they believe this would support more precise cost calculations. In future, it would be interesting to analyse the role and consequences of intuition in the companies, which have been operating for a shorter period of time; therefore, results between *the old* and *new* companies could be compared. Theorists admit that intuitive strategies are acceptable and even proper at the early stages of business development, but later on, when the organization is growing, the structure and strategic processes should be formalized. (Lobontiu 2002; Miller, Toulouse 1986). Nevertheless, the interviews suggest that Latvia's small enterprises do not follow the idea of formalization; their main development forces are intuition and manager. The authors of this paper hold a view that intuition is and will remain as one of the dominant aspects in decision-making in small enterprises; however, the role of analytical instruments in decision-making should be gradually strengthened.

Macgregor (1999) states that the biggest trump of a small enterprise is its elasticity, but at the same time it could be also “the heel of Achilles”- if a company rushes to realize the market opportunities, it can lose its strategic focus.

All interviewees see their ability to quickly and precisely react to their clients' desires as their main advantage. The managers stress the importance of the clients' feedback, which helps the managers to make conclusions and future decisions. Very often this ties with the customers and therefore acquired information leads to new prod-

uct or service ideas. Surprisingly, the managers value electronic media as an important source to discover the newest global trends in their industry and then they analyse a possible implementation of these ideas in the local market.

Jain emphasized that the efficiency of company's strategic planning is influenced by the company's ability to foresee the changes in the external environment. Daft and Weick conclude that the more complex and inconsistent is external environment, the more information is personally acquired by the employees and managers. Even more, Hammer Specht writes that the smaller the company, the more information is gathered by using a personal approach (Lobontiu 2002).

The authors in their study proved that the main source for information is company manager's and employees' acquired information from their clients, partners and associations. Everybody acknowledges that this information does not get systematized and saved for the use in future. It is maintained in the minds, which involves a certain risk- in case the manager or middle-management leaves the company, the information might get lost. However, the entrepreneurs do not perceive this issue as a problem, as they are continuously in their businesses and are aware of all business matters in their companies. According to the authors' opinion, it would be necessary also for small enterprises to have a system for data analysis and storage. As a result, the past data would play an increasingly important role in the decision-making process and at the same time the human mind aspect and corresponding risk would be mitigated. One of the managers said that in order to survive in the time of crisis they contracted consultants who carried a precise analysis of internal and external market, which in the end provided information about the possible development trends; hence, the company is informed about industry's predicted development. Hence, the company is able to make clearer goals and take proper decisions. Most of the respondents are the members of their industry's associations. Being a member of an association helps to obtain new contacts, customers, industry related materials; moreover, the associations launch initiatives. One of the questioned managers had ordered a special research for the sake of a new product introduction. The research helped to better understand the market needs. In general, when assessing the managers' awareness of external changes, industry development, competitors' activities and other factors that affect the business, one can assume that the entrepreneurs have a good knowledge of their industry activities and they are capable of timely reaction to changes.

More authors emphasize the manager personality's importance on the small enterprise man-

agement. Many scientists (Robinson, Pearce 1984; Papadakis *et al.* 1998; Elbanna, Child 2007; Baum, Wally 2003) conclude that the managers in small enterprises first of all rely on their own knowledge and experience and they involve others in the decision-making process very little. The results of interviews approve the fact that the decision-making process is centralized, meaning, the most important decision are taken by the director. Despite the fact that everybody agrees that they are opened for suggestions from their employees, it is more or less simply a formality. Some managers admitted that they have shifted the decision-making power of operational (functional) level decisions to the middle-management; nonetheless, they want to remain updated about every activity in the company. The authors explain the trend of centralized decision-making process as follows:

- Most of the small enterprise directors at the same time are also the owners; therefore, the company's fortune is their private responsibility;
- Managers hardly trust other people, they believe that their knowledge is the best, only they are the ones who are motivated, and they can rely only on themselves;
- The historical command (planned) economy might influence this trend;
- Most of the managers do not possess a university diploma in a business related field; therefore, they make the decisions and develop the organization structure based on their understanding.

