

# The diversity of management theories for SME's development

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**Abstract**— the aim of the proposed scientific research is to evaluate SME managers' readiness to practical application of different management theories to SME (small and micro enterprises) in the Latvia. Authors analyzes and show importance of the management functions in business and on the basis of different field researches and their results evaluates possibility to apply of management functions in small companies. The authors conclude that SME managers are looking for ready-made tools in business development and not ready to demand special business management approaches, which are tailor-made for specific/individual business needs and a company development. The management of SME faces many factors and issues what affects success of a small business. Among them are success factors, modern business models, e-environment, managerial skills, knowledge, individual competences, entrepreneurial mindset etc. For successful management of a small company manager (owner) should choose his own approach in diversify of many modern business theories and practices.

**Keywords**—SMEs, management functions, management theories and functions, success factors, business models.

## I. INTRODUCTION

During last decades balanced development was the aim of any company, ensuring the company's existence in a long-term, for promoting the overall growth of the national and global economy. In Latvia and in other European Union countries, numeric majority of companies are micro, small, and medium enterprises (SME), furthermore, due to the lack of resources, small companies are successful in local market and find it difficult to develop on the globally.

Small and medium enterprises have to choose strategies (tools, methods, approaches etc.) of product development and market promotion that are different from big companies' (corporations), applying only those tools from the available ones what can increase their competitiveness and are most suitable for the particular company's needs and specific.

SMEs are the engine of the European economy. Analysis of the statistical information (see TABLE 1) confirms dominance of small and even micro size of companies in Latvia.

SME are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment [1].

TABLE I. ECONOMICALLY ACTIVE STATISTICAL UNITS IN LATVIA BY SIZE [2]

Unit by size	Year			
	2009	2010	2011	2012
Micro	115939	123924	129394	138628
Small	10254	9732	9970	10436
Medium	2065	1956	2033	2079
Large	351	355	381	400
Total	128609	135967	141778	151543

Latvian business development similarly like in other countries is affected by several factors – starting with the economic, socio-political situation of the country, the global market conditions, and ending with the individual knowledge, skills and competencies of a company's management and staff, their motivation to start and continue a business, business aptitude, business model etc.

Reviewing the managerial functions described in the theory, the authors conclude that they are generally applicable to middle or large companies and corporations which mainly operates in large markets. The authors decided to pursue a more pragmatic approach by exploring the actual functions of micro and small companies in order to build a list of managerial functions needed in the business environment of Latvia. The authors proposed following research question: what SME managers consider as the best drivers for a company development with and aim to shift from small to large enterprise? For answering on research question following research design had been chosen: quick review of management theory and analysis of the results is done. Field research was performed and according to the results main factors influencing SME development were named. Research results are validated in focus group discussion.

## II. MANAGEMENT THEORIES AND MANAGEMENT FUNCTIONS

There are many possibilities to describe development of management theories. According to one of such approaches historical theories of management can be grouped following [5]:

- Scientific Management Theory (1890-1940) for large industries, describing ongoing tasks, mechanic and routinized activities.
- Bureaucratic Management Theory (1930-1950) focused on dividing organizations into hierarchies, establishing strong lines of authority and control.
- Human Relations Movement (1930-today). More attention was given to individuals and their unique capabilities in the organization.

Also there was mentioned Contemporary Theories of Management [5]:

- Contingency Theory. Contingency theory asserts that when managers make a decision, they must take into account all aspects of the current situation and act on those aspects that are a key to the situation at hand.
- Systems Theory recognizes the various parts of the organization, and, in particular, the interrelations of the parts, e.g., the coordination of central administration with its programs, engineering with manufacturing, supervisors with workers, etc.
- Chaos Theory This trend continues until the system splits, combines with another complex system or falls apart entirely.

Yasin Olum in his article identifies the Scientific Management School comprising the works of Frederick W. Taylor and Lillian Gilbreth's motion study, among others; the Classical Organizational Theory School comprising the works of Henri Fayol's views on administration, and Max Weber's idealized bureaucracy, among others; Behavioral School comprising the work of Elton Mayo and his associates; the Management Science School which I discuss at the end of this section; and Recent Developments in Management Theory comprising works such as Systems Approach, Situational or Contingency theory, Chaos theory, and Team Building approach. For lack of time and space, this discussion will provide a general description of some of the scholars in each of these management theories and the successes that they achieved [6].

Many authors stress that management is science *on the edge* among philosophy, economics, history, etc. Olum in his article writes: "Management is the art, or science, of achieving goals through people. Since managers also supervise, management can be interpreted to mean literally "looking over" – i.e., making sure people do what they are supposed to do. Managers are, therefore, expected to ensure greater productivity or, using the current jargon, 'continuous improvement'" [6]. And logically there is a place for discussing functionality of management or management functions.

