

Strategic Management of Small and Medium-Sized Enterprises - Is There Space for Functional Strategies?

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Abstract – Based on strategic management principles, it is reasonable to assume that lower-level units within the organizational structure, such as business and functional levels, will be carrying out the strategies. However, such organizational units should be considered not only as decision implementers, but also as strategists and program developers for the areas of activity in which they operate. Managers at the functional level solve problems related to setting goals and objectives in areas such as marketing, resource allocation, finance, production, and accounting. There is a lack of research on functional strategies, emphasizing the need for additional studies and publications. The goal of this paper is to outline significant elements of functional strategies, with a particular emphasis on their distinctiveness in comparison to other strategic aspects of management in small and medium-sized enterprises (SMEs). Additionally, the paper aims to explore the feasibility of implementing such strategies within these enterprises. The study seeks to accomplish its objectives through the utilization of theoretical deduction, in conjunction with the analysis of data derived from a concise survey of SMEs and pertinent practical illustrations. From a scientific perspective, the study's findings are predominantly positive rather than normative-regulatory in nature.

Keywords – Strategic management, functional strategies, SMEs.

1. Introduction

Various publications on corporate management discuss different perspectives on the extent, practical application, characteristics, and significance of strategic management.

However, a common theme emerges in all these cases, suggesting that every management, regardless of the size of the organization, should formulate its own development strategy [1].

Strategic management involves defining the primary objectives of a company and revealing the key methods and strategies to accomplish them. A crucial aspect of this process is the allocation of resources to execute strategies for achieving firm objectives, based on a pre-established organizational structure. Within it, a multitude of functional entities are commonly encountered. Strategic management creates the overall framework for the growth of the firm, while the functional units establish the detailed requirements for achieving strategic goals.

Strategy can be expressed at many hierarchical levels. The corporate or the over-all strategy constitutes the initial and most elevated level; it is formulated by the top-level executives and specialists under the supervision and support of the enterprise's top manager (CEO). The formulation of a corporate strategy may also engage the board of directors and senior administrative management who oversee the company's financial, social responsibility, and reputation-related endeavours. Broadly speaking, the corporate strategy outlines the businesses that will be established within the company, the divisions that will be created, and how resources will be distributed among these divisions.

The term "next level" pertains to divisional strategy, which is also known as business strategy.

The purpose of this level of strategizing is to generate concepts on how the specific business will establish a competitive advantage inside the industry.

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Nevertheless, this level of management mostly focuses on larger companies and is seldom found in small and medium-sized organizations. In small and medium-sized enterprises (SMEs), the corporate and business strategies are typically integrated. This is because small firms often operate as single-product enterprises. Therefore, they constitute a cohesive strategic business unit that aligns with the overall structure of the corporation. This study specifically addresses the strategic management SMEs, as they constitute the largest group of businesses.

According to the principles of strategic management, it is expected that the execution of strategies will be done by the lower-level units in the organizational structure, specifically the business and functional levels. Nevertheless, it is important to recognize that lower-level organisational structures, such as divisions and departments, should not be viewed exclusively as mere executors of ultimate choices. In addition, it is imperative for them to formulate strategies and implement programs that align with their respective areas of operation, leveraging their expertise and knowledge [2].

It is essential that the phrasing of their strategies aligns with the company objectives, and the actions of these units should be directed towards executing the business strategy. For instance, if enterprise management seek to prioritize the manufacturing of bio-based products above traditional ones, the R&D department or team should direct their efforts towards developing novel technologies rather than enhancing existing ones. The allocation of activities pertaining to strategic decision making and execution also delineates distinct responsibilities: the corporate and business levels are tasked with making appropriate judgments, while the functional level is responsible for effectively implementing these decisions in the correct manner.

Managers, who are categorized by their roles in the organization, develop plans specific to their functions to help implement the overall business strategy. The functional level of management involves addressing issues linked to the establishment of largely short-term goals and objectives in many areas such as marketing, resource allocation, finance, production, and accounting.

Studies and publications on functional strategies are lacking in south-eastern European area, highlighting the necessity for further research in this respect. The purpose of this paper is to delineate important aspects of functional strategies and their potential implementation in SMEs. The objective is to differentiate the significance of functional strategies regarding the strategic management in those enterprises.

