

## COMPARATIVE STUDY OF THE DECISION-MAKING PROCESS IN SMES AND IN LARGE COMPANIES

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### **ABSTRACT**

*This article presents the importance of the decisional act in the entrepreneurial process, trying to emphasize its implications in various situations faced by managers and decision factors.*

*Starting with the classic definition of the “decision” concept, this paper extends its meaning by applying it on the economic field and by deepening its meaning in the economic field, shaping the imperative requests a decision has to make.*

*Narrowing the research field to the sphere of small and medium-sized enterprises, the analysis of the decision is made on their level, being built on the antithesis SME- large company.*

*The results of the study consist in the appreciation of the importance the decision has on the level of all hierarchic levels, no matter the size of the company, the nature of its activity, the geographic localization or its financial situation.*

**KEY WORDS:** *decision, manager, process, solution, consequence.*

In the market economy, a firm’s reason to exist is obtaining profit. Before getting the desired results, it has to take an easier or a more difficult route, traced by managers and sprinkled with their more or less inspired decisions. The quality of the decision making process determines obtaining the competitive advantage and the survival of the firm under the conditions of the toughening competition mechanisms. Studies showed that management mistakes due to wrong decisions are the source of 60% of the business bankruptcies, followed by the unfavorable market evolution (20%), natural phenomena (10%) and other reasons (10%)<sup>1</sup>.

Synthesizing the decision’s dictionary definitions, it results that it is taken after examining a problem or a situation and, in the same time, it represents a solution chosen from a range of possible solutions. The economic decision has a high influence over the results of the firm, whichever might be its size or its activity field; it is the instrument which helps the management to attract and combine material, financial and human resources, having the aim of maximizing the economic results and minimizing the costs. The decision is one of the main components of the management system, some authors even considering it the essence of the leading act.<sup>2</sup> The whole management process is actually „a chain of decisions” so that, through the decisional process the company’s management is accomplishing its aim<sup>3</sup>.

Specialty literature abounds in definitions of the economic decision. Having slight topic changes, the common element of these definitions is that the decision is an action involving the human factor, who has to choose consciously, from multiple possible choices, the ones who allows the optimum usage of the available material, financial and human resources.

To ensure the maximum economic efficiency, the decision should cope with the following requirements:

1. To be scientifically funded
2. To be taken by the persons or departments who are legally empowered to do so
3. To be taken and forwarded in time;
4. To be stated clear and concise in order to be well received and understood<sup>4</sup>

Admitting the decision’s importance in the managerial process at all levels, we can start the analysis of the decisional flow by comparing the one from SMEs with the one in large or transnational companies. Reviewing the decision making in the two types of enterprises, we notice an ensemble of fundamental differences arising from the specificity of these activities.

Even though the principles, methods and basic techniques are the same in all businesses, no matter their size, ownership or business environment, the main difference is given by the number of persons involved in the decisional process. While in big companies there are large groups of managers discussing and taking common decisions, in the SMEs the decisional processes are focused on one only person.

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<sup>1</sup> [http://portal.feaa.uaic.ro/arhiva/Unclassified%20Records/2009-04-15T07-06-49Z/Cap.1-MF\\_O8YQM9.pdf](http://portal.feaa.uaic.ro/arhiva/Unclassified%20Records/2009-04-15T07-06-49Z/Cap.1-MF_O8YQM9.pdf)

<sup>2</sup> <http://www.biblioteca-digitala.ase.ro/biblioteca/pagina2.asp?id=cap7>

<sup>3</sup> idem

<sup>4</sup> <http://www.svedu.ro/curs/ei/c6.html>

No matter the size of the business, managers must take decisions based on the information they have, information coming from both inside and outside the enterprise, through a correctly conceived and exploited intelligence system.

This is the happy situation when the decision is taken knowingly, the results are almost certain, the risks are minimum. But the leadership of a company is often put in the situation of taking decisions without having the complete information, under time pressure or in unforeseen situations. This is the moment managers exercise their talent, intuition, ability and courage to find the best solution for a problem.

Talking about this, Peter Ducker said: “when you see a successful business, it means that someone once took a bold decision”. This is mostly about the small entrepreneur’s decision, willing to take risks in exchange for his courage. Therefore, while in small enterprises, decision is conducted by the firm’s development strategy, in SMEs this is exclusively the manager’s choice, who is usually the owner too. So, unlike the big companies, where decisions are made according to the company’s mission, in order to accomplish the long term objectives of the business, in the case of the SMEs the manager takes spot decisions, advantageous on the short term. Even though, on a shallow analysis, it might seem that large companies have an optimal decisional process, we can consider that SMEs also can gain competitive advantages on short and medium term, this being exclusively conditioned by the manager’s talent and entrepreneurial skills.

