Can Strategic Management Techniques Be Applied to Small and Medium Enterprises

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Abstract
This research focused on strategic management techniques and how these techniques are applicable to small and medium enterprises. The use of generic or specific strategic management tools and techniques among small and medium size businesses has had insignificant value because strategic application are thought in terms of for only larger companies. This paper examined the benefits of using strategic tools and techniques to companies seeking profits and growth. This research also supports how strategy can improve performance of small and medium businesses. Qualitative research was used for this study to determine if there was a correlation between strategic management, market share, and profitability. Case studies were also examined to support any claims that small and medium size companies benefited from strategic management tools and techniques in their organization.

Introduction
Small and medium size enterprises are the major exporters and principle user of imports in America today and employing more workers than major corporations. Globalization has replaced the old ways of doing business where trade was among selected trade partners or internal and in combination with globalization strategic management became more significant. Gregory, Lumpkin, & Taylor. (2005) defines strategic management as analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantages. Nonetheless with small and medium size businesses making up the majority of the American economy they are ambivalent of the growth potential and profits gained. Thus using strategic management tools and techniques would have little benefit to their company growth. Lemmon (2014) postulated that in many developing nations SME-owners continue to struggle with growth challenges, such as a lack of capital, insufficient technical skills, inadequate risk sharing and mitigation, lack of access to export markets, and underdeveloped networks. Entrepreneurs, including those outgrowing microfinance, are often unable to compete with larger enterprises for resources that would help them to grow. Thus, smaller enterprises are left behind while large firms advance (Lemmon 2014).
Perception

The perception of SME’s in developing countries can be germane to the U.S. where the same trend of larger companies stifling off growth from smaller companies. Large companies are using strategic management techniques to their advantage for growth and sustainability how come SME’s doing the same thing? Innumerable external and internal factors hinder SME’s to adopt strategies for growth and profits. Duplicating processes from competition without understanding how those processes are applicable to their operation, introducing new pricing or product space, organizational behavior change, managers hesitant to initiate or their understanding to sustain strategies. Porter (1996) concurs that “threats to strategy are seen to emanate from outside a company because of changes in technology or the behavior of competitors.” Although external changes can be the problem, the greater threat to strategy often comes from within. A sound strategy is undermined by a misguided view of competition, by organizational failures, and, especially, by the desire to grow (Porter 1996). The strategies for growth and profit funding and poor brand perceptions are also external factors that hinder developing strategic techniques for growth and profit.

Strategic Management Techniques for SME’s

The strategies SME’s can adopt to further their business are improvements in the quality of product and services, advancing main assets, training, cost, and marketing but the most important is improvements in the quality of products and services which is integral to any business yet, among SME’s it virtually ignored. SMEs are often suppliers of goods and services to larger organizations and increasingly, have felt the impact of the quality programs imposed on them. The lack of product quality from SMEs adversely affects the competitive ability of the larger organizations (Quazi, and Padibjo, 1998). Because of this reason larger companies have insisted that their small suppliers adopt quality initiatives of their own (Barrier, 1992; Ghobadian and Gallear, 1996).

TQM

Quality management is an approach that is widely used throughout the world where the emphasis is on zero defect in production of goods. Chauhan, George, & Jani (2014) asserted that SMEs and their contribution towards their country’s economy and the opportunities and challenges they have, there is a need to address the issue of quality management. Following tools like ISO 9000 and TQM certainly help them to stand out from the bunch of similar organizations. Furthermore, many a times the OEMs are pressurizing the SMEs to go for ISO certification, so as to get an assurance that they will follow systematic procedure to execute their orders and provide quality products. The SMEs, therefore, have rapidly followed the suite and have started getting ISO 9001 certification and many of them have also moved a step forward by following TQM principles (Chauhan, George, and Jani 2014).
Burli et al (2011) concluded that „SMEs act as a vital component of growing economy by contributing significantly for the development of economy by creating employment for both urban and rural workforce and by providing much needed flexibility and innovation in the economy as a whole. If TQM policies and practices are applied in a positive manner in manufacturing SMEs, it will significantly contribute in their performance in terms of quality and customer satisfaction. ISO has been adapted in many SMEs but certain TQM practices observed to be weak and hence, need management attention. Lee and Kelce (2003) investigated the existing status of TQM practices in 112 SMEs (manufacturing firms) of China and its impact on their performance. It was found that manufacturing process of these small firms was not an obstacle to the implementation of TQM; instead it was the size of firm, which posed as a threat for implementation. Research showed that majority of the firms were new to TQM practices and that it was initiated by their top management. A positive influence of TQM was observed on performance as waste, inventory and costs was reduced, and an increase in sales was observed.

