

# Impact of business strategies on smes



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## Introduction

Business Strategy is concerned with the way a business competes. It is concerned with the strategic decisions with regards to product choices, meeting of customer needs, gaining competitive advantage and exploiting or creating new opportunities. (White, 2005) Small to medium enterprises (SMEs) traditionally have a small financial base, a domestic focus and a limited geographic scope as compared to large organizations. (Barringer and Greening, 1998; pg 467) Current competitive environment offers new opportunities to SMEs to extend their customer base both in domestic markets and into the global marketplace. The increasing importance of SMEs have led to numerous researches on successful business strategies and the various constraints in the strategy process. This study intends to carry the previous researches forward and examine the most effective business strategy for SMEs in the wake of current economic climate and the resource constraints.

## Research Aim and Objectives

### *Aim*

To present a framework for the analysis, design and deployment of business strategies within the organisational context of SMEs and examine the impact of business strategies on SMEs.

### *Objectives*

- To examine ways in which business strategy can help in growth and profitability of Small and Medium Enterprises

- To analyze the impact of resource constraint on strategy formulation for SMEs.
- To discuss the importance of strategic planning within the strategy process
- To evaluate different business strategies and their impact on SMEs
- To determine and recommend the most appropriate business strategy

### Background and Literature Review

It has long been recognized that some of today's small enterprises will grow to become tomorrow's major corporate institutions (Davis *et al.*, 1985). As a result, increased and more focused attention has been given to small and medium-sized enterprises (SMEs) and governments are being urged, to 'take strong and deliberate actions to accelerate small business development' (Hung and Rondinelli, 1993, p. 20), as SME's play a pivotal role in a country's economic development (Hill, 1995). (cited in Lee et al., 2001)

Under the current competitive environment, SME's face stiff competition from their bigger rivals that possess plentiful resources and a much wider network. The survival and growth of SME's hinge on the formulation of effective business strategies. Effective business and competitive strategy can also help grow the SME in terms of market share and customer base. But, for strategy to be successful, there should be a congruence between the strategy of an organization and the processes that take place within the organization. Too often, SMEs are simply viewed as just smaller versions of corporations (O'Neill and Ducker, 1986; Bradburd and Ross, 1989, cited in Lee et al., 2001) and, hence, given the same strategic prescriptions that are

implicitly meant for big corporations. The applicability of such business strategies to SMEs, the major obstacle of which is resource constraint (Weinrauch *et al.*, 1991, cited in Lee *et al.*, 2001), is therefore suspect. Business strategy, most suitable for the growth of SMEs is one of three generic strategies proposed by Porter (1996). The niche strategy advocated by Porter concentrates on targeting a particular market segment and catering only to customers in that particular segment. Kotler (2003) then went on to add to Porter's niche strategy by applying the concepts of positioning in the niche segment. It appears that only the focus or niching strategy – which concentrates on particular market segment(s) seems most applicable to SMEs. (Jane & Paul, 2006; pg 28)

Chosen business strategy depends on various internal and external factors. Internal factors relate to the resources available to the enterprise (the research intends to examine the importance of resources and the affect resource constraints has on the business strategy), objectives of the enterprise, inherent structure of the organization and the organization culture. External factors relate to competition (both from rivals and large enterprises), industry sector in which the organization operates, economic climate, strength of the enterprise and the strategic direction it wants to take.

Irrespective of which business strategy the SME implements, it has been brought forward by researchers that business strategy can impact on SMEs in various ways. A successful internal growth strategy (predominantly through internal development) can help to increase the customer base and turnover. Especially, with many SMEs looking to go global, growth strategy

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plays an even more crucial role. Growth strategy can also relate to external growth from acquisition, mergers and joint ventures with other SMEs.

Business strategy can also help SMEs increase the scope of the market they cater to, increase the variety of customers that form their customer base, their geographic range and the number of products SMEs have on offer.

(Bert, 1994) Business strategies can also help the SMEs innovate by conquering new product-market combinations.

