

# SME MANAGEMENT DECISION-MAKING PROBLEMS IN CHANGING MARKET CONDITIONS, LATVIAN EXPERIENCE

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## Abstract

Management decision-making in small and medium-sized enterprises involves a high degree of risk and uncertainty. A number of researchers worldwide have discussed this problem in their papers. More information leads to the complication of the decision-making process, requesting an analysis and understanding of many factors. Information technologies, Internet technologies particularly, can help small and medium-sized enterprises to better collect and analyse information which is necessary for conducting business.

The paper results contribute to a better understanding of Latvian SMEs managers' behaviour, data collection methods and decision-making techniques. In combination with the world practice it is possible to predict development trends as well as to offer science-based support techniques. The following topics are put forward for the future research: selection of necessary management IT tools, consisting of the following parameters: mobility, flexibility and functionality; development challenges of the website proposed using mathematical and computer modelling.

*Keywords:* management decisions, IT, Internet, enterprise networks.

*JEL Classification:* M10, M15, M31.

## Introduction

The first part deals with literature which is related to SME management decision-making specificity. A lot of attention is paid to the social processes that take place between the enterprise managers. The studies related to corporate networks and their impact on decision-making processes are also revised. The articles dealing with information technology products in the company's management as well as the latest trends in the Internet use are analysed and the conclusions are drawn. A picture of Latvian business environment, which is necessary for further understanding of the paper findings, is given. A number of articles from overseas, Latvian authors' articles, as well as authors' previous publications are examined.

The second part analyses the results of the authors' study. Eighteen enterprise managers had been polled in order to find out how information technology is used in business management decision-making process. During the survey managers answered the questions relating to the decision-making as well as about marketing research which is conducted to justify this decision.

The concluding part is compiled both with theoretical and practical parts as well as with discussion of the results obtained. An experimental website model for the Latvian market conditions is proposed, as well as certain website possible developments are predicted.

Wholesale companies operate in "business to business" (B2B) market conditions that affect the criteria and objectives of marketing activities and management decisions. B2B Marketing markedly different from consumer goods and services marketing because the buyers do not consume the purchased products or use the provided services (Fill, 2005). Small and medium-sized enterprises marketing activities are limited not only by lack of resources, but also with the theoretical material unavailability. All the techniques described in textbooks are difficult to applicable in small business level (Gilmore, 2006). To provide the information on marketing problems of small and medium-sized enterprises, the authors viewed: the theoretical problems of customer-agent-producer interaction; needs of networking in companies marketing processes, customer relationship management systems need to SMEs.

## Client-agent-producer interaction problems

Several authors also point to personal attitudes between B2B partners (Fill, 2005; Gilmore, 2006; Rosenbusch, 2011). The scientific literature analysed as well as authors' previous studies and personal experience raise the assumption that the decrease in the company's size increases the effect of informal personal attitudes on the company's results.

B2C participant in his decisions relies more on his emotions and feelings, as the amount of information often is not enough to take the best option. On the contrary, B2B participant selects and

evaluates each option very carefully and systematically. First of all this is explained by the fact that, unlike ordinary consumer who purchases goods for his own consumption, B2B customer is buying to sell later and to make profits.

Secondly, the amount of purchase can play an important role in the decision-making. The sums circulating in B2B marketplace are much bigger than those circulating in consumer markets (Fill, 2005). The greater the amount of the purchase, the more time and attention must be paid to the purchasing process.

Wholesale businesses must try to determine their customers' desires and needs while searching for the producers / suppliers who can supply the best product at the best price. In order to compete with producers, wholesale companies have to offer additional services or benefits that distinguish them. This type of service could be storage, transportation, volume discounts, etc. The problem, according to the authors, lies precisely in the simultaneity of the process.

World practice shows that the optimization of the information flow do not always give the desired results of the supply / demand planning (de Treville, 2004). Even if the information is derived from the client with the least possible delay, it is possible to take delivery only when the product is shipped from the manufacturer to the wholesaler. Wholesaler can speed up the process of transferring information, but to speed up the process of delivery period is many times more difficult because it is a physical delivery of goods with the limited time. This problem can be avoided through the stock. However, the large volume of stocks has a bad impact on the company's financial performance and increase business risks. Besides, the storage costs could become an intolerable burden for SME's.

