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## DECISION MAKING IN SMES A REVIEW

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### ABSTRACT

This study provides a literature overview of the entrepreneurial decision-making process. The literature review is used as background information for a qualitative study, which investigates, by means of review, the decision-making process of small business entrepreneurs. The literature overview is the starting point of a confrontation between the literature on decision-making and the empirical findings of the latter terms. Firstly, this literature review gives an introduction to general decision theory. It discusses the Role of Trust in SME Owner/Managers' Next, New Research and Development Project Selection Model in SMEs is discussed, Features of the Decision-Making in SMEs and Strategic Decision-Making in Small Firms are also discussed. Alliance Decision-Making of SMEs and Empirical Investigation into the Role of Adaptation Performance measurement systems in SMEs has also been reviewed for a research agenda Performance measurement systems in SMEs Lastly Decision Making & Gender Differences in the SME Sector is discussed quantitatively. This review will lead to rationalize decision making in industry or SME such that effective decisions can be carried out.

### INTRODUCTION

The need to make good decisions is never-ending in effective technology and business organizations. To manage these, there are decision-making methods and tools that improve the chance of making good, robust decisions.

Decision Making Model in Five Steps

1. State The Problem - The first step is to identifying the problem. Until we have a clear understanding of the problem or decision to be made, it is meaningless to proceed. If the problem is stated incorrectly or unclearly then our decisions will be of no use.
2. Identify Alternatives –Research is being done and finds possible alternatives. It may give a cushion to delve on the problem.
3. Evaluate the Alternatives - This is the analytic approach. We must have some logical approach to rank the alternatives. Two such logical approaches are A Decision Matrix and SWOT Analysis. These analysis methods are only one of the five steps in the decision making model. Decision Matrix: A decision matrix evaluates and prioritizes a list of options. The team first establishes a list of weighted criteria and then evaluates each option against those criteria. This is a variation of the L-shaped matrix. SWOT Analysis: A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as strengths (S) or weaknesses (W), and those external to the firm can be classified as opportunities (O) or threats (T). Such an analysis of the strategic environment is referred to as a SWOT analysis.
4. Make A Decision - Evaluated the alternatives. Two or more high ranked alternatives may be very close in the evaluations. So eliminate all of the alternatives that were low ranked. Now it is time to go back and examine the inputs made to evaluate for a close high ranked alternatives. Lastly eliminate the alternatives that do not make logical sense. Now it is time to let our subconscious work. Review all the details of the remaining high ranked close alternatives, so they are completely clear in our mind. Completely leave the project alone for a few days. When we return to the project, the decision will likely be very clear in our head. This only works if we have done our homework!

5. Implement Your Decision - A decision has no value unless you implement it. Therefore it should be implemented diligently. If we are not a good implementer then we can take help of some expert. Part of the implementation phase is the follow up. The follow up ensures that the implementation sticks. This decision making model in five steps shows a logical structured methodology for making a decision. The discipline that it provides will guide us to the goal of good Decision making.

Strategic decision-making (SDM) is fundamental to shaping the success of firms; however, the DM processes described in traditional DM theories and models have only limited applicability for our understanding of strategic decisions in small enterprises. This is because most DM models have been developed from studies of decision processes in large firms. This paper investigates the SDM process in small and medium-sized enterprises (SMEs).

## LITERATURE REVIEW

Yvonne Brunetto and Rod Farr-Wharton in “The Moderating Role Of Trust In SME s Owner/Managers’ Decision-Making About Collaboration”

The findings from this study suggest that the development of a trusting relationship is pivotal for SME owners/managers if the real benefits of networking are to accrue. The findings further suggest that even though most SME owners/managers indicated that the significant factor in determining why they joined a network was to look for business opportunities, their trust predisposition moderated how they interacted at network meeting and, in turn, affected their ability to share relevant knowledge and/or recognize new business opportunities. This paper analyzed the impact of trust and trust agents on small to medium-sized enterprises\_ (SMEs) ability to derive benefits from it. The findings suggested that trust is a significant factor moderating the way SME owners/managers perceive the potential benefits of networks. These findings support earlier research that posited that networking provides an avenue for SME owners/managers to learn about potential business opportunities.