Continuous Improvement

SME’s have very uncomplicated systems which allows them to be flexible, management make quick decisions, immediate feedback from changes, and quick responsiveness to customer demands. Yet, according to Singh, Garg, & Deshmukh (2008) SMEs are on tremendous pressure to sustain their competitiveness in domestic as well as global markets. Owing to global competition, technological advances and changing needs of consumers, competitive paradigms are continuously changing. These changes are driving firms to compete, simultaneously along different dimensions such as design and development of product, manufacturing, distribution, communication and marketing. In such a challenging environment, the capacity of a firm to maintain reliable and continuously improving business and manufacturing processes appears to be a key condition for ensuring its sustainability in the long run (Denis and Bourgault, 2003). Vos (2005) stated that managers of SMEs have poor skills in reflecting upon their companies strategically. SMEs often are oriented towards serving local niches or developing relatively narrow specializations (Urbonavicius, 2005). They may have constraints due to the scarcity of resources, flat organizational structure, lack of technical expertise, paucity of innovation, occurrence of knowledge loss, etc. The flat structure of SMEs can often leave employees frustrated because they are often unable to realize their short and mid-term career goals. That is why SMEs may find it difficult to employ high-caliber staff and even harder to retain them (Ghobadian and Gallear, 1996).

Competitive Priorities

Linking operations to their business strategies SME’s who do as compared to the ones who don’t usually outperform the competition. O’Regan et al. (2006) noticed that high-growth firms place a greater emphasis on external drivers such as strategic orientation, their operating environment and the use of e-commerce compared with firms having static or declining sales. Fuller-Love (2006) expressed a supporting view as SMEs are faced with unfamiliar products and processes
on a fairly regular basis, they must develop programs for improving their skills and competencies.

Competitive priorities represent an integrated set of tasks performed by the manufacturing function to support the business strategy of the organization. Four competitive priorities strategies are cost, delivery, quality and flexibility and Fleury & Fleury (2003), affirmed that organizations should optimize the quality/price ratio for operational excellence. Lau (2002) have observed that quality and lower cost are the top ranking competitive factors among US electronics and computer industries. Dangayach and Deshmukh (2005) have observed that SMEs give highest priority to quality and the least priority to flexibility. Lagace & Bourgault (2003) have advocated for linking of manufacturing improvement programs and practices with the competitive priorities of SMEs. Nonetheless, competitive priorities need to be decided very carefully because it will set the direction for adoption of different processes or management practices by the organization.

**Process Management**

SME’s requires that managers be competent in organizing and managing the work flow of the company to compete in the market. Sahno, Shevtshenko, Karaulova, & Tahera (2015) affirmed that in order to be competitive and successful on the marketplace and satisfy customers, companies should continuously improve their production processes and product quality. The features of reliable and stable production process: less scrap, less rework, less the consumption of additional resources, time and money. There are many different tools that are used in Lean Six Sigma, such as FMEA, Value Stream Mapping, Cause & Effect, Design of Experiments (DOE), SIPOC/COPIS, QFD/House of Quality and others (Brook, 2010). These methods are developed for various purposes, such as, measurement, analysis and improvement of business processes. But the most suitable Lean Six Sigma tool that intended to improve the reliability of business processes is FMEA (MacDermott *et al.*, 1996).

The basics of FMEA in simplistic definition is comprised of risk of a failure in its effect in FMEA and determined by three factors:

**Severity (S)** – the consequence of a failure that might occur during process.

**Occurrence (O)** – the probability or frequency of that failure occurring.

**Detection (D)** – failure being detected before the impact of the effect realized.
Every probable failure mode and cause is rated in three factors on a scale ranging from 1 to 10. By multiplying these ratings, a Risk Priority Number (RPN) is generated. This RPN is used to determine the effect of a failure. \( \text{RPN} = S \times O \times D \)

**Figure 1. Value Stream Mapping**

**Figure 2. Framework for continuous improvement of production processes in Six Sigma DMAIC structure**
FMEA is complicated especially if applied to SME’s, and not only its complexity the resources (cost and employee expertise) in organizing and implementing such a process.