On the contrary, small amounts of stock can be a disadvantage in case when the demand increases dramatically and customer may refuse two phase delivery.

According to the authors, small wholesalers' competitive advantage should be ability to predict the possible requests, before the actual receipt of the order. This means acquisition and procession of partially used information about the demand. However, as it is noted in several scientific studies, not all companies are willing to share the available information regarding their demand, mainly, because the cooperation between partners is not "safe" (de Treville, 2004).

According to the authors, cultivating the principles of safe cooperation between all companies in the market will make small business more attractive and accessible. In other words, it is necessary to provide comprehensive information to all market participants or in the initial stage, only to small businesses that cannot independently, quickly and efficiently process market information.

### **Business networking for marketing and business management processes**

Corporate network enables SMES's to understand better what is happening in markets where they operate as well as provides deeper understanding of the principles of inter-firm cooperation (Gilmore, 2006). Several authors point to the fact that network use is a very important tool for small business management. Advantages mentioned: the ability to recognize opportunities, acquire new knowledge, learning from others' experiences, using of synergies effect by sharing resources (Gilmore, 2006).

Networking helps to interact with the company's customers, partners and competitors. Research suggests that an important role in small business level plays managers contacts because largely "enterprise networks" means manager networks. To a large extent managers use networks to share and plan their marketing activities.

The authors' web sites analysis showed that Latvian businesses and government organizations have realized that the information centralization via e-environment is the key to the future success (Budniks, 2011). A number of sites are trying to transfer the business and social processes to virtual environment as well as to help entrepreneurs build their networks, talk and work with the clients online.

The authors' study results show that the level of survival of government portals is low because of lack of the desire for profit. This means that site administrators are very reluctant to complement the content of website and not always with information that is needed by business. On the other hand, private resources are 90% of cases for a fee that discourages small businesses to use the offered opportunities, because they do not consider the money invested will pay off. In other cases, the portals that offer free services are difficult to use or site structure is too complex ([www.ibizness.lv](http://www.ibizness.lv)).

Business incubators and clusters are the examples of traditional enterprise networks. The evidence of the business incubators' positive role in business environment can be found in scientific literature. The problem lies in specificity of the incubators use. Incubators are designed to improve companies' chances of hatching to survive the first year of business (Hackett, 2004). Above Hackett indicates that help is provided

not for everyone, but for the best of the weakest. Continuing the analysis Hackett underlines the results of the other authors' researches, which says that the incubator role and positive contribution to business development leads to: creating a network of consultants, the use of synergy effects through cooperation with other undertaking joint projects or by dividing the investment in new facilities.

As a result of scientific literature analysis the authors conclude that:

- a) incubators are an important business development tool;
- b) incubator facilities are limited to the incubator space constraints;
- c) the benefits of incubators are mainly not only space and physical resources, but also counselling, access to corporate networks and possibility of cooperation.

Authors suggest creating a different principle of an Internet portal that will allow new companies to grow even if they are located in different regions of the country or city using the incubator concept.

### **Customer relationship management benefits for SMEs**

In order to survive in global markets many small and medium sized businesses around the world have successfully integrated to their business customer relationship management (CRM) system (Bradley, 2006). Working with customers is particularly important for small businesses. As was noted above small businesses are very socially active in the sense that they cooperate more on the basis of manager's personal relationships.

Working with B2B companies is very complex and time-consuming process. It demands understanding and acknowledgment of customer's wishes and needs. Attempts to formalize this process face big challenges (Alshawi, 2010).

First challenge is a subjectivity of data arising from personal relationship. Each client can cooperate on his own terms, prices, deadlines, etc.

Second challenge is too large amount of data. Developed IT solutions must be able to evaluate and choose the most important parameters and store them in a user friendly way. It means that programs must be adjusted to each company needs hence it is more expensive.

Several foreign authors point out that small businesses profit from their ability to quickly adapt to market changes, because the company does not have a complex hierarchy and management system. This assumption may be applied to customer relationship management.