2. Methodologic Aspects and Specifics of the Functional Strategies

Research on functional strategies and their implementation in strategic management is primarily qualitative, focusing on gathering and analysing information sources to elucidate concepts, opinions, viewpoints, and personal experiences.

Functional strategies are developed for the main functional areas of an enterprise and provide guidance for their future management. One of the aspects in this context concerns strategic objectives. The latter are derived from the corporate or business strategy and consider measures that need to be fulfilled in order to attain them. Additionally, functional strategies outline necessary actions to be taken in regard to the execution of the business and corporate strategy. Functional managers must possess the ability to promptly recognize actual circumstances, accurately evaluate modifications, and subsequently devise a functional strategy.

The marketing unit is one of the essential organizational structures responsible for developing a functional strategy. The marketing strategy involves the examination and combination of the following elements [3]:

- **Product.** The strategy aims to address inquiries such as determining the primary product to prioritize, identifying the products that generate the highest profits for the company, establishing the desired perception of the product, identifying the consumer demands it will fulfil, and understanding how modifications to the product will impact consumer behaviour.
- **Price.** The objective is to elucidate the parameters of price competitiveness by managers. It is crucial to ascertain the applicability of a regulatory pricing policy, the selection of price categories (high, medium, or low prices), and the definition of the pricing policy.
- **Placement.** The placement strategy provides information on market coverage, distribution channels, objectives, structure, and administration of distribution channels, as well as approaches to distributors, sales agents, and direct selling.
- **Promotion.** This analysis focuses on the primary objectives and methods for promoting various products, markets, and regions, along with the most suitable channels for executing the overall marketing plan.

Another important functional imperative to focus on a practical financial strategy.

The subject matter of this type of strategy pertains to the financial resources, their attributes, the diverse financial indicators used to evaluate the performance of the firm, etc. The primary categories of decisions concerning the formulation and execution of the financial strategy often encompass:

- Raising capital. The desired information includes inquiries about methods of acquiring capital, determining an appropriate proportion of short-term and long-term debts, establishing a balance between internal and external financing, identifying potential risks, and exploring alternative forms of financing such as leasing and European financing programs of SMEs.
- Capital allocation. Priorities for capital allocation to business projects, as well as the criteria for the ultimate selection of projects, should be established.
- Disbursement of dividends. The objective is to ascertain the portion of the financial outcome that should be allocated as dividends, as well as identifying suitable kinds of non-monetary dividends.
- Cash flow, payment, and inventory management. This functional strategy addresses inquiries on the appropriate levels of cash, including the minimum and maximum thresholds, as well as the necessary limits, payment terms, and collection procedures.
- Tax liability management. The conditions under which tax benefits can be claimed and the potential financial outcomes are determined.

Effective execution of the financial strategy guarantees the ability of the firm to reallocate resources, including debt repayment, establishment of a reserve fund, and other related actions. Resolving these difficulties guarantees the execution of the business plan. Practically, a plan can be created to gradually shift capital from one strategic business unit to another (or from one product group to another) while ensuring a high level of product quality (in the case of pursuing a differentiation strategy, for instance).

Another noteworthy functional strategy that merits consideration from a pragmatic one is the production strategy. This strategic aspect entails managers directing their attention towards:

- Mechanical apparatus, industrial facilities, and tools. Inquiries are made on the appropriate selection of equipment, the optimal choice between a single large facility or multiple smaller ones, the most effective methods for executing various processes, and the desired level of automation and digitization in production.

- Inventories. These concerns encompass critical aspects such as determining the required number of suppliers, establishing the criteria for supplier selection, effectively managing supplier relationships, and determining optimal inventory levels.
- Storage of completed goods. The functional strategy addresses inquiries regarding the upkeep of warehouses, including their dimensions, separation, proximity to the company, and other relevant factors.

These functional strategies, as well as accounting, research, and information, depend on implementation themes. Practically, two scenarios occur. Initial functional strategy execution is done by current leaders. The benefits come from understanding their personality, problem-solving methods, interactions with subordinates, clients, and suppliers, and commitment to professional growth. However, these executives struggle to adapt to strategic change, and their past decision-making may hinder their future ones. The second scenario involves new managers implementing the functional strategy. It gives management more options, among other benefits.

