

PRACTICES OF DECISION-MAKING IN SMALL BUSINESS

DOI:10.5281/zenodo.3870870

INNA KUZNETSOVA, IGOR SOKURENKO

Abstract. Issues of managerial decision making in the practice of small business are considered. The key idea of the article is to prove a number of hypotheses regarding the lack of attention of small business to a strategic management decision; a predominant centralized management decision-making system and an increase in managerial decision-making problems as small businesses grow. The results of the survey are presented in a survey of 42 small businesses. The limited use of formalized methods of managerial decision-making and the lack of methodological developments in this area, given the specificity of small businesses.

Keywords: management decision making; small business; strategic decisions; formalized methods.

Introduction

Small business development ensures a balanced functioning of the country's economy. Most new business ideas are emerging and implemented by small businesses. They respond promptly to market needs and adapt flexibly.

The success of small businesses is directly dependent on effective management decisions. In the changing environment of the environment there is a need to form a complex of modern methods. It is this circumstance that is of great interest to the theoretical aspects of the process of developing and providing management decisions.

Analysis of researches and publications of recent years

There are significant scientific results in the issues of management in management decision making. The most significant in this area are the theory of bounded rationality of Nobel Prize winner Herbert Simon^[1] and the theory of prospects of Nobel Prize winner Daniel Kahneman^[2]. In modern research, scientists pay considerable attention to the psychological aspects of decision-making: J. Hemmond, R. Keene, and G. Raiffe explore the pitfalls that

^[1] Simon G. A. (2000) *Theory of decision-making in economic theory and in the science of behavior, Milestones of economic thought, V.2 Firm theory, p.54–72*

^[2] Kahneman D. (2011) *Thinking, Fast and Slow, Farrar, Straus and Giroux, pp. 40-44.*

influence decisions in business matters and determine ways to avoid them^[3]; K. Tinsley, R. Dillon, and P. Madsen focus on cognitive biases and overcoming them^[4]; P. Rogers and M. Blenko elaborated on the roles of managers in decision-making that affect their speed and efficiency^[5]. E. Campbell, J. Whitehead, S. Finkelstein systematized risk indicators for decision making that enable them to be recognized^[6]. Evan Polman, Kaiyang Wu analyzed: are choices for others riskier than choices people make for themselves^[7].

Identification of previously unsettled parts of the general problem

Small business enterprises that are more vulnerable to changes in the market need to make sound management decisions. At the same time, the problems of small business are insufficiently paid attention to in the works of scientists dealing with management decision-making. Increasing the validity of management decisions requires managers to know how to make them. To form a system of methods, taking into account the specifics of small business activity, it is necessary to analyze the practical aspects of the implementation of this process.

The purpose of the article is an analysis of the practice of making managerial decisions in small business and summarizing its specificity.

Setting objectives

The purpose of the research is to establish the main characteristics of small business in Ukraine, to identify the characteristic features of the process of development and decision-making in small businesses.

Presentation of the main research material

^[3] Hammond J., Keene R., Raiffe G. (2016) *The right choice. Practical Guide to Making Weighing Decisions*, 203 p.

^[4] Tinsley K. H., Dillon R.L., Madsen P.M. (2019) *How to avoid catastrophe. Making smart decisions. Top 10 articles from Harvard Business Review*, p.49-68.

^[5] Blenko M. U., Mankyens M. S., Rogers P. (2012) *Decide and embody. How to turn a company into a leader*, 270 p.

^[6] Campbell E., Whitehead J., Finkelstein S. (2019) *Why good leaders make bad decisions. Making smart decisions. Top 10 articles from Harvard Business Review*, p.167-180

^[7] Polman E., Wu K. (2019) *Decision making for others involving risk: A review and meta-analysis, Journal of Economic Psychology*, V.72, p. 2001.

Based on our study of specificity of activities and development of small enterprises in Ukraine, it is advisable to put forward a number of hypotheses:

Hypothesis 1: small businesses prefer the current administrative decisions and operational management cycles, and the least pays attention to the strategic decision.

Hypothesis 2: small businesses dominated by the centralized system of managerial decision-making in the absence of delegation of authority.

Hypothesis 3: the growth stage of small enterprises there is a number of problems in management decisions due to non-compliance of the procedure with increasing number of tasks.

For confirmation or refutation of our hypotheses, we conducted a survey of 42 enterprises of small business of Odessa and Odessa region. The survey was conducted with questionnaire questions divided into three main blocks:

- characteristics of the entrepreneur that participated in the survey;
- characteristics of small businesses;
- characteristics of managerial decisions taken by the entrepreneur.