Foreign studies of CRM implementation in small businesses have shown their necessity. The surveyed executives have recognized that CRM programs significantly improved the marketing research results and forecasts (Alshawi, 2006). On the other hand the system is too complex and there are problems with low-skilled workers which lead to hiring new specialists.

### **Study results**

The authors have carried out a survey aimed to uncover the SME's attitude to marketing research and decision-making as well as to determine the extent of modern information technology tools in such researches.

Questionnaire was filled out by 18 companies: 2 logistics, 6 service, 7 manufacturing and 3 wholesale companies took part in the survey.

70% of the surveyed companies' point out that they have long-term planning of their activities, which means that 30% do not have a development strategy. Answers do not express the relationships between the number of employees (company size) and strategic plans, which means that company's field of activity has influence on those factors.

There was no intention of studying strategic level of planning, more attention was paid to short-term planning process and information sources needed. The results clearly indicate that business size and field of activity does not affect the source of information for planning process. All companies have recognized the expertise as most valuable source and expert opinion as inappropriate. From these results we can see why a number of previously viewed sites and other IT support tools are not effective enough: small businesses are not interested in just the economists and experts, they want to interact with customers and suppliers. In particular, the distribution companies have noted a low predictive mathematical necessity but appreciated the cooperation with customers and suppliers.

In response to the question of customer attraction strategy all companies noted the customer feedback and company websites. Separate production and distribution companies pointed reference sites, but only

service companies reported social networks and banner ads on Web sites. Businesses were asked to tell the channels through which new customers learn about the company but not about ways how companies promote themselves on the market. This means that the low assessment of reference sites points to inefficient investment in the company's advertising. In contrast, importance of customer feedback demonstrates the existence of market network. Enterprise networks are formed in an informal setting, as one manager's suggestion to another, etc. The existence of websites indicates that the companies have identified the need for the use of Internet products and services in management processes.

Computers are used mainly for documents. Company size is an important factor for the internal information systems (IS) establishment and operation planning. This indirectly proves the authors' premise that information systems are used less in small businesses.

The importance of the Internet, similar to the use of computers, is evaluated very highly; the services and wholesale businesses especially evaluated it with the highest possible score.

Overall, the results indicate that the main purpose of the Internet use is website editing, which means company's effective promotion on the market; the maintenance of communications with customers and suppliers.

Service companies mentioned Internet as main source for new customer searching; wholesale companies have noted the opposite. Authors explain this result by a lack of resources available online for wholesale companies. In their previous answers service companies have noted that they use social networks to attract customers, which means communication with the ultimate consumer instead of business. In contrast, the wholesale business cannot look for clients at the identified sites, so the only solution is to promote website or to build a company's image in cooperation with the existing clients and therefore use the existing customers as new customer acquisition channels.

The wholesale companies referred the loyal customers, a wide range of products and low prices as competitive advantages. This proves the authors' assumption that small wholesale companies can offer a wider range of products, because there is no need to store it in large quantities.

The authors already mentioned in previous chapters that small and micro enterprises are reluctant to carry out marketing research; questionnaire survey's results only proved it. Wholesale companies also pointed out that they don't need studies. Only the largest firms in the sample engaged in such research. The reasons why marketing research isn't conducted, entrepreneurs cited: too high costs, lack of time, the field specificity, unreliable results.

Of those companies that still carry out marketing researches the most frequently cited studies were: customer surveys, new product strategy and supplier surveys.

The surveyed wholesale companies do not carry marketing researches. They explain their choices to study with low level of confidence and high costs. The result obtained coincides with the previous sections made the assumption that the business information available is insufficient for good quality research.

The penultimate block of questions comprised questions about the firms' need for information related to their customers and competitors. Question was to find out what kind of information is important and necessary for effective business planning. Results indicated that the product / service price is still the most important competitive tool. Analysis by company size did not show specific differences.

