SURVIVAL OPPORTUNITIES FOR SMALL BUSINESS UNDER ECONOMIC CRISIS CONDITION IN THE CASE OF LATGALE REGION

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The aim of this research is to explore the survival opportunities of small firms in Latgale region analysing promotive and obstructive factors of their internal and external business environments. The main emphases in this investigation are put on taking of strategic management opportunities in small business enterprises. The findings are compared with the previous research results in 2009. In the framework of this study the respondents from 200 small business companies were polled. The findings have clarified the main factors which influence business survival against the backdrop of crisis in small businesses and have identified the main change in the business environment in Latgale region during the last year. The research results allowed to develop proposals for survival of small business improving strategic management skills and for implementing strategic management by taking into account changes in the business environment in Latgale region.

Keywords: firms, business environment, strategic management, regional economics.
JEL codes: R1, M1, L2.

Introduction

Each enterprise operates in increasing turbulence and propensity in order to change in the business environment. Organizations need to know where they are, where they are going and how to manage the changes (Thompson, 2005). The organization must be flexible because it operates in a dynamic environment. Business develops faster whenever the strategic management is used.

The research impact on small business firms in this article is explained through the fact that small business companies in the particular region exceed 90% of all companies. Latgale region is the least developed area in Latvia. The number of enterprises per 1000 inhabitants in this region is three times less than the average in Latvia. The unemployment level in Latgale region is the highest in Latvia. The survival of small companies under conditions of crisis is very important for the economy of Latgale. Findings of the previous research (Silinėviča, 2009) showed, that using strategic management in small companies in Latgale region largely helped them to survive. Awareness of dynamic business environment and rapid response to its opportunities and threats is very significant for surviving of businesses.

The aim of this article is to explore the survival opportunities for small enterprises in Latgale region analysing promotive and obstructive factors of their internal and external business environments when the changes in the business environment take place as well as to make proposals for the implementation of strategic management in small business enterprises.

To achieve these aims several objectives were defined:
• to interpret the role of strategic management in small businesses;
• to determine the factors which are important for the survival of small businesses during an economic crises;
• to research the implementation of strategic management in small business enterprises in Latgale region;
• to develop proposals for the survival of small business and for the implementation of strategic management considering dynamic business environment.

To attain the aim of this investigation the following research methods were used: content analyses, analyses and syntheses, graphic, reference methods, questionnaire method, Express inquiry method and SPSS programm.

**Results and discussions**

Small business will focus on a restricted range of related products and services, targeted at a defined market niche. However strategic management ideas are relevant for all forms of organization and the key issues are the same. Strategic management has to be defined in terms of the interaction between an organization and its external environment.

**Role of strategic management in small businesses**

Management in small companies is simpler than in large companies. Generally small companies use simplified analyses and planning. According to A. Morrison (Morrison, 1996) a small business is financed by one individual or small group and is directly managed by its owner(s), in a personalised manner and not through the medium of a formalised management structure, it is perceived as small in terms of physical facilities, production/service capacity, market share and number of employees. Business success largely depends on the strategic leader, his values, culture and management style in implementing business goals. Managers have to make decisions which deal not only with business survival opportunities but with business development in a changing environment under dynamic competitive conditions where each competitor tries to do impossible things to survive.

According to J. P. Stephen (Stephen, 2007) the difference between small and large firm management is that the preparation of ongoing business plans and the marketing function in small and middle enterprises is seen as a peripheral to the management task of running the business.

The strategy of organization determines business goals, its vision, mission and its main development directions. According to H. Mintzberg (Mintzberg, 2003) strategy is not the consequence of planning but its starting point. Planning helps to translate the intended strategy into realized ones taking the first step that leads ultimately to implementation.

Business management should provide competitive advantages for a company. Strategic management provides not only efficient use of company’s resources but also development management which makes the organization flexible to the external environment changes. The necessity of business strategic management provides the following aspects: changes in external environment, influence of these changes on the internal environment of a company, company’s feedback on these changes applying change management.
Strategic management includes three important parts: strategic analyses, strategy creation and choice and strategy implementation. It is necessary to establish a system in the organization to research and analyse changes of the external environment in order to implement the strategic management. This system has to foresee the following activities: analyses of press reviews, participation in professional conferences, analyses of business experience, exploration of personnel opinions etc. According to N. Evans (Evans, 2010) Strategic thinking and strategic management are the most important activities undertaken by any business. How skilfully these activities are carried out will determine the eventual long-term success or failure of the organization.