Nevertheless, there are drawbacks to consider. The implementation of a strategy may experience delays as the newly appointed manager requires time to familiarize themselves with the relevant difficulties. The preference between the two scenarios will depend on a detailed evaluation of the conditions pertaining to both the internal and external environment of the organization.

In contemporary business, there are multiple choices available for designing effective strategies. In the era of digitization, there is often a close connection between technological and social advancements, leading to the development of functional strategies related to both [4].

Irrespective of the numerous individual instances, the methodology is consistent: Initially, the company strategy is formulated, which is subsequently translated into multiple functional strategies. These processes, in turn, facilitate the tactical and operational management of the firm, even in small and medium-sized enterprises.

The following paragraph of the article presents findings of a qualitative research study, which involved gathering and analysing various sources of information, such as statistical data, surveys conducted in Bulgaria and overseas. The focus of the study was on examining the implementation of functional strategies in small and medium-sized enterprises. The primary problematic areas that can be gradually resolved are highlighted.

3. Results of Qualitative Research of Functional Strategy Implementation in SMEs

The current dynamic landscape necessitates a focus on the strategic management of small and medium-sized firms. SMEs constitute over 99% of the total number of firms in most European nations, including Bulgaria, based on the number of employees in each enterprise.

According to the Bulgarian National Statistical Institute, micro-enterprises, which employ 1 to 9 individuals, are the most common type of SMEs. However, their proportion in the overall number of private firms is declining due to a rise in the number and proportion of small enterprises. The group with 10 to 49 employees is experiencing the most rapid growth in comparison to the other groups.

Among small and medium-sized firms, those classified as medium-sized (with 50 to 249 employees) have the lowest representation, accounting for only 1.8% of the total number of SMEs.

The sectoral composition varies among different groupings, mostly influenced by the correlation between the scale and the specialization of production processes inside firms. The most favoured activities for micro-enterprises are trading, car maintenance, and the sale of personal and household goods. Furthermore, small firms have a partial focus on manufacturing. Table 1 shows that manufacturing is the most prominent industry among medium-sized firms, followed by trade and automobile and motorcycle maintenance [5].

Table 1. Number of non-financial enterprises by Economic Activity Groupings and Size in Terms of Employed in 2021 (Number)

SECTIONS BY NACE Rev.2	Total	Size classes of number of persons employed				
		0-9	10-19	20-49	50-249	250+
Mining and quarrying	292	182	40	33	26	11
Manufacturing	29637	22653	2845	2369	1509	261
Electricity gas, steam and air conditioning supply	2583	2 458	50	31	26	18
Water supply; sewerage, waste management, and remediation activities	790	535	86	75	59	35
Construction	21373	18114	1734	993	499	33
Wholesale and retail trade; repair of motor vehicles and motor-cycles	132706	125231	4349	2219	811	96
Transportation and storage	22222	20014	1278	609	272	49
Accommodation and food service activities	24007	21413	1579	753	247	15
Information and communication	15692	14297	599	451	274	71
Financial and insurance activities	5170	4746	187	117	80	40
Real estate activities	23959	23470	318	132	..	..
Professional, scientific and technical activities	45519	44212	794	357	137	19
Administrative and support service activities	11275	10059	510	381	259	66
Education	3 971	3 763	111	67	..	..
Human health and social work activities	14005	13148	454	242	139	22
Arts, entertainment and recreation	4869	4509	183	104	62	11
Repair of computers and personal and household goods	3084	3054	22	..	..	0
Other personal service activities	20932	20738	154	..	..	0
".." Confidential data						

The Bulgarian economic data indicate that the rate of rejuvenation for SMEs with fixed tangible assets is higher in comparison to that of large enterprises. Nevertheless, SMEs have a smaller profit margin compared to large enterprises, although there has been some narrowing of this gap in recent years.

SMEs in Bulgaria lack enough utilization of strategic planning to effectively compete. Based on a previous study, a mere 6.5% of small and medium-sized firms acknowledge that the ability to sustain and enhance their competitive position is in any way linked to knowledge and expertise in strategic planning [6]. Regarding this matter, particularly with regards to the SME sector, there is an urgent need to investigate the development of practical strategies encompassing areas such as marketing, technology, human resources, and finance.

