

# Chapter 16

## Structural Change Management for Sustainable SME Development: Applying Classical Management Tools

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### ABSTRACT

*This chapter addresses several approaches in investigation of the SME life cycles, particularly in respect to the structure, functions and behavior of these businesses. Once SMEs have been established they start to change both their structure and behavior. In fact, it could be stated that SMEs operate in a permanently changing environment. There are a lot of factors which influence these changes and optimizing their management is a great challenge for most SMEs. As a result of these factors and suboptimal SME management practices survival rate of new established SMEs is low. For researchers and practitioners it is therefore crucial to discover how to increase long-term survival chances of SMEs through relevant structural change. In order to contribute to this goal the chapter will consider the conceptual and research framework of the structure and practical management behavior of SMEs in change management processes. The chapter also provides suggestions on how to use practical management tools such as the PEST, SWOT and TOWS matrices and ways of their analysis.*

### INTRODUCTION

Structural changes inevitably occur with the development of human society, both on a personal and on a global level. These structural changes are being reflected in value systems and put small, flexible organizations in a more favourable position compared to larger ones in terms of adaptability. Market competition between companies also forces small and medium size enterprises (hereinafter: SMEs) to be both innovative and productive. Speed of changes that take place in human society, even in markets, increased the competitive advantage of innovative and flexible companies, so they put at a disadvantage

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those companies which are weighed down by large structures and bureaucracy. With this in mind, perhaps it is not surprising that the share of small enterprises in the total number of companies is in constant increase. In addition to their number, small companies have a significant role in employment generation which is higher when compared with large ones and what is also very important, small companies could be the driving force for local economic development, particularly out of urban areas (Birch, 1981).

However, a small number and scope of their business functions result in the fact that SMEs individually have little impact on their environment and the power to modify it according to their needs. But, for the same reasons SMEs have an ability to react quickly to the changes happening in their environment. Conversely, large enterprises strive to establish stability in their operations, as well as keep up their structure, opening the door for the development of a structured bureaucratic organization. This inevitably hinders their flexibility and innovation which are prerequisites for success in market competition (Molnar, 2010).

In the second half of the twentieth century, large enterprises and multinational companies were the main factor of economic growth and development. However, at the same time in both developed and developing economies, SMEs became an increasingly important economic and social factor. With their innovations and willingness to take a risk, entrepreneurs in these SMEs emerged as a potential force that changes the existing situation and contributes to overall progress. The willingness of societies to support such individuals often predetermined their own overall progress (Penezić & Jakopin, 2002).

Enterprise growth eventually develops and changes its organizational structure and its goals, as well as ways of achieving them. The initial phase in the life cycle of SMEs is often chaotic, uncertain and risky period in their lives (Stanković, 1998). Those companies which survive this period in many cases avoid re-exposure to risks and uncertainties with which they are faced. They sustain their businesses in a smaller framework, not only relating to the number of employees, but also to other business factors. In this way, owners of SMEs themselves become a limiting factor in their own SME life cycle.

Nevertheless, the number and rate of creation of “small” companies among the overall business entities are increasing day by day. SMEs emerge on a daily basis, but they also disappear on a daily basis. Whether this is due to their inability to overcome all the “children’s diseases” on their development path or simply the law of the market in overall economic environment remains for further research. This is definitely a question that requires an answer. There are many ways in which small businesses are trying to survive, but modest overall resources that are at their disposal, are certainly one of the limiting factors of their survival and eventual further development.

In terms of ruthless struggle for market survival, the problems faced by SMEs are not just problems of individuals - entrepreneurs and managers. But rather, these problems have a wider social-economic dimension. An SME as an open organizational system is in intensive relationship with the environment, and its dependence on stakeholders is at an extremely high level. Since an SME does not have the power to change the environment, the only strategy is to adjust to it (Molnar, 2010).

As a result, and strongly dependent on success of SME management, numerous statistical evidence shows that less than a half of established SMEs survive for more than five years (EUROSTAT, 2016). Evidence seems more favorable in developed countries mostly due to their entrepreneurial culture level as well as organized systemic support provided by institutions of financial and non-financial SME support (SBA, 2014; Australian Government, 2013). Statistical SME performance data also reveals that failure to secure the survival is one of the most fundamental SME problems as well as opportunities.

For researchers and practitioners it is therefore crucial to discover how to increase long-term survival chances of SMEs. In order to contribute to this goal this chapter will implement the conceptual research framework on the structure and practical behavior of SMEs. Many researches have been conducted in

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