

# Semi Management Theory and Business Sophistication

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## ABSTRACT

The aim of the proposed scientific research is to determine theoretical and practical application of management theories to small and micro enterprises in Latvia. Author analyzes and show importance of the management functions in business and on the basis of field research proposes possibility to over evaluate practical application of management functions in small companies. The author concludes that there is a potential to develop new – semi management approach and on the basis of it to build up Semi Management Theory.

**Keywords:** management functions, small and micro enterprises, Semi Management Theory.

## 1. INTRODUCTION

By analysis of the statistical information one can conclude that dominating size of companies in Latvia lies to small and even to micro companies (see table No1). Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment (Verheugen 2011).[16]

Table No 1 **Number of enterprises according to their size (number of employed persons) (Source: Eurostat)[6]**

Number/Year	2008	2009	2010	2011
0-9	65847	57180	58082	61790
10-49	10024	8616	8353	8579
50-249	1846	1517	1473	1513
SMEs	77717	67313	67908	71882
250+	243	199	194	203
Total	77960	67512	68102	72086

The author of the article by analyzing managerial functions putted forward hypothesis – set of managerial functions varies from the size of the company. In other words, managerial functions are not the same in large, medium, small and micro companies. If this hypothesis can be grounded, then the author would like to propose possibility to develop new direction in management theory – Semi Management Theory.

Identification and application of correct management functions are essential for sustainable development of a company and it will provide business sophistication.

**Methodology:** Based on the review of literature, the functions of management are discussed. Comparison of functions in small companies with given in theory is done through surveys and interviews with company managers. The results are approbated in Latvian companies, thus proving the initial hypothesis of the research.

Reviewing the managerial functions described in the theory, the author concludes that they are generally applicable to middle or large companies and corporations which mainly operates in large markets. The author decided to pursue a more pragmatic approach by exploring the actual functions of micro and small company in order to build a list of managerial functions needed in the business environment of Latvia.

For analysis of the managerial functions in small and micro companies the survey was organized.

From March till May 2012 author conducted a survey to ascertain the dominating managerial functions in small and micro-sized enterprises. 322 companies' managers were questioned during this survey. Survey consisted of 13 questions of a discrete type and 3 questions of a public type.

For validation of the research, the focus group method was applied to this research since

“focus groups concentrate clearly on a specific topic and involve interactive discussion among its participants” (Carson *et.al.*, 2001).[3] The focus group was held May, 2012. The total number of respondents was 10, aged 24 to 63, both sexes the size of focus group was determined according to the methodology described by Griffin and Hauser (Griffin, Hauser, 1993).[9]

## 2. MANAGEMENT THEORIES AND MANAGEMENT FUNCTIONS

There are many possibilities to describe development of management theories. According to one of such approaches historical theories of management can be grouped following (*Free management library*) [8]:

- Scientific Management Theory ((1890-1940)) for large industries, describing ongoing tasks, mechanic and routinized activities.
- Bureaucratic Management Theory ((1930-1950)) focused on dividing organizations into hierarchies, establishing strong lines of authority and control.
- Human Relations Movement (1930-today). More attention was given to individuals and their unique capabilities in the organization.

Also there was mentioned Contemporary Theories of Management (*Free management library*) [8]:

- Contingency Theory. Contingency theory asserts that when managers make a decision, they must take into account all aspects of the current situation and act on those aspects that are a key to the situation at hand.
- Systems Theory recognizes the various parts of the organization, and, in particular, the interrelations of the parts, e.g., the coordination of central administration with its programs, engineering with manufacturing, supervisors with workers, etc.
- Chaos Theory This trend continues until the system splits, combines with another complex system or falls apart entirely.

Yasin Olum in his article identifies the Scientific Management School comprising the works of Frederick W. Taylor and Lillian Gilbreth's motion study, among others; the Classical Organizational Theory School comprising the works of Henri Fayol's views on administration, and Max Weber's idealized bureaucracy, among others;

Behavioral School comprising the work of Elton Mayo and his associates; the Management Science School which he discuss at the end of the paper; and Recent Developments in Management Theory comprising works such as Systems Approach, Situational or Contingency theory, Chaos theory, and Team Building approach. For lack of time and space, this discussion will provide a general description of some of the scholars in each of these management theories and the successes that they achieved. (Olum, 2004). [13]

Many authors stress that management is science *on the edge* among philosophy, economics, history, etc. Olum in his article writes: “Management is the art, or science, of achieving goals through people. Since managers also supervise, management can be interpreted to mean literally “looking over” – i.e., making sure people do what they are supposed to do. Managers are, therefore, expected to ensure greater productivity or, using the current jargon, ‘continuous improvement’” (Olum, 2004).[13] And logically there is a place for discussing functionality of management or management functions.