C. P. Lawson, P. J. Longhurst and P.C. Ivey “The Application of a New Research and Development Project Selection Model in SMEs”

A particular new hybrid project selection model has been studied. A need to field test the model was identified. Consequently, work has been completed to allow translation of the model into an applicable form for a small engineering company. While documentation of project selection model development in academia and industry are widespread, reports of model evaluation and usage within industry are relatively scarce. While some studies have been conducted on model usage in large companies, applications within SMEs remain largely undocumented. This research has produced insights into the use of R&D project selection models in SMEs by testing a recently developed hybrid project selection model in a UK-based engineering SME. The paper investigates Research and Development (R&D) project selection models, Work is done to enable the new project selection model to be applied in an SME and the model is then field tested. field test results provide insight into the barriers to the adoption of such a model in an SME, either as a decision support tool or as a knowledge acquisition and learning tool. As an outcome of the field test results a simple R&D project portfolio cash-flow tracking method is proposed. The potential benefits of consistent and structured R&D project selection have long been recognized in both academia and industry.

Lect. Radu Ogarcă Ph. D Features Of The Decision-Making In SMEs

This paper is a literature review on the decision-making issues in a small and medium enterprise. The first part proposes an overview of the main theories and approaches regarding the managerial decision and the decision-making process, in general. In the second part, it tries to identify some specific elements of decision-making processes within SMEs, having as support the elements of the first part.

Petra Gibcus, Patrick A.M. Vermeulen, Jeroen P.J. de Jong “Strategic Decision-Making in Small Firms: Towards a Typology of Entrepreneurial Decision-Makers”

The quantitative study investigated the decision-making process in SMEs. Drawing upon a database of 646 firms across eight industries, this paper develops a typology of decision-makers in small firms. Five types of decision-makers are distinguished: daredevils, lone rangers, doubtful minds, informers’ friends and busy bees. Most changes in firms take place after a decision has been made. Obviously small firms are no exception to this, but how this decision-making process looks like is still an uncharted area of research.

Karla Díaz, Ute Rietdorf and Utz Dornberger “Alliance Decision-Making of SMEs”

The critical role of decision-making process regarding to the choice of being engaging into an alliance deserves particular research attention. This paper is focused on the alliance decision making process with specially emphasis on SMEs. The main contribution is to provide a framework of different factors that have influenced alliance decision making process. Based on Social Capital and Social Exchange, this research concentrates his analysis on a sample of SMEs from Mexico in which both, experienced and inexperienced alliances entrepreneurs, were considered. Our proposal included twelve variables which were analyzed to find their impact on the alliance decision making. The results show that the internal alliance initiative, frequently enterprise diagnose, trust based on partners' prestige and smaller or similar characteristics of potential partners have strong influence on positive alliance decision making. Opposite expected characteristics were found between alliance experienced entrepreneurs and alliance inexperienced entrepreneurs.

Glenn A. Metts "Decision Making And Strategy Development In SMEs: An Empirical Investigation Into The Role Of Adaptation"

This research investigates the nature of decision making in small and medium-sized manufacturing companies (SMEs). The role of adaptation is explored through a new proposed construct, adaptive decision making. Adaptive decision making (ADM) is defined as "a conscious or unconscious tendency to place a high priority on adaptation to the environment throughout the decision making process". ADM is based on the premise that top managers in SMEs possess an adaptive orientation toward decision making that impacts strategy development. Data was gathered from over 500 SME manufacturing concerns in the US to develop and test ADM. The relationship between adaptive decision making and manufacturing strategy is explored using SEM. Results suggest that adaptive decision making plays a significant role in the formation of strategy in manufacturing SMEs.

Patrizia Garengo, Stefano Biazzo and Umit S. Bititci "Performance Measurement Systems In SMEs: A Review For A Research Agenda"

In this paper, the literature on performance measurement in manufacturing SMEs is reviewed and the diffusion, characteristics and determinants of performance measurement in SMEs are analysed. Shortcomings in the performance measurement systems are highlighted and the many factors that seem to constrain PMSs in manufacturing SMEs are defined, e.g. lack of financial and human resources, wrong perception of the benefits of PMS implementation, short-term strategic planning. Moreover, using dimensions defined according to the information found in the literature, two PMS models specifically developed for SMEs are compared with generic PMS models. The comparison points out an evolution in PMS models over time; in particular, the models developed in the last 20 years are more horizontal, process-oriented and focus on stakeholder needs. However, it is not clear whether these changes are due to the evolution of the generic models or an attempt to introduce models suited to the needs of SMEs. To clarify this matter and better to understand PMSs in SMEs, further theoretical and empirical studies are necessary. The main issues still requiring investigation are listed in a research agenda at the end of the paper.