Sahno et al. (2015) gives a contrasting alternative in developing process management in SME’s citing that practices may be related with top management commitment, development of alliances, organization culture, clean production, innovation and knowledge management, research and development, supplier development, quality management, technology management, information technology (IT) applications, measurement of performance and competitiveness.

Another process to consider is Workflow Management System which is a system that defines, creates, and manages the work processes using software to interpret the process, interact with participants, and use IT applications. The workflow engines of SAP, Baan, PeopleSoft, Oracle, and JD Edwards can be considered as integrated business process management systems and the idea to isolate the management of the business processes as a separate component. Furthermore, according to Van Der Aalst, Ter Hofstede, & Weske (2003) business process management systems can be used to avoid hard-coding the work processes into tailor-made applications and thus support the shift from programming to assembling.

Figure 3. Management of the Business Processes.
**Benchmarking**

Benchmarking as a strategic tool for SME’s has been seen as a tool to improve the organizations performance and competitiveness. But, Maire et al. (2005) defined it as a process based on an improvement obtained by the adaptation and, in some cases, by the substitution of one process by another recognized as better, that we will call a reference process. At first exclusively used by large firms, its scope has been extended to small business (McAdam and Kelly, 2002; Yasin, 2002) and semi-public sectors (Ball, 2000; Davis, 1998; Jones, 1999).

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**Figure 4.** Benchmarking process

**Plan:** Determine the processes to compare and define the type of data to be collected on these processes and to plan the various steps of the project.

**Research:** This step determines the measurements to be used and identifies the future partners of the benchmarking and collects the available data of these partners.

**Observe:** Observation allows for the collection of complementary data and to observe the similarities and differences in the processes.

**Analyze:** Analysis of the current practices and decide on the operational or strategic processes to carry out.

**Adapt:** Understand the new processes and adapt them to specific context for application.

**Improve:** Follow up and revise on the implementation of new work processes.
Benchmarking is simplistic in terms of (cost and resources) implementing and revising any new projects or work processes. Organizations that faithfully use benchmarking strategies achieve a cost savings of 30 to 40 per cent or more. Benchmarking establishes methods of measuring each area in terms of units of output as well as cost. In addition, benchmarking can support the process of budgeting, strategic planning, and capital planning (Lyonnais, 1997). Elmuti & Kathawala (1997) noted that the process of benchmarking is very structured, it should not add complexity to a simple idea. Omachonu & Ross, (1994) added that different companies have their own benchmarking methods, yet, regardless of which method is used, the major steps involved are as follows: first, measure the performance of the best-in-class relative to critical performance variables such as cost, productivity, and quality; second, determine how the levels of performance are achieved; and third, use the information to develop and implement a plan for improvement.

**Performance measurements of innovation and competitiveness**
Sustainable growth in global markets for SMEs, performance measurement of innovation should be an essential component of their strategy development. An effective performance measurement system for innovation plays an important role in managerial decisions and although, many organizational leaders profess to innovation yet, their actions fail to display innovative behavior. Chen & Muller (2010) contended that managers have only a vague sense of their company’s overall innovativeness; they have little or no means to assess the effectiveness and efficiency of a particular innovation program. So, consequently, organizations have a difficult time establishing performance targets for individuals and workgroups and have an even harder time designing the right incentive system to motivate innovation.

Competitive advantage in today’s global environment of large organizations or SMEs is important to their survival and growth and being innovative Kiernan (1996) idea on innovation is still current and asserted that innovation represents today’s competitive advantage, supported by strong mainstream capabilities in quality, efficiency, speed and flexibility. Innovation can help firms play a dominant role in shaping the future of their industries. High performing innovators are able to maintain a giant juggling act of capabilities, and consistently bring new high quality products to the market faster, more frequently and at a lower cost than competitors. Moreover, these firms use process and systems innovation as a way of further improving their products and adding value to customers. This combination creates a dynamic and sustainable strategic position making the organization a constantly moving target to competitors. Leading innovators encourage, expect and reward innovation from everywhere within the organization—not just research and development. They make a point of linking organizational learning and knowledge to products, processes, technologies and mainstream capabilities. These companies do not see innovation as just a user of scarce resources for uncertain outcomes, but rather as a mechanism for creating new knowledge and competitive advantage (Lawson, and Samson, 2001).
A modified conceptualization of Kanter’s (1989) model (Fig. 5)

**Simple Innovation Flowchart**

![Simple Innovation Flowchart](image)

**Figure 5.** Modified conceptualization of Kanter’s 1989 model.

**Newstream** are all the resources possessed by the organization that are devoted to identifying and creating new value for customers.