Another fundamental difference is the decisional flow in the two types of companies, i.e. in the hierarchical stages a decision has to go from the proposal to the implementation. In large companies, with a high hierarchical stratification, the decisions are discussed by various hierarchical levels, escalating according to their importance and impact over the activity.

On the other side, in SMEs the decisional capacity belongs to one only person, who assumes the results of the firm consequent to his decision. This is another situation revealing the importance of the managerial skills and abilities of the firm’s leader. Eliminating the difficult decisional process from the large companies gives SMEs the versatility and speed necessary in order to act before larger and stronger competitors, who are also slowed down by a long and complex decisional process.

Getting back to assuming the decision, another sub-factor differentiating the SMEs from the large companies and one more source of possible competitive advantages comes from the speed the processes are developed, decisions are taken and processes are optimized. The entrepreneur (owner) is much closer to the partners (suppliers and clients) than the boss of a large corporation. This is why he can anticipate what will be asked for and he can react quickly in order to keep the firm’s client database<sup>5</sup>. thus, the pale of the “investigations” taken by large companies whenever a decision proves to have been wrong is taken by quickly focusing on the mistakes and replacing them with new projects.

SMEs also gain time, as the stage of “decisional harmonization”, common in large companies with many managers and numerous specializations, is almost absent, as the decisional processes are usually concentrated on one person, the entrepreneur- manager.

However, he should keep in mind that the disseminated effect of the decision should be a good one and not of another nature<sup>6</sup>.

To large companies a decision once taken is a compulsory act, it is followed by rules settling actions and ensuring the necessary financial, material and human resources. Any change involves repeating the whole process. In SMEs the decision is usually informal, it only exists in the mind of the entrepreneur, allowing him to make any changes he considers necessary to the well-being of the business.

A decision is adopted in a large enterprise at higher hierarchic levels, afterwards becoming compulsory for all the involved employees. SMEs consider an important leverage for stimulating employees the fact that they allow or even ask for the employees’ participation in taking decisions. This is an aspect which make employees loyal, approach them and coagulate the relations between humans.

However, there are also aspects of the decision which are not advantaging small businesses compared to larger ones. There are long-term decisions, clearly defined, and the decisions are made accordingly. Even though SMEs represent 99% of the total number of enterprises in the EU, studies have shown that only one out of six elaborate and put into practice strategies, although there is evidence that there is the need for formalized entrepreneurial strategies.<sup>7</sup>

Consequently, the manager doesn’t take too many major decisions or too often, and current decisions aren’t problematic, as they are usually taken according to existing customs.

On the other hand, in large companies decisions are made by professional managers, who minimize risks. In SMEs, decisions are highly informal, they have an emotional side, reflect personalities and the manager’s preparation level. He has to take decisions taking into account various aspects (production, commercial, financial and accounting, human resources, etc) and often his knowledge is no enough, so that the “scientifically funding

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<sup>5</sup> Raluca Popa – IMM-urile, atuari și vulnerabilități, Tribuna Economică, nr. 21/2009, pag. 21

<sup>6</sup> Viorel Cornescu, Elena Druică – Puncte de vedere privind decizia și procesul decizional în întreprinderile mici și mijlocii, Revista „Manager”, nr. 4/2006, pag. 122-130

<sup>7</sup> Ovidiu Nicolescu, Ciprian Nicolescu – Intreprenoriatul și managementul întreprinderilor mici și mijlocii, Ed. Economică, București, 2008, pag. 252

some of the decisions is unsatisfactory”<sup>8</sup>. Many times, the entrepreneur goes into business without having any management knowledge. Until he manages to acquire them- through study or experience- the whole management process is negatively affected, often with irrecoverable consequences. Using professional managers does not represent a solution because a small enterprise is permanently preoccupied with protecting the limited financial resources and hiring a manager only redirects the problem from the entrepreneur to him.

Charles de Gaulle said “ I take decisions. Maybe they are not perfect, but it is much better to take imperfect decisions than to permanently search for the perfect decisions you might never find”. Small entrepreneurs often take probably imperfect decisions, but quickly and at the right time, so that they can quickly adapt to an economic environment which is more and more complex and dynamic.

The elements presented by this paper emphasize the high flexibility of the SMEs, the reduced dimensions of the decisional chain allowing the manager to take decisions which are not only fast, but they also have an increased importance, his decisional capacities not being fenced by the responsibilities in the job description of a large company. Under the recent circumstances of the global financial crisis, there were many cases when the manager of an SME went so far that, thanks to the flexible structure of the firm, he got quickly reoriented on the market and changed or completed the activity nature, with the obvious final purpose of saving his business.

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6. <http://www.svedu.ro/curs/ei/c6.html>

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<sup>8</sup> Viorel Cornescu, Elena Druică – Puncte de vedere privind decizia și procesul decizional în întreprinderile mici și mijlocii, Revista „Manager”, nr. 4/2006, pag. 122-130