The main factor concerning strategic management is the personnel factor, which is focused on market demand, at the same time flexibly responding to a changing environment with the aim of getting competitive advantages and providing survival opportunities for the organization in the long term.

Organizations must understand the strategic value of the resources and how they can be used to satisfy the needs and expectations of customers and other stakeholders. For small business companies this management is provided by the strategic leader.

Strategic management foresees involving of all personnel in looking for the best ways to reach the goals of the organization. According to H. Mintzberg (Mintzberg, 2003) strategic leaders must encourage strategic thinking throughout the organization trying to get others to think about the future in a creative way. The main role of the strategy is to ensure that everyone in the organization pulls in the same direction that may have to be specified as precise as possible.

Implementation of strategic management in small firms in Latgale region

In the framework of this study the respondents from 200 small companies in Latgale region have been polled. Total number of small enterprises in Latgale’s region does not exceed 1300 in year 2010. According to M. Sonders (Sonders, 2006,) the number of representative selection was determined with permissible error of about 5%. In the previous research (Silinėvičienė, 2009) all respondents from 30 small business companies were part-time students of the graduate or postgraduate study programmes. All of them had done a course „Strategic management” and they were aware of the strategic management process. These respondents were either managers or executives. In contradistinction to the previous research the respondents in this investigation were mostly managers, and only some of them had knowledge in strategic management. In this connection the relevant instrument of the polling was express inquiry. Other data was collected using a questionnaire method. This research was developed in the framework of ESF Project “Social and Economic and Lingvo-cultural Aspects of Territorial Identity in the development of the Latgale region”.

There were the following changes in business environment in Latgale region during the last year:

- outflow of population,
- relocation of businesses to other countries(China, Belorussia),
- increase of unemployment rate,
- increase in value added tax e.t.c.
The aim of the opinion survey is to identify the promotive and obstructive factors of small businesses in Latgale region and to research using of the strategic management opportunities in these companies.

Research period – the year 2010. Respondents were managers (97%) and executives (3%) of small business companies in Latgale. Investigation area – Latgale region.

Respondents were polled from the following fields: wood processing, metal working, food production, trade, transport services, bank services, legal services, account services, public services, catering, tourism, consultation services, forestry services, agriculture, insurance, real estate services, textile industry, education services, marketing services, land surveying services.

Companies, where respondents work, have operated for the following period of time: more than 15 years – 11%, from 10 – to 15–26%; from 5 to 10–18%; from 1 to 5 years – 44% and 1% – to 1 year.

The number of employees does not exceed 50 in 130 companies, from 11 to 50 employees – 42 companies, from 51 to 250 employees – 28 companies.

The duration of the respondents’ work experience as managers is different: from 1 to 3 years – 22%; from 3 to 5 years – 18%; from 5 to 10 years – 15%; more than 10 years – 23%.

**Results of the opinion survey**

The respondents indicated the year when the company’s strategy was set up, they noted whether the goals, vision and strategic directions are known. The findings of this research show that the existence of the development strategy depends on the fields, where businesses is operated, the size of companies, duration of their operation, management skills and work experience of managers.

Nineteen respondents noted that their companies strategies are just working out. All respondents, whose companies have development strategies, responded that employees of their companies took part in a process of working out the strategies. All respondents noted that the employees of their companies supported the business goals defined in strategies.

In further figures ”service field” the following services are combined: transport, bank, legal, account, public, consultation, forestry, insurance, real estate, education, marketing and land surveying services.

The respondents marked the main obstacles which influenced the development of their companies: increase in taxes, lack of current assets, lack of management skills, lack of project management skills, uncertainty in state policy. Disadvantageous factors are distinctive for different fields as well, Figure 1. On average the respondents noted the following:

- uncertainty in state policy – 88%;
- increase in taxes – 86%;
- lack of project management skills – 64%;
- lack of current assets – 51%;
- lack of management skills – 45%.
The previous research (Silinėviča, 2009) results were distinctive— the obstacles were ranged as following: uncertainty in state policy, lack of management skills, increase in taxes, lack of Project management skills.