At first, one views management functionally, such as measuring quantity, adjusting plans, meeting goals, and fore-sighting/forecasting. This applies even in situations when planning does not take place. From this perspective, Henri Fayol (1841–1925) considers management to consist of six functions: forecasting, planning, organizing, commanding, coordinating and controlling. He was one of the most influential contributors to modern concepts of management [7].

Mišetić in his research has written: "During the development of management theory, the five management functions have changed over time. In order to show a comparison in the way management theory has developed, Buble compared H. Fayol's (planning, organizing, commanding, coordinating, and controlling) and P. Drucker's (setting goals, organizing, motivating and communicating, measuring and evaluating results, and human resources development) theories of management functions." [8]

By analysis of different management functions described in the scientific articles, text books and internet resources by management professionals (Drucker, Cole, Hill, Praude, Abizāre, Forands etc.) the authors concluded that there are main five management functions: Planning, Organizing, Staffing, Leading, Controlling [9].

According to the Strategic management theory proposed by Charles W.L. Hill and Gareth R. Jones [10] there are three main levels of strategic planning: corporate level, business level and functional level. Mentioned management functions can be applied mainly to corporate level, partly to business level, and minimally to functional level (see Fig. 1.).

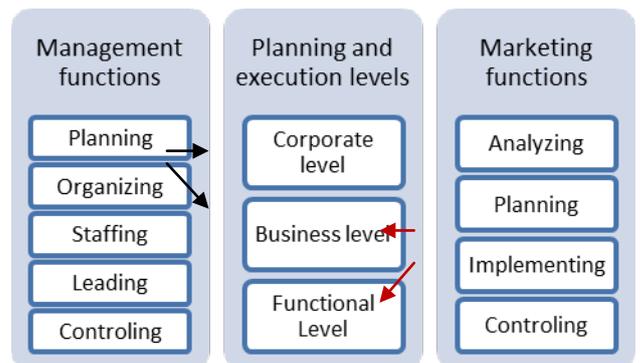


Fig.1. Application of functions in different planning and execution levels in a company [10]

Modern business sustainable development also depends on how effective business is using information, therefore we believe that the information could be taken as a source and mean of the modern business sustainable development.

It is well known that marketing is one of core activities for development and delivering the product or service to the customers. According to Philip Kotler [11] there are four main functions in the marketing: analyzing, planning, implementing and controlling.

From the quick theoretical overview one can conclude that there is different management theories that can be applied to management of SME, at the same time not all management

functions can be applied to every small, medium or micro size company. Functions, methods, management style etc. varies from size of the company, field of business, aims of company and other important factors. Therefore it is important to identify if there are any other factors influencing management of SME.

### III. SMALL BUSINESS MANAGERIAL ISSUES AND AFFECTING FACTORS

There are two fundamental characteristics of small businesses which separate them from large companies. One is their smallness, and the other is their rate of turnover and failure rate [12]. In his research Peacock has identified following problems of small business failure [12]:

- The owner is the business,
- Isolation,
- Lack of information,
- Lack of time,
- Pressure,
- Product dedication,
- External changes are critical,
- Small businesses are seldom in equilibrium or even near it,
- High business risk.

In the same research Peacock have mentioned Dunand Bradstreet studies which have consistently found that causes due to poor management predominate in failures [12]:

- US business failures, 92% due to management,
- US 17,000 business failures, 94% due to management, and Canada 2,598 business failures, 96% due to management.

According to this research it is obvious that there are some misapplied and misinterpretation of main management functions in small companies. And there is a question – should these companies apply the same functions to the business development? Do the managers in small companies need the same competences and capabilities?

Studies conducted in Latvia produce a strong link between a company's success and the entrepreneur him/herself. Thus, in a Swedbank entrepreneurship competence study, the main traits were determined, which, according to the opinion by Latvian inhabitants, must describe a person, who wishes to begin a business venture. The courage to take risks is the most important quality for starting a business (48 % respondents), confidence (45 %), and intuition (42 %) were the most frequently mentioned traits. However, the willingness to make profit ranked second to last on the list of desirable qualities in an entrepreneur important for starting a new business.

Another survey [13] carried out in December 2011 points to the following factors, which could affect business development: an open market (not oversaturated) with relatively low barriers and niche market with development

potential; availability of resources that have become scarce in other markets, such as land, timber and low-cost labor; the business culture and mentality congenial to that of the European countries; a multitude of interesting business projects, enterprises that have performed well before investment, well-established production traditions; interesting developments, enterprises with great potential.