Olga V. Missioura, "Decision Making & Gender Differences in the SME Sector (A qualitative analysis of Businessperson characteristics practiced by SME directors)"

This article outlines the details of an empirical study into the perceptions of 18 Small to Medium-sized Enterprise (SME) Directors regarding the concepts of decision making process: behavioral beliefs, normative beliefs, attitude and subjective norm and gender differences and can be described as an exploratory qualitative study. The behavioral beliefs by female SME directors are represented by themes of Strategy, Future and Long Term Targets (dominant pattern distribution) while male directors divide their behavioral beliefs between themes of Financial Targets, Image and Long Term Targets (average pattern distribution). The normative beliefs by female SME directors are dominant represented by group of Advisors (outside the company, dominant pattern distribution). Female directors are more intend to ask for advice outside the company. Management of the company has by female director in their decision making process a low pattern distribution while male directors divide their normative beliefs between Advisors, Employees and Management (average pattern distribution). The attitude to be a good example for employees in a company is more important for male director (dominant pattern distribution) than for female director (average pattern distribution). The subjective norm has dominant pattern distribution by women and men by concept – own people - the directors more intend to comply with own people in the company than with others (people outside the company).

Steve Hilton "SMEs: A Decision-Making Framework for Technology Adoption"

In this article, author outlines the four-step process for small and medium-sized enterprises' technology adoption decisions, from recognizing a business challenge to the selection of a solution. The technology purchasing

process for small and medium-sized enterprises (SMEs) differs from that of large enterprises. Large enterprises rely on multi-year IT investment plans, careful analyses of security requirements, geographical concerns and business continuity preparedness. By contrast, an SME's technology decision-making involves a four-step process:

- Recognition of a business challenge
- Selection of a trusted technology advisor, via a sales and support channel
- Identification of a technology delivery model
- Selection of a solution

Jihene Tounsi Julien Boissière Georges Habchi "Multiagent Decision Making For Sme Supply Chain Simulation"

This paper describes a modelling and simulation solution based on multiagent system and ArchMDE (Architecture Model Drive Engineering) methodology for supply chain agentification. This research work outlines two main results: conceptualization and modelling. The first one deals with the identification and concepts definition of the different entities moving and acting into the multiagent and supply chain systems. The second one discusses the agent approach providing a framework naturally oriented to model supply chain concepts and their dynamic behavior.

### SUMMARY OF THE REVIEW

The literature review carried out in this paper discusses the various approaches to the decision making processes in the SMEs such as The decision making strategies in supply chain, Decision-Making Framework for Technology Adoption, Decision Making & Gender Differences in the SME Sector, Performance Measurement Systems In SMEs, Decision Making And Strategy Development In SMEs, Alliance Decision-Making of SMEs, Strategic Decision-Making in Small Firms, Features Of The Decision-Making In SMEs, The Moderating Role Of Trust In SME s Owner/Managers, Decision-Making About Collaboration, The Application of a New Research and Development Project Selection Model in SMEs.

The summary of the literature review can be briefed as there are various factors and approaches influencing decision making process. Such as New technology like computerized system can make time effective decisions but removal of human factor can make problems in such cases.

Similarly, In case of Gender differences the decision making process by female directors in SME sector is differ from their male colleagues and is more selective. The attitude to be a good example for employees in a company is more important for male director than for female director.

In case of Performance measurement we can say that even though the literature highlights the importance of using PMS in SMEs, very few companies carry out performance management. There was found to be a significant gap between theory and practice: the theory underlines the importance of PMS in SMEs in supporting the development of managerial systems, but little research focusing on performance measurement in SMEs is available.

In Alliance DM we can say that Enterprise diagnose, competence perception, flexibility, possession of knowledge, identification of potential partners, internal initiative and economic benefits and loss of control perception are positive correlated to alliance engagement while higher expected characteristics and high level of trust is negative correlated to alliance engagement

In-case of Entrepreneurial DM the results confirm that most current studies in the field of decision-making, with their focus on comparing practices in large and small firms, provide a too narrow view of how decisions are actually taken. Our survey revealed that some basic features of decision-makers differ substantially, including the frequency, independence, ambition, search for information, consideration of other options, risk taking propensity, presence of bottlenecks and influence of the economic situation.

The decision-making process within the SME has many specificity elements and must benefit by a distinct, dissociate approach. The understanding of the development of decision-making processes can help to formulate some solid, pertinent explanations and predictions regarding the entrepreneurial phenomenon. The elements presented in the present material can only be constituted in a very general framework, the influence of the contextual elements determining a multitude of possible decisional situations that are hard to synthesize, systematize and present.

One of the advantages of implementing the project selection model is that it allows a record of learning within the company to be kept. Such records are likely to be more valuable in large companies than in small firms. In large companies the scope to share decision-making knowledge is greater than in small firms where the number of decision-makers is less. Indeed in the test case here the number of decision makers is one and thus the value of keeping decision making records to share knowledge is very low. This offers an explanation as to why small firms in general and the company participating in this field test in particular is unwilling to invest the time and money to allow the implementation of a hybrid project selection model.

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