In the survey participated by the owners and co-owners of small businesses (92,86% of respondents) and hired managers (of 7.14% of the respondents).

The largest share of entrepreneurs were persons at the age of 30-40 years, which corresponds to 57% of the respondents. Approximately the same proportion was respondents under 30 years (17%) and persons from 41 to 50 years (21%). The share of persons older than 50 years, is not significant (only 5% of respondents).

Characteristic of respondents is obtained mainly higher education (78,57% of respondents). The proportion of entrepreneurs with vocational secondary education is of 16.67%, an average of only 4.76 per cent.

The lion's share of respondents has considerable experience in the business. 71,43% of entrepreneurs working in the business for over 5 years. Most of them tried their hand at new activities, but only half attempt was successful.

According to the results of our survey, the nature of activity of the enterprises of small business is diverse. They are represented in more than ten different fields of activity (the part of the respondents named a few fields of activity). The largest share among the respondents are small businesses that provide services wholesale and retail trade – 45,24% (Table 1).

Main business areas of small business surveyed (Source: author's own research) - Table 1.

Areas of activity	Number of enterprises by activity	
	absolute	relative, in % of the total
production of goods	4	9,52
wholesale and retail trade services	19	45,24
educational services	4	9,52
typographic services	2	4,76

IT services / Internet promotion services	4	9,52
recruitment services	2	4,76
freight forwarding services	6	14,29
concert and production services	1	2,38
real estate services	1	2,38
customs brokerage services	1	2,38
translation services	1	2,38
passenger transportation services	1	2,38
construction, repair services	1	2,38

More than half of respondents (55% of entrepreneurs surveyed) use no more than 10 people for the reporting period, so they are considered micro-enterprises by the criterion of the average number of employees. Accordingly, 45% are small businesses with an average number of 10-50 employees. Given the number of employees, the number of management levels of the surveyed enterprises is small. Thus, 46.34% of the surveyed enterprises have one level of management and 53.66% - two levels of management.

By annual income, the surveyed enterprises are divided into three approximately the same groups:

- 32% of respondents - with income up to UAH 1 million;
- 29% of respondents - with income from 1 to 2 million UAH;
- 39% of respondents - with income over UAH 2 mln.

Most surveyed entrepreneurs positively evaluate the performance of their small businesses (Table 2). They characterize the dynamics of sales and profit as positive (23 units or 54.76%), and stably constant (14 units or 33.33%).

Structure of the surveyed enterprises according to the dynamics of the main indicators of activity (Source: calculated by the author on his own research) - Table 2

Investigated indicators	Number of enterprises in units (%) for which the indicator was investigated		
	has a positive dynamic	stably constant	is shrinking
Sales volume and profit	23 (54,76%)	14 (33,33%)	5 (11,91%)
The share of profit that is re-invested in the enterprise	15 (35,71%)	21 (50,0%)	6 (14,29%)

The majority of interviewed entrepreneurs indicates a balanced management decision-making in terms of risk and income (60.98% of respondents). Accordingly, the proportion of respondents who focus management decisions

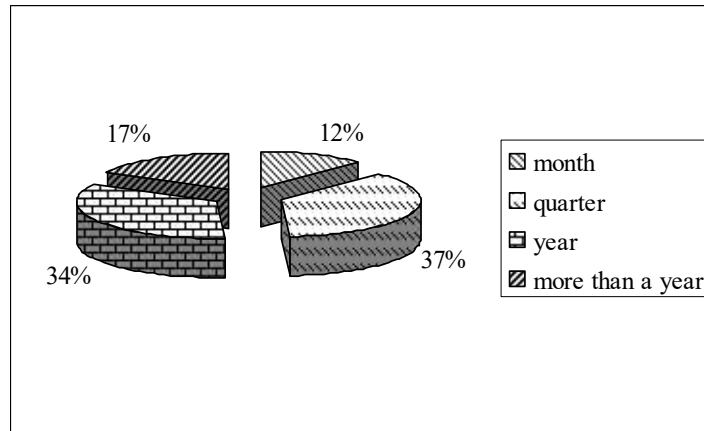
on maximizing income is 19.51%. The same number of companies make management decisions aimed at minimizing risk.

However, only 15 enterprises (35.71%) increase the volume of reinvestment of profit in their own development. In a way, this is evidenced by their low innovation activity.

According to the questionnaire for the characterization of management decisions made by entrepreneurs, we investigated:

- horizon of planning of activity of the enterprise;
- division of manager time between managerial decisions of different nature;
- the main features of the decision-making process and its stages;
- the main problems that impede management decisions;
- the basic methods and programs used to make management decisions.