For analysis of factors, influencing Latvian SME's the authors have conducted focus group. The focus group method was applied to this research since "focus groups concentrate clearly on a specific topic and involve interactive discussion among its participants" [3]. The focus group was held February, 2012. The total number of respondents was 14, aged 22 to 58, both sexes the size of focus group was determined according to the methodology described by Griffin and Hauser [4]. Within focus group discussion success and failure factors of SME's were discussed. Among focus group discussions results were pointed out that SME managers as best solution for development of company (for turning company from small to large) see employment of e-environment, application of existing e-tools and changing business model towards e-business. Also the focus group members confirmed that main failure of small company is lack of skills, competencies and entrepreneurial mindset of the owner of a business (company).

The authors of the article would like to draw attention of Latvian entrepreneurs to the fact that they must start to think globally, they must be aware of the fact that the consumer purchasing ability is not restricted to the Latvian market. The companies, which will take the step to expand their geographic business boundaries, will definitely gain success, because entrepreneurs have all the competences for further development and expansion of their business. Moreover, company founders and owners must take into account that, as a company develops, its team also must develop, developing and improving their business etc. knowledge.

### IV. E-ENVIRONMENT AS A TOOL FOR SMALL BUSINESS DEVELOPMENT

Over a period of eighteen years, the number of internet users in the world has increased from 16 mill. people in 1995 up to 2749 mill. people in 2013 (data as of 03.2013) [14].

In Latvia, internet started taking shape around 1992. In 2000, there were around 150 000 people who used internet in Latvia in 2000 [15], whereas in early 2013, the number of internet users of Latvia has grown to 1.277 mill. people [16].

Development of internet and information technologies directly affected entrepreneurship, as a new type of entrepreneurship emerged – electronic entrepreneurship, including e-commerce.

Consumers have an important role in modern-day business models. Firstly, owing to market development and general progress, consumer values have changed (desire to receive individual attitude; the types and rate of buying and payment processes; beliefs, opinions, and expectations as

regards product prices, and other; individual shopping experience and habits, etc.). Secondly, owing thanks to information resources, mainly the internet, and the consumer can quickly obtain a big information amount about the product of interest. Thirdly, in the new e-business models, the consumer and the seller can quickly generate feedback about a product.

Regardless of extensive availability of the e-environment and its elements, there are entrepreneurship sectors (spheres) in Latvia, which actively use the e-environment, as well as those, in which the use of e-environment is not particularly widespread.

The use of e-environment tools in Latvian enterprises differed also depending on the company's size. Thus, in big companies of Latvia, the parameters of using such e-environment tools as a computer, internet, and a website were better than in small or medium enterprises. Companies with 10 to 49 employees use the e-environment tools least.

Among Latvian companies, there are few of those that use internet for selling goods. According to the data of the Central Statistical Bureau of the Republic of Latvia for the year 2012, only 9.1 % of Latvian companies performed e-sales and only 23.6 % of companies have performed e-purchases. Automated data exchange is ensured only in 53 % of Latvian companies.

Regardless of rapid development of the e-environment on a global scale and extensive use thereof in entrepreneurship, the Latvian companies are not employing the e-environment and its tools for entrepreneurship purposes to a sufficient extent.

The authors assume that one of the important reasons that affects and is closely related to the use of the e-environment is the aspects of technology adaptation. The e-environment consists of and interacts with various technology elements (internet, devices, software, etc.), which, for their part, are related to various continuously developing technologies, including information, production etc. technologies.

#### *A. Adaptation of technologies in companies*

Time is required for introducing and adapting the new technologies. This time is necessary to prepare a company for introducing new technologies – to streamline and improve the company's processes affected by the new technologies, to train employees, as well as carry out testing and other activities related to new technologies in the company.

It is exactly the differing experience of adaptation of technologies in companies that, according to the author, could be the explanation to why some companies are actively employing the e-environment for entrepreneurial needs and some do not or use it to a lesser extent.

#### *B. Business models in the e-environment*

The e-business model is based on mutual integration of key flows and values and implementation thereof between e-

market participants, through the use of the e-environment. Three main e-business model elements and integrity can be distinguished: *flows, participants, value*. The term e-business model describes a broad spectrum of informal and formal models, which may be used in companies to depict various business aspects, such as operational processes, organisational structures, and financial forecasts.

#### *C. Values – a constituent element in modern business models*

There are several well-known and popular value theories, such as, the five forces model [17], shareholder value model [18] as well as the “value map” theory, intended for analysing the economic gain for consumers [19] etc.

Various theories were developed many years ago, when the electronic market was not yet developed, and hence are suitable for the conventional market. Due to this reason, the authors of the paper suggests that companies use the Alexander Osterwalder's value proposition concept or the approach that is a constituent element of the author's developed business model canvas) [20].