After summarizing various studies (Verreyne 2006; Dameron, Torset 2009; Mintzberg 1973; Quinn 1978; Harris *et al.* 2000; Kargar, Parnell 1996) in their publications are stated that strategic management might become less formalized process especially in small enterprises, i.e., strategy can evolve step-by-step while following a developed vision and adjusting to the external environment. Theorists have concluded that a strategy may be planned (in a formal process) or it can emerge from everyday operational decisions. The conducted interviews and other research made by Rozenbergs and Gaile-Sarkane (2011) provide a conclusion that in most cases in Latvia's small enterprises strategies develop as a result of day-to-day made and implemented decisions.

The authors of this research realized that the respondents mostly perceive the role and function of strategic management in a relation to the development of new business activities, products and markets, current and future industry trend analysis,

as well as resource planning according to the existing situation.

Only one organization interviewed has a written vision, while others have simply stated medium-term goals and their everyday decisions are based on these goals. Mostly the goals are stated implicitly, without absolute figures that can be measured, because the experience from the past years testifies that the amount of unachieved goals exceeds the one of achieved goals, which decreases the significance. Similarly, the goals are not in a written form, they are just discussed in the middle-management meetings; even more, none of these companies explains the operation goals of the year and medium-term goals to all employees. According to the authors' opinion and other researchers (Adamoniene, Andriuscenka 2007), a more precise and measurable determination of goals is necessary, additionally, it is crucial to communicate the goals among the employees, especially, if majority of the managers agree that the remuneration is related to the company's success and financial results.

## **5. Classification of factors that influence the strategic decision-making processes**

Summarizing the acquired information from this research, research made by authors in 2010 and analysing other Latvian sources (Caune 2005; Mednis, Tomber 2003) about the strategic management processes and their practical implementation, authors conclude that various factors exist, which influence the strategic decision-making; to mention some: the education of a manager, experience, decision-making culture, the size of a company (employees, turnover), the time spent on information acquisition and decision-making, the degree of procedure standardization, the most common communication channel within the company and outside the company (oral, written), the characteristics of the manager, dynamics and predictability of the external environment, the business policy of competitors, the importance of the decision for the company, the accessibility of the needed information to make the decision, determination of strategically important goals, the manager's ability to learn quicker than his competitors, the past performance of the company, the degree of internationalization (national, international company), the legal form of the company, the speed of decision-making, a tax policy, availability and the price of resources, and other factors.

**Table 1.** Factors that influence the strategic decision-making (Source: Rozenbergs, Gaile-Sarkane 2010)

Individual factors	Organizational factors	External environmental factors	
		Direct influence	Indirect influence
Education of manager	Size of company	Dynamics of industry's development	Tax policy
Manager's experience	Importance of the decision for the company	Business policy of competitors	Relevant legislation for a company
Decision-making culture (centralized vs. decentralized)		Availability and price of resources	
Degree of managerial procedure standardization		Infrastructure	
The most common communication channels		Quality of education	
Information selection and availability regarding decision		Quality of science and research	
Time spent on decision-making	Determination of strategically important goals		
Characteristics of a manager	Past performance of the company		
Manager's ability to learn quicker than competitors	Degree of internationalization		
	Legal form of the company		
Speed of decision-making			

When analysing the interaction between the previously mentioned factors and their impact on the decision-making process, authors conclude that these facts can be divided into three major groups: individual factors, organisational factors and external factors (see Table 1). On the other hand, the external factors are to be divided in two sub-groups: factors of a direct influence and factors of an indirect influence.