Based on the survey, we found that the maximum planning horizon for small business enterprises (respectively management decisions) for the majority of respondents is quarter (37%) and year (34%) (Figure 1).



Maximum planning horizon for the activities of the interviewed enterprises (Source: Generalized by the author on his own research) - Figure 1.

It is well known that management decisions are focused on the period more than a year, are being taken to address strategic objectives. By estimations of managers, such decisions spent an average of 21% (Fig. 2.7). Most of the time requires the adoption of operational (related to short-term objectives and priorities) decisions, occupy 51.4% of the working time of the Manager.

That is, most of the time managers in small businesses is the decision-making related to the solution of daily problems. Only a small percentage of their time is spent on the development and implementation of the decisions of a strategic nature, aimed at forming and achieving the promising goals of the company. You should also pay attention to the disparity of the percentage of

long-term and strategic decisions in the respondents' answers, indicating lack of understanding of the essence of these concepts.

If to characterize the main stages of management decision making by the respondents, the largest number of respondents separated such of them:

- identification of alternative solutions (82,5% of respondents),
- evaluation and selection of alternatives (80% of respondents),
- implementation of management decisions (77.5% of respondents)
- feedback (70% of respondents).

It is notable that more than half of the respondents performs preliminary analysis of problems for which accepted management decision (57.5% of respondents). In addition, only half of the respondents determines the effectiveness of decision-making, comparing the obtained effect and costs of its achievement (52.5% of respondents).

Although not all the interviewed managers pointed to the need for problem analysis as one of the main stages of management decision making, most of them noted that analyses of the problem situation often (61.9% of respondents) or always (33,33% of respondents) (Table 3).

Main characteristics of management decisions in terms of how they are made by respondents (Source: calculated by the author on his own research) - Table 3

Main characteristics of management decisions in terms of how they are made by respondents	The frequency of characteristics of managerial decisions that takes place			
	always	often	someti mes	never
<i>Preliminary analysis of the problem situation</i>				
number of enterprises, units	14	26	2	-
number of enterprises,%	33,33	61,90	4,76	-
<i>Management decision making based on intuition</i>				
number of enterprises, units	1	8	25	8
number of enterprises,%	2,38	19,05	59,52	19,05
<i>Making management decisions based on your own experience</i>				
number of enterprises, units	14	25	3	-
number of enterprises,%	33,33	59,52	7,14	-
<i>Development of several alternative solutions followed by the choice of the most optimal one</i>				
number of enterprises, units	3	17	21	1
number of enterprises,%	7,14	40,48	50,00	2,38

Only the fifth part of respondents (19.05%) make informed decisions without relying on intuition. However, 59.52% of the respondents indicate that sometimes they make intuitive decisions when making management decisions. The same number of respondents (59.52%) often make decisions based on their own experience.

It should also be noted that on an ongoing basis, only 7.14% of those polled consider alternative solutions, followed by the choice of the most optimal one. 40.48% of respondents resorted to the development of several options often enough, 50% of respondents do so rarely.

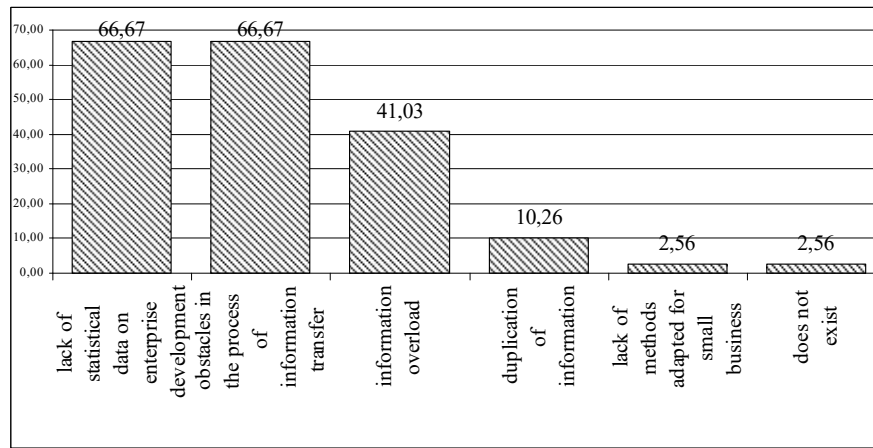
The analysis of the respondents' answers to the questions regarding the participants of the management decision-making process showed that most of them often make decisions individually (59.52% of the respondents). Another 26.19% of respondents always make decisions personally (Table 4).