**Mainstream** is how the organization interface with customers and the market. It is not enough for a company to be highly innovative. Controls and management practices must be in place to manage growth and innovation.

**Innovation capability** combines the efficiency of the mainstream with the creativity of the newstream and is leveraged through the organizations knowledge base. Innovation capability is therefore defined as the ability to continuously transform knowledge and ideas into new products, processes and systems for the benefit of the firm and its stakeholders (Lawson, and Samson 2001).

Shapiro (2006) argued that measuring innovativeness is difficult to do with a single measure. One effective approach is to pair a fixed with a variable measure, that is, Revenue from New Products with Revenue from New Platforms. Furthermore, the former reveals much about the overall rate of change and the latter about the quality of newness of the shift in revenue. The former focuses on product and the latter on any kind of relevant platform that leads to advantage through innovation: product, technology, manufacturing, operational, or business.
**Percent of Revenue from New Products** is a commonly used measure of innovation and most companies used it internally or externally for reporting. It is quantitative in nature and uses a rate of regeneration meaning if a company’s revenue from a new product is at least 50 percent it turns over its entire product line every two years. Shapiro’s (2006) Percent of Revenue from New Products is an excellent method at its crux yet, it can be a more useful method if two conditions addressing its weaknesses are met.

1. The ability to apply it consistently.
2. The bias of one innovation over another.

Consistency can be solved by simplifying the process and bias can be solved by comparing the percent of revenue from new products with another wide-ranging and compressed method.

**Percent of Revenue from Platforms** a single company may refer to product platforms, technology platforms, manufacturing platforms, operations platforms, and business platforms. What these notions have in common is a sense of platforms as foundations to build upon. Platforms are dynamic investments which produce advantages and long-term (ROI’s) that go beyond what was achieved in the first project, product or precedent of the platform's application giving it growth, leverage, and stamina.

**Are all SME’s the same?**
The majority of SME’s will confirm that they want to grow and expand their market base but, not all SME’s are have the foundation or attitude toward growth. Curran (1986) and Stanworth & Curran (1986) asserted that one of the factors that must be recognized in any analysis of growth performance in SMEs is that not all small businesses are growth-oriented (Curran, 1986). In small firms, where ownership and management are typically combined in one or more individuals, future goals for the business may be determined as much by personal lifestyle and family factors as by commercial considerations. Thus it is not surprising that one characteristic which did distinguish the best performing firms from other firms in the study was their commitment to growth (Smallbone, Leig, and North, 1995).

**Strategy used by high growth firms**
Low performing SME’s have a fragmented strategy as opposed to high growth companies who build upon existing products, search for new markets, and expand customer service. Smallbone et al. (1995) argued that high growth firms typically showed distinct signs of evolution from an established core activity towards becoming more complex businesses providing higher value added products, a broader range of related activities and services and/or doing more for their customers. It should also be noted that the more successful companies in terms of growth were able to make changes for their leaders to manage as opposed to handling mundane issues. Smallbone et al. (1995) noted
this important issue from their study that one of the key differences between the high growth firms and the othersurviving companies in terms of organizational development was their propensity to have made changes which were designed to create more time for their leaders to manage that often involved some structural change in the division of management responsibility creating more time to manage. Additionally, creating more time to manage didn’t vary in company size as would assume.

**Conclusion**

This qualitative study displayed several potential strategies that SME’s can use to create efficiency, add quality, lower operating cost, expand market base and create growth that is sustainable over time. TQM can be an important factor to high growth and quality of an organization regardless of the size, sector, or product. Continuous improvement comparable to TQM is focused on quality and improved customer service. Competitive Priorities are simple plans in which a company focus on what they can do better than their competitor. Process management is another management tool which utilized can help a company achieve quality and growth. Benchmarking is a tool to improve the organizations performance and competitiveness. Innovation looks at company’s future products and its place in the market utilizing percent of revenue from new products and percent of revenue from new platforms. Finally making a case that all firms are not the same and what high growth SMEs are doing better than low performing companies. This research concludes that SMEs can benefit from strategic management tools making quality a priority to secure a competitive edge in the global market place.
Reference


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