Empirical evidence from various locations and countries worldwide indicates a correlation between the scale of a company, the presence of a business strategy, and the functional strategies formulated accordingly. Small and medium-sized organizations typically refrain from adopting a comprehensive range of functional strategies due to their limited resources. Instead, their primary emphasis lies on pairs of combinations, such as technology strategy and human resource development strategy, marketing strategy and human resource development strategy, marketing and financial strategy, technology and financial strategy, and financial strategy and human resource development strategy [7], [9].

Multiple studies have been conducted on functional strategies in small and medium-sized enterprises across various nations worldwide. An empirical study conducted in the UK examines the process of functional strategy generation in small manufacturing businesses. The study reveals that manufacturing strategy formation is a very intricate process [8].

Efficiency can be enhanced by amplification the connection between business planning and clearly defining production objectives in the small organization. Especially in the manufacturing sector, a mix of functional strategies has been seen as beneficial for company's performance [15].

Several studies, such as those conducted on small and medium-sized enterprises in Pakistan, have observed that marketing strategy is seen as the foremost priority, with production management strategy ranking second in importance. The lack of emphasis on the functional financial and human resource development strategy is regarded as a problem in SME management [10].

Studies conducted in Ghana [11] have also shown similar findings on the significance of implementing marketing functional strategy in SMEs.

There is a lack of comprehensive research conducted on the subject in Bulgaria. To address the importance of the subject matter, this research undertook a case study on small and medium enterprises to examine the implementation of functional strategies in the management of SMEs.

A survey was conducted on the creation of functional strategies among 10 Bulgarian SMEs. These firms belong to various sectors and conduct operations in the Ruse region of Bulgaria. The case study methodology was employed. A case study is a research methodology that focuses on examining one or more specific cases rather than studying a larger population or sample. It typically employs qualitative approaches for data collection and analysis.

Empirical evidence indicates that the formulation of functional strategies in organizations is driven not solely by the size of the enterprise but by a multitude of interconnected elements. The elements can be categorized as follows: the type and specificity of the enterprise's activities, the specificity of its industry, the period of its development life cycle, the business plan, and the resources accessible to the enterprise. The knowledge and abilities of the personnel, as well as the entrepreneurs or managers of SMEs, exert a significant influence. It is very important to keep an eye on how all the processes related to a business's environmental, social, and economic sustainability [12] are improving, as well as the new ideas that are linked to these sustainability [13] and dynamics [14]. These elements are dynamic and have an impact on the functional strategies.

The case study supports the argument that in small and medium-sized enterprises (SMEs), there is often a lack of clear distinction between hierarchical management levels. Furthermore, there is a lack of documented regulations and protocols. The successful execution of strategies, particularly in small businesses, is primarily dependent on the expertise and intuition of the staff, as well as their drive and ability to exercise self-discipline. There is a lack of well-defined and effective tactics. The discussion primarily focuses on the resolution of marketing and financial concerns, as well as their correlation with corporate strategy.

The examined cases demonstrate that functional strategies are not commonly implemented in SMEs. Wherever they are utilized, there exists a deficiency in the ability to evaluate their efficacy. The discovery of additional effective methods can greatly improve company's performance when addressing matters related to corporate functional strategies.

4. Conclusion

Entrepreneurs and managers of contemporary small and medium-sized enterprises (SMEs) must possess a comprehensive understanding of the intricacies of functional strategy. Functional strategies outline specific methods by which crucial functional components of a company's organization are overseen. They are created according to the firm's strategic plans, both at the corporate and business levels, to address specific activities that contribute to the overall goals of the company.

Most of the regional SMEs examined in this study lack distinct strategic planning and implementation procedures. Consequently, there is a lack of thorough development and flexible implementation of functional strategies, as well as a failure to utilize suitable instruments in conjunction with them. This phenomenon is also evident in other nations where comparable investigations have been conducted. Functional techniques are specifically implemented through combination.

Implementing functional strategies is logical and beneficial for small and medium-sized enterprises across all industries. This finding is also valid for the specific cases analyzed in this paper.

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