## Conclusions

Previously discussed theoretical material and the analysis of the survey led the authors to conclude that:

- a) small and micro enterprises are operating in conditions of low process formalization;
- b) government support measures are focused primarily on innovative or agricultural enterprises;
- c) the government is digitizing its' services year by year and expects the same from the managers;
- d) the use of computers in SME's became a matter of course, the Internet and online resources are an integral part of business and marketing planning component;
- e) business planning and management programs are highly evaluated in the world and considered as necessary business management tools;
- f) the high costs and system's complexity are the serious obstacles to the implementation of a computerized program for micro and small enterprises;
- g) an open exchange of information between market participants can contribute to the market and each participant's progress;

h) cooperation and creation of enterprise networks are the important tools for SME's competitiveness, that can help to concur new markets.

The authors offer SME's management activities supporting model that will work on information technology base. The proposed model contains a completely new web site's principle, which enables SME's to identify their capabilities more effectively as well as to choose the best course of action.

Up until now the Latvian web sites for enterprises were based on three principles:

- a) news accumulation (nozare.lv, financenet.lv, etc.);
- b) business promotion (1188.lv, companies.lv);
- c) all of the above together.

According to the authors, weak point of local web sites is unitized content creation. Site owner or administrator chooses what to publish and how to do it. This approach may have captured a large number of companies, but not all. Authors' proposal is to establish a free information exchange making it possible to publish and share the information which is important according to managers. For example, www.facebook.com and www.draugiem.lv new interface concept. Several sites in Latvia have tried to apply this concept (www.fsm.lv), but failed without tangible results. Authors explain the failure by the managers' mentality and wrong target setting for the web site itself. In authors' opinion, communications only and "friend-making" is not enough to interest Latvian entrepreneurs, especially if such capabilities are not provided free of charge.

This means that businesses can not initially appreciate the importance of communication and opportunities that give this kind of sites. Managers must be attracted with practically useful features which in this case could be Web-based ERP (Enterprise Resource Planning) system that will be able to integrate both the MRP (Material Resource Planning) and CRM (Customer Relationship Management) capabilities. Big companies will not benefit from site like this, because the company's internal processes are too complex. But for SME's it could become an invaluable assistant in business, because information about the company can be reached from any geographical point.

Consequently, the Internet portal should be able not only to provide contact and sharing capabilities with other companies, but also to help run the business, look for employees or even to hire staff that do not require physical contact (accounting, marketing specialists, etc.) from other regions, where labour costs could be lower.

According to the authors' believe it will open up a lot of opportunities for site development. Attempts to transfer the business environment over the Internet are motivated by the desire to cover the widest possible market, learn to navigate in information flow quickly as well as to make the right decisions.

But the key result from business "digitizing" is making the market transparent and controllable. Companies will be able to communicate with each other, share information, learn about similar products and services and compare prices.

All companies that will participate in such web site will store information about all its actions without reference to the company name. The planning process, will be supplemented with personal information about each customer from the CRM system, would become simpler and more reliable at the same time, because the information about market will come from market participant directly.

According to the authors' believe, this functionality will provoke the interest in the use of this site. In addition to the usual social networking features will come a practical functionality that can be used in any stage of the business: a business plan for collecting information, future actions planning as well as information gathering for expansion to other markets.

Bringing together all the proposals drawn up and the site's operating principles, the authors offer the following site model (Figure 1).

From Fig.1. it is evident that each company has access to two blocks of information:

- 1) software that helps to run the business;
- 2) virtual collaboration environment that enables searching for information and developing business links with customers, competitors and partners.