Influence of the external environment is significant when the company makes decisive decisions regarding its development or downsizing, meaning- if the company wants to make a decision where to open a new production site then such external factors as taxes, legislation, quality of the education, infrastructure, resource availability, customs etc. play a substantial role in the decision-making process. However, if the company has already made its decision, then individual and organisational factors become the dominant ones. A situation, when the role of the external environment can be crucial, is rapid changes of the economic or political situation, i.e., a crisis, war, the change of political regime and other factors which can encourage rapid and decisive decision-making.

**6. Conclusions**

In the scientific literature strategic management processes have been extensively investigated; how-

ever, amongst the researchers no common agreement about strategic decision-making process and its dependence on dynamically changing environment and other factors exists. Only few studies have been done about the strategic management processes in small companies. The strategic management process is analysed in different sciences, as a result, various schools of management have been developed, which research this problem. A lot about strategic management has been discussed with a regard to the management, decision-making process, risk management and other interdisciplinary contexts. Nevertheless, it is true that practically no study about the strategic decision-making in Latvia has been conducted. One of the explanations might be the business environment in Latvia where micro and small sized enterprises are dominant.

During the research process the authors have made the following conclusions and suggestions:

- In general, the managers of small enterprises understand the role and importance of the strategic management for the company's development.
- Entrepreneurs admit that the director's intuition has a significant role in the decision-making process. At the same time, they note that this intuition has come together with a valuable experience as the time goes by. Some managers (especially of the production companies) indicate that they would like to de-

velop a system for data analyse and storage in order to increase the role of analytical information in decision-making. The authors also believe that intuition is and will remain as one of the dominant aspect in decision-making in small enterprises; however, the role of analytical instruments in decision-making should be gradually strengthened.

- The entrepreneurs pay a lot of attention to the clients' satisfaction and suggestions regarding their desires, because the competitive advantage of small enterprises is their ability to satisfy and adjust to clients' demands. The managers use electronic media to discover the newest global trends in their industry and then they analyse possible implementation of these ideas in the local market. Generally, it can be observed that the entrepreneurs prefer individually acquired information related to their industry and company.
- Only one of the interviewed companies has a defined, written vision, while for the rest the vision is developed in their minds and they simply strive for it through their activities. The entrepreneurs admit that they do not perceive goal determination as an important task; instead they organize management meetings where they discuss the next operational tasks. Even though all of the interviewees acknowledge that the remuneration is related to the company's success, the authors cannot understand how the managers can evaluate the success, if the company lacks clearly defined and measurable goals and tasks. The authors assume that in most cases when the management board awards the employees, they follow subjective criteria and financial performance of the last year. Authors hold a view that more attention should be paid for the development of medium-term goals and for the goals of the operative year, their communication to the employees and their usage for a creation of a remuneration system.
- A problem that is present in all questioned companies is related to the information analyse and storage. Respectively, none of the companies has developed a system where to enter and store the information about the clients, their wants, suggestions etc. The information is in the managers' and employees' minds; therefore, it could be lost in case people leave the company. Authors believe that the information's collection, storage and analyse should receive more attention.
- The decision-making in small enterprises is a centralized process, meaning, the main deci-

sions are made by the general managers. Some managers have shifted the decision-making and implementation power of operational (functional) level decisions to the middle-management; nonetheless, they want to remain updated about every activity in the company.

- In small enterprises a significant role for company's success lies in the manager's personality: his education, experience, characteristics, communication and presentation skills etc. The research suggests that the managers of small enterprises mostly do not possess a business related university diploma; as a result, they gain their management knowledge and skills through the experience.
- In small enterprises strategies mostly evolve from their daily decisions because of the following reasons: the external environment is highly inconsistent, enterprises tries to quickly react on the change in the market. Furthermore, companies develop through doing things rather than through thinking how to do things correctly.
- Authors grouped all factors that influence the strategic management into three groups: individual, organizational and external environmental factors. In small companies the most important are individual and organizational factors and only afterwards external issues.
- It would be necessary to conduct a further research regarding the decision-making processes in Latvia and a possible usage of the strategic management in companies.

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