At first, one views management functionally, such as measuring quantity, adjusting plans, meeting goals, and fore- sighting/forecasting. This applies even in situations when planning does not take place. From this perspective, Henri Fayol (1841–1925) considers management to consist of six functions: forecasting, planning, organizing, commanding, coordinating and controlling. He was one of the most influential contributors to modern concepts of management (Barrett, 2003).[2]

Mišetić in his research has written: “During the development of management theory, the five management functions have changed over time. In order to show a comparison in the way management theory has developed, Buble compared H. Fayol's (planning, organizing, commanding, coordinating, and controlling) and P. Drucker's (setting goals, organizing, motivating and communicating, measuring and evaluating results, and human resources development) theories of management functions.” (Mišetić, 2001).[12]

By analysis of different management functions described in the scientific articles, text books and internet resources by management professionals (Drucker, Cole, Hill, Praude, Abizāre, Forands etc.) [5, 4, 10, 15, 1, 7] the author concluded that there are main five management functions:

- 1) Planning,
- 2) Organizing,
- 3) Staffing,
- 4) Leading,

5) Controlling.

According to the Strategic management theory proposed by Charles W.L. Hill and Gareth R. Jones [10] there are three main levels of strategic planning: corporate level, business level and functional level. Mentioned management functions can be applied mainly to corporate level, partly to business level, and minimally to functional level (see Fig. No.1.).

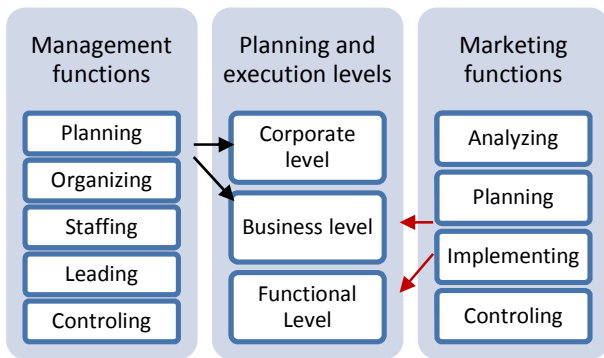


Fig.1 Application of functions in different planning and execution levels in a company

It is well known that marketing is one of core activities for development and delivering the product or service to the customers. According to Philip Kotler [11] there are four main functions in the marketing: analyzing, planning, implementing and controlling.

By analysis of application of mentioned functions to business planning and execution levels the author of the article concluded that firstly – some of functions overlaps, secondly - functions has different intensity in different strategic planning levels.

Table No 2 **Functions in different planning hierarchy level of a company**

Function	Level dominance of strategic planning and execution
Planning	Corporate and business level. In functional level just for short term perspective.
Organizing	Corporate level, business level. In functional level mostly oriented to self-organization.
Staffing	Corporate level and business level.
Leading	Corporate level and partly to business level.

Controlling	All levels. There is a variation of methods and reports from level to level.
Analyzing	All levels. There is a variation of methods and analyzing horizon from level to level.
Implementing	Business level and domination in functional level.

For approving the hypothesis – set of managerial functions varies from the size of a company it is important to analyze set of mentioned functions in small and micro companies.

### 3. MANAGERIAL PROBLEMS OF SMALL COMANIES

Mišetić in his research wrote:”With respect to Drucker’s theory it is clear that management is the application of certain functions within the business creating an infrastructure for the enterprise (regardless of what type of business is being formed). Therefore management in small enterprises has the task of launching and directing the enterprise by working toward accomplishing set goals. Small enterprise reality, which follows size and business, is that the owner/manager very often brings managing and operating decisions to start and direct total enterprise activities toward set goals. The enterprise operations are directed on two levels; the business decision-making authority of owner/manager and the business realization authority of engaged personal”. (Mišetić, 2001) [12]

There are two fundamental characteristics of small businesses which separate them from large companies. One is their smallness, and the other is their rate of turnover and failure rate (Peacock, 2000). [14]

In his research Peacock has identified following problems of small business failure (Peacock, 2000) [14]:

- The owner is the business,
- Isolation,
- Lack of information,
- Lack of time,
- Pressure,
- Product dedication,
- External changes are critical,
- Small businesses are seldom in equilibrium or even near it,
- High business risk.

In the same research Peacock have mentioned Dunand Bradstreet studies which have consistently found that causes due to poor management predominate in failures (Peacock, 2000) [14]:

- US business failures, 92% due to management,
- US 17,000 business failures, 94% due to management, and
- Canada 2,598 business failures, 96% due to management.

According to this research it is obvious that there are some misapply and misinterpretation of main management functions in small companies. And there are questions: Should these companies apply the same functions to the business development? Do the managers in small companies need the same competences and capabilities?