The Osterwalder's business model was formed based on Freeman's stakeholder theory [21]. The model is adapted to today's market needs and conditions, and the importance of the electronic environment, i.e. of the electronic market, in entrepreneurship is taken into account. The authors of the paper wish to draw attention to Osterwalder's “value life cycle” consisting of five stages: value creation, appropriation, consumption, renewal, and transfer. All life cycle stages are linked to value consumption, using the electronic environment: value creation (based on information and communication technologies (ICT) – adaptation of various products for the needs of an individual consumer, e.g., personal computer, footwear, etc. Value appropriation – “a single click purchase” at an internet shop. Value consumption – listening to music, watching a movie, etc. Value renewal – various software updates, value transfer – disposal of old computers and other machinery, handing over unnecessary books and equipment for further use, etc.

The value approach is broadly used in various business models, including e-business models. The value is at the basis of several modern business models, which are topical also for small business.

#### *D. The use of electronic environment for ensuring development of enterprises in Latvia*

The authors of the paper previously have conducted a study on the use of the e-environment by Latvian SMEs in entrepreneurship [22]. The aim of the study is to establish which e-environment tools are used by companies, what is the intensity of their use, and what are the companies' skills in using them.

Time of the survey: May 2012 – October. Sample base – an internet survey created on an online e-survey site [www.visidati.lv](http://www.visidati.lv), as well as by posting an announcement with

a call to participate in a survey in social networks – www.linkedin.com, www.facebook.lv, www.skype.com, www.draugiem.lv. The database of Lursoft Ltd. was also used. Overall, the survey was sent to 2100 Latvian companies, 1600 of which were SMEs. The call to fill in the questionnaire was sent to Latvian company managers and leading employees. The questionnaires were sent out twice, and a part of companies were called by phone and asked to fill in the questionnaires. Filled-in questionnaires with answers to all questions were received from 526 companies. The authors has processed and analyzed the obtained data in SPSS 20 environment. Results were processed with SPSS. 20 and factor analysis and interpretation, ten factors affecting the use of e-environment in the respondent companies were elucidated.

Taking into account the obtained variables and correlation quotients, the author has performed their interpretation and has created factor classification:

1. company managers' and management's understanding of the types of use of e-tools;
2. understanding of communications tools and their use in entrepreneurship;
3. understanding of e-business models (the author's remark: taking into account the variables in this factor, as well as correlation quotients, it can be concluded that companies have no clear understanding of the meaning of e-business models. This factor explains answers given to question 10 of the survey);
4. company's communication with the stakeholders in online mode;
5. company's website, which is a tool of sales and marketing (the author's remark: companies have these tools, but have no understanding of the aims that the tools are intended for and how to use them);
6. the use of e-environment tools in market and consumer studies (the author's remark: companies are informed of the existence of such tools, but are not aware of how they could be used);
7. understanding of state-offered services (the author's remark: the factor is affected not only by weak use of the business tools, but deficiencies of several e-government tools, which encumber their use);
8. acceptance of e-environment tools among employees;
9. versatility of e-environment tools in a company;
10. use of state e-services for business and private needs.

Based on the study results, the authors of the article conclude that overall companies are using e-environment tools. There is an apparent lack of information and poor knowledge of entrepreneurs regarding the use of e-

environment tools in entrepreneurship. A positive conclusion – the SMEs understand that with e-environment tools, insufficient or missing resources can be replaced / supplemented. Companies also are willing to gain knowledge and learn how to use e-environment tools for entrepreneurship needs. Several answers point to managers' and employees' partial acceptance of e-environment tools, which is a hindrance for comprehensive use thereof. Factor No. 8 is very important, indicating to acceptance of information technologies, referred to by the authors in Section B.

## CONCLUSION

Summarizing results of the study authors came to a conclusion that small business manager (owner) should use various managerial approaches, but there are not ready to apply existing management theories to development but looking for ready-made solutions. Mainly such solutions they find in e-business tools and models.

Research results clearly show that information technology mainly affects company's success and information flow within company. Considering that information resource has today become one of the prevail resources for sustainable development, it must be outlined that this resource economic evaluation becomes of the high importance.

Small and micro companies' success depends on personal characteristics of a company owner (company manager).

The use of e-environment in entrepreneurship proved that a range of e-tools are available simultaneously, which can ensure more effective use of company's resources and development in a long-term, however entrepreneurs do not know all of them or do not know how to or do not wish to use them.

By informing the small and medium company managers about the available e-tools and their use, considerable increase in competitiveness of companies can be achieved, which concurrently ensures creation of additional values for the company's clients and stakeholders, as well as promotes company's development.

Taking into account that SME managers are looking for ready-made tools in business development and not ready to demand special business management approaches, which are tailor-made for specific/individual business needs and a company development the authors suggest to continue research with and aim to develop semi management theory what would cover needs of small and micro companies.

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