It is worth pointing out, that SMEs, today, face stiff competition from large businesses and before deciding on the business strategy and its impact on the functioning of SME, the SMEs have to establish a starting point to address the whole gamut of issues affecting

it (competition, margins, pricing, budgets, structure, staffing, legislative influence, diversification pressure, business relationships, CRM, quality control, technology). It is imperative for every business to know exactly where it stands. (Lee et al., 2001; pg 145) The economic downturn has forced many SMEs towards value-based competition. While SMEs might often be able to offer better quality and greater customer tailoring than larger enterprises, a demand for quality as the deciding purchase-factor has dropped away, whereas demand for lower price points has risen. (Lu, 2006; pg 529) This might mean that Porter's niche strategy mentioned above may not be as effective as a price based strategy.

The business strategy of an SME depends on what its objectives are. It can impact on growth and stabilization to influence company's development responding to external competitive advantages and internal strength. When

a company pursues a strategy of stability, it passively protects its current market share to be in able to seize favorable opportunities in the future. (Lu, 2005; pg 682) When it pursues a contraction strategy, it seeks to eliminate external/internal weaknesses by downsizing, withdrawing funds. cutting budgets, and other means. (Lu, 2005; pg 689)

The key to an effective business strategy for an SME is a through a well-planned strategic plan which will help the SME to improve its performance and bring about an organizational change adding value to the produce, or service offerings. However, it is important to note that just the mere presence of a strategic plan does not guarantee success, it's the customer perception that counts.(Mintzberg, 1998)

### Research Methods

Before embarking on a definitive research methodology (Philosophy, Strategy and Approach) each research objective was taken into consideration separately and aSWOTanalysis was done for each data collection approach against each objective. A rationalewas established behind each research method before going ahead. It was ensured that the data collection methods were more or less interdependent. Keywords were then generated to refine the search.

Keywords generated : – Generic strategies, business strategy, competitive strategy, SME, strategic planning, resource constraint

In order to approach the research objectives, this study is taking into account both qualitative and quantitative research strategies, which is often

referred to as ‘triangulation’ – meaning ‘getting a fix from two or more places’ (Jankowicz, 2005). According to Bonoma (cited in Saunders & Thornhill, 2007), researchers can pursue high levels of data validity and generalizability by adopting triangulation strategies which provide replication and/or corroboration of findings across methods (i. e. experiments, surveys, case studies). Qualitative secondary data will be collected from Books, Journals, Online Journals, White papers, Seminar papers, Company Reports, case studies, Research databases (Mintel) etc. The research methodology will study a lot of case studies on SMEs and try to analyse the effect of business strategy on growth by comparing the sales (and other parameters) after and before the strategy was put in place. Similarly, for profitability, Net profit from the Profit and Loss account (considering other factors remain the same) will be analysed before and after the strategy implementation process. In this way, the author will be able to quantify the effect of business strategy to a degree.

If time and resources permit, then the author will try to set up interviews with management of three SMEs (Ventura, OTM Consulting and Buy As You view). Interviews will be semi-structured and will involve a good degree of probing to get to the objective.

## Project Plan

May 1 – May 10

Reading around the topic to gather information regarding the chosen area of study and to find out about the existing researches already been done in the concerned area.

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May 11 – May 31

Start off with Literature review, assimilate as much information as possible, filter out information and be more specific in reading. Draw relevance trees of the areas to cover in literature review section.

June 01 – March 10

Draft the literature review. Edit and get it proof read. Show it to the Supervisor to get the final approval. Revise to make the suggested changes.

June 11 – June 25

Decide on the methodology, the research Philosophy, Approach and Strategy. Pay special emphasis to Validity, Reliability and Accuracy of data.

June 26 – July 10

Have a word with my supervisor regarding the data Analysis method. Make sure that the data is analyzed properly and all biases are reduced to a minimum. Start drafting the Analysis and research findings chapter. Try to develop a keen eye for detail and make sure to recognize all causal links and extrapolate findings.

July 11 – July 30

Draft the chapter of Conclusions and recommendations. Send it to the supervisor, revise as suggested.

July 31– Aug 10



Finishing touches. Format and edit the work to make it more pleasing to the eye. Label the diagrams properly. See if the sequence is correct. Getting it proof read by at least two people in the field. Print, bind it and submit it.

Working on optimistic time limit but keeping extra days for pessimistic occasions. (See Gantt chart below)

#### GANTT CHART

TOPIC	MONTHS								
	May	May	June	June	June	July	July	Aug	Aug
Problem									
Identification									
Literature Review									
Research Design									
Methodology									
Data Sources									
Data Collection									

Data Analysis

Writing Up Draft

Editing

Final Document

Binding of Doc

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