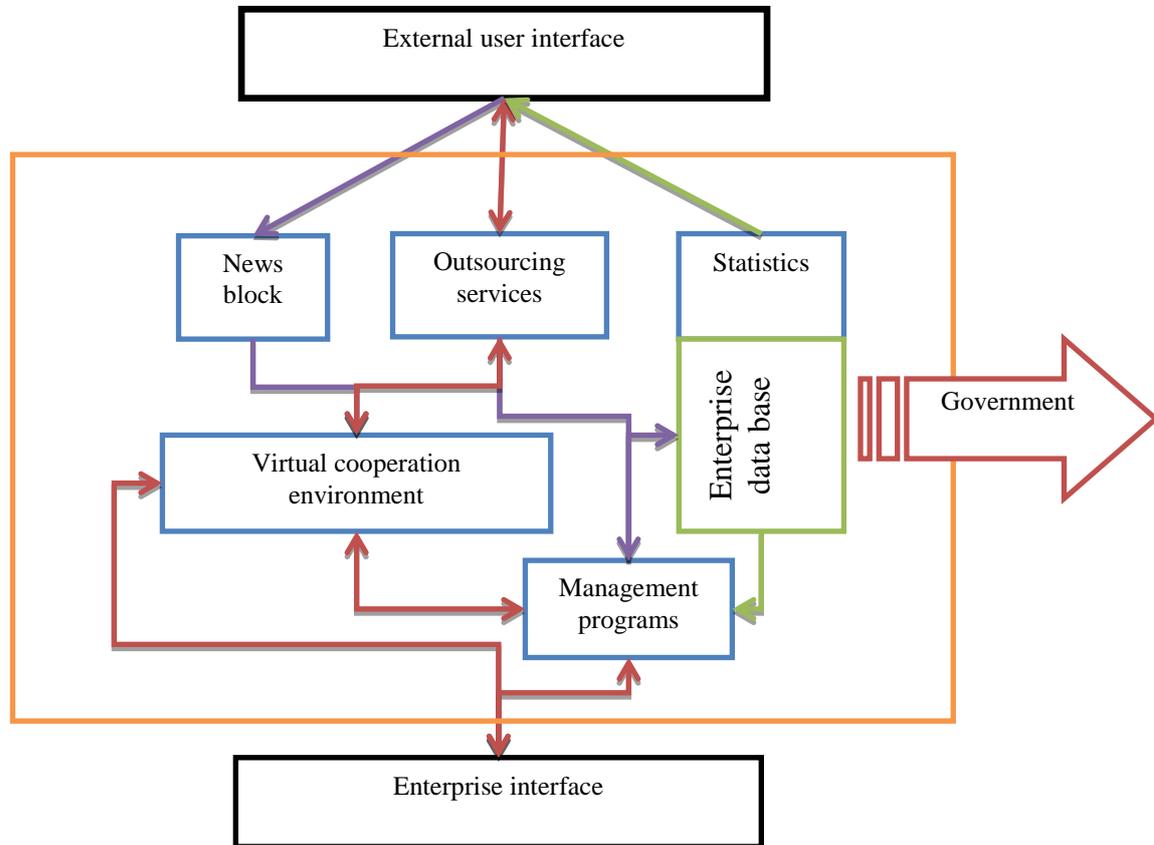
All blocks are linked by information flows. There are three information streams: submitted, received and interactive. In other words, in some cases, the information can only be sent or received, but in some cases, continuous information processing will take place.

The proposed model is theoretically able to create a closed system within a single region. According to theory of microeconomics access to full information about market participant will lead to reducing the price to a minimum by making products cheap and competitive. Using the site's features will be able to determine

exactly how much demand has been set by the market in previous periods, and also look at potential future customer needs. This type of information will help to invest money and anticipate opportunities of different markets.

Authors suggest two possible ways of using the site:

Use the portal as a virtual incubator. Offer the opportunity for the company to grow and when the certain indicators are met exclude it from the system. Thus start-ups could get all information needed for the first steps in business.



**Figure 1.** Web site model

If a company does not have strength or ability to growth and expand, it can remain in the system without violating the restrictions set. The authors assume that all companies would not like to function in a purely competitive environment. These types of markets are great for SME's that are working to meet their needs and competing only with each other.

It is known from microeconomic theory that different markets have their own scenarios, depending on the structures and characteristics of the costs. In markets with need for big investments large firms could be more efficient, but in markets with low initial costs small businesses could be more successful.

Portal will provide an opportunity to build an open information environment, which in the long run may mean the effective division of labour. Businesses will be able to identify new opportunities in other markets timely and to restructure their operations.

The following topics are put forward for the future research: selection of necessary management IT tools, consisting of the following parameters: mobility, flexibility and functionality; development challenges of the website proposed using mathematical and computer modelling.

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