The all respondents noted that they did not perceive any promotive factors in external environment for small businesses in these hard times.

As main internal promotive factors must be personnel motivation and personnel loyalty to firm. A person must be the main value, base and key factor for the success of any organization. Research results showed that these factors are not assess at
its true worth, a person largely is assessed as a resource of an enterprise with the main function to discharge the duties. Figure 2. shows the attitude to personnel, which is distinctive for different fields where the respondents operated. On average the respondents noted: the person is resource – 72%, the person is main value – 14%; training opportunities for employees are provided – 62%, personnel are involved in management process – 54%.

The respondents noted the main motivation factors: ability to earn, proximity to work place, development opportunities – career and managers’ attitude to personnel. Motivation factors are distinctive for different fields where the respondents operated, Figure 3. On average the respondents noted the following

![Motivation factors](image)

Figure 3. Motivation factors depending on operating fields

personnel motivation factors: ability to earn – 95%; proximity to living place – 21%; career opportunities – 14%; attitude to personnel – 12%.

The previous research (Siliveiča, 2009) findings showed the distinctive range of these factors: 1) ability to earn; 2) interesting job; 3) development opportunities.

The questionnaire includes expressions noted below. The respondents marked their perception of these expressions in the following manner.
- Changing of the environment influences on my business – confirmed by 90% of all respondents.
- Leadership of my company follows the changes of external environment and it has sufficient knowledge and skills for adequate reaction regarding these changes and adapt its business to these changes avoiding bankruptcy – confirmed by 60% of all respondents.
- Economic crisis provides opportunities and challenges for managers – confirmed by 10% of all respondents.
- I would like to attend courses to learn about business survival in a changing external environment – confirmed by 24% of all respondents.

According to the results of this survey, strategic decisions in firms are made by directors. They must manage changes in the external environment, to take advantage of opportunities and to develop their businesses. Decision making depends on their
skills and knowledge. The results of this research reflect the need for improvement of strategic management skills in regard to managers.

Conclusions

The findings of firms’ survey in Latgale region indicate the following:

- the main obstructive external factors influencing the business development, are indicated as increase in taxes and unclear state policy;
- lack of promotive factors in external environment for small businesses;
- the main obstructive internal environment factors can be defined as the lack of current assets, lack of project management skills, lack of strategic management skills, lack of awareness of strategic thinking and its importance for leaders, lack of awareness of strategic management opportunities which must be provided by monitoring changes in the external environment and responding to these changes in the internal business environment;
- the promotive factors like personnel motivation and personnel loyalty to firm are not assessed at its true worth, a person largely is assessed as a resource of an enterprise with the main function to discharge the duties;
- insufficient use the following promotive business factor – personnel involving in the management process;
- lack of implementation of strategic management in small businesses in latgale region because of absence of knowledge in strategic management in regard to managers of these firms.

Proposal. The territorial reform takes place in Latvia. It requires for regional planning. Taking into account the importance of small business development from the regional aspect, local authorities must include the complex of concrete measures in their development plans, providing various training programmes in Strategic management and Project Management for development of small business activities.

References


SMULKIOJO VERSLO IŠLIKIMO GALIMYBĖS EKONOMINĖS KRIZĖS SĄLYGOMIS LATGALĖS REGIONO PAVYZDŽIU

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Santrauka

Straipsnyje analizuojami skatinantys ir stabdantys verslo aplinkos veiksniai, darantys įtaką smulkiojo verslo išlikimo galimybėms ekonominio nuosmukio metu. Dėmesys skiriamas strateginio valdymo panaudojimo galimybės smulkiąja me versle tyrimui kaip reikšmingam indėliui regioninei ekonomikai. Autorė atliko 200 Latgalės regiono įmonių apklausą anketavimo bei ekspres-interviu metodais ir nustatė pagrindinius veiksnius, darančius įtaką smulkiojo verslo plėtrai. Taip pat pateikti siūlymai, kurie įgalina pašalinti veiksnius, trukdančius įmonių plėtrai ekonominio nuosmukio sąlygomis.

Raktiniai žodžiai: įmonė, verslas, strateginis valdymas, regioninė ekonomika.
JEL kodai: R1, M1, L2.