#### 4. RESEARCH ON MANAGEMENT FUNCTIONS IN SMALL AND MICRO COMPANIES

From March till May 2012 author conducted a survey to ascertain the dominating managerial functions in small and micro-sized enterprises. 322 companies' managers were questioned during this survey. Survey consisted of 13 questions of a discrete type and 3 questions of a public type.

Survey results match with a data from public statistical sources concerning number of employees and legal form of the business. The main emphasis in the research was putted towards ranking managerial functions in small and micro companies, and besides questions about needs for training and advisory services was included in the research. Also there was a question about main personal characteristics of small company managers.

In questioner every function of management was explained.

According to the research results management functions were ranked and most important function was mentioned implementing (see Fig.2), but less important function – leading (or directing).

All functions were mentioned as important, but managers of small companies some of functions implement in their everyday activities seldom. For example 21% of respondents mentioned that they are analyzing situation and company performance only if they have free time besides other duties. Some managers misinterpret function of leading (directing).

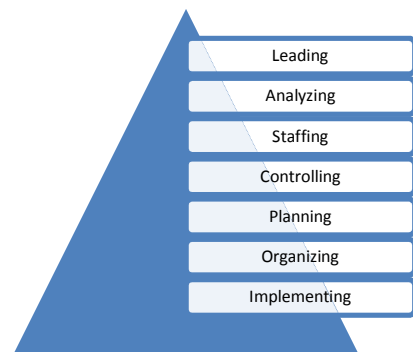


Fig. 2 Ranking of management functions in small and micro companies

76% of all respondents had university degree. For this group question about application of acquired knowledge in a study process to a company management was stated. More than 60% of respondents pointed out that acquired knowledge within university is partly applicable in real business environment (see Fig.3), 7% confirmed that it is applicable and 2% considering that not applicable and for others it was hard to evaluate linkage.

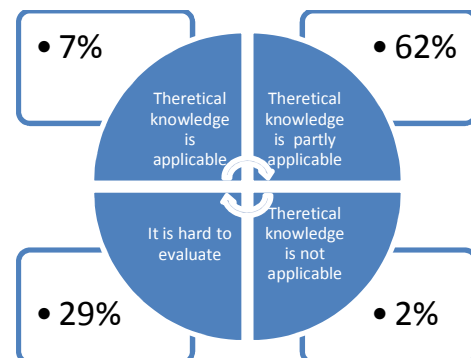


Fig. 3 Evaluation of practical application of education for management of small and micro companies

Many respondents of the survey mentioned that success of the business and performance in the market depends on personal characteristics of the person leading a small or micro business. Besides all characteristics (this was open or public type question) dominating were: obsession with the business idea, perseverance, responsibility, self-organisation and self-development, intelligence and erudition etc.

All survey results were tested in the focus group. During the focus group discussions about different management functions arise. Managers from small and micro companies agreed that small companies mostly work in functional level;

therefore the needed set of management functions is different from large company managers.

During discussion about the linkage between theory and practice the following outcomes were reached:

- The total set managerial functions for small and micro company is different from large company managers, CEO, Executives etc.;
- Small and micro company owner often are in many positions at one time – owner of the company, director, sales manager, marketing manager etc. It leads to lack of time for planning, staffing, controlling and other functions;
- Small and micro companies' success depends on personal characteristics of a company owner (company manager). Between most important characteristics are self-organization and self-motivation (what sometimes can correlate with obsession or perseverance);
- Set of knowledge and skills developed in the higher education institution should be reviewed and should be different for needs of large or small company managers.

Results of the survey and the focus group discussion approved stated hypothesis - set of managerial functions do varies from the size of a company.

Almost all respondents would like to receive advisory services and support from the state institutions.

On the basis of research results the author suggests that there is a place for development of new management theories what would cover needs of small and micro companies. Development of new theoretical approach is very important for countries with small economies, like the Baltic States. If the domination of companies creating national GDP belongs to category of small and micro companies, there should be support from academia and government. Overall support would stimulate growth of companies from small to large and would lead to business sophistication. The author proposes to develop Semi Management approach to management theory and develop new direction in management under possible title: Semi Management Theory which would explain how to act in a business towards business sophistication by accomplishing desired goals, getting people together and using available resources efficiently and effectively. This theory could be based on the same management functions like: planning, organizing, staffing, leading or directing, implementation and controlling and would employ all resources available in the market.

## 5. CONCLUSIONS

Summarizing results of the study author came to a conclusion that set of managerial functions do varies from the size of a company.

Research results clearly show that information technology mainly affects company's information flow. Considering that information resource has today become one of the prevail resources for sustainable development, it must be outlined that this resource economic evaluation becomes of the high importance. Small and micro companies' success depends on personal characteristics of a company owner (company manager). Between most important characteristics are self-organization and self-motivation (what sometimes can correlate with obsession or perseverance).

On the basis of research results the author suggests to continue research with and aim to develop Semi Management Theory what would cover needs of small and micro companies.

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