The main characteristics of the management decisions of the respondents in terms of participants in the process (Source: calculated by the author on his own research) - Table 4

The main characteristics of the management decisions of the respondents in terms of participants in the process	The frequency of characteristics of managerial decisions that takes place				
	always	often	sometimes	never	could not reply
<i>Individual management decision making</i>					
number of enterprises, units	11	25	4	-	2
number of enterprises,%	26,19	59,52	9,52	-	4,76
<i>Involvement of responsible employees in the development of management decision</i>					
number of enterprises, units	3	17	20	1	1
number of enterprises,%	7,14	40,48	47,62	2,38	2,38
<i>Involvement of external consultants in the development of management decision</i>					
number of enterprises, units	-	6	20	15	1
number of enterprises,%	-	14,29	47,62	35,71	2,38
<i>Management decisions are made on the basis of proposals of the personnel of the enterprise</i>					
number of enterprises, units	1	6	25	9	1
number of enterprises,%	2,38	14,29	59,52	21,43	2,38

Approximately the same number of respondents often (40.48%) or sometimes (47.62%) involve responsible employees in the development of management decisions. As for external consultants, they rarely use their services (47.62% of respondents) or do not use them at all (35.71% of respondents). Management decisions are made rarely by respondents (59.52%).

Among the biggest problems hindering managerial decision-making are the overload of the manager with current tasks and the lack of time for decision-making, as indicated by 87.18% of the respondents (Figure 2).

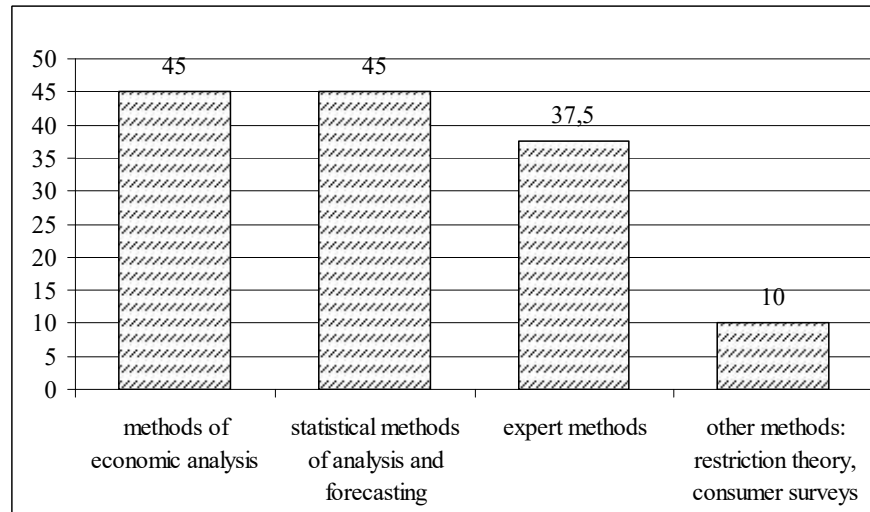


The most common problems that hinder the decision-making of the respondent companies (Source: Generalized by the author on his own research) - Figure 2.

Also, a significant proportion of the respondents indicated the lack of statistical nature regarding the development of enterprise (of 66.67%) and disturbances in the process of information transfer (of 66.67%). Some of the respondents stressed the urgency of the issue of information overload Manager (41,03%).

It should be noted that the problem of shortage of time for decision-making and information overload are linked. The necessity to solve them is based on the fact that the organizational structures of linear type (has the lion's share of small businesses), the head should have a broad range of knowledge and skills that help him in business and personal decision problems. Interference in the communications often arise in connection with the fact that the entrepreneur is better able to personally comply with its administrative decision than to explain to their subordinates how to do it. That is, the problem is in the plane of the absence of the leader the ability to delegate.

The study of the formal methods of managerial decision-making has allowed to establish that their use less than half of small businesses (Figure 3). They are the most widely used methods of economic analysis and statistical methods of analysis and forecasting, noted, 45% of respondents. Another 37.5% of the respondents indicates that the use of expert methods in the process of managerial decision-making. From previous studies, we have found that as experts, increasingly, the involvement of responsible officers of the company.



Management Decision Making Techniques Used in Small Business
 (Source: author's own summary) - Figure 3.

In General, the results of the study, we confirmed the hypotheses and identifies the key aspects of the existing practice of managerial decisions in small business:

- maximum horizon control activities of small enterprises (respectively, and management decisions) is the period from quarter to year. Most of the time of entrepreneurs is the decision-making related to the solution of everyday problems, that is solutions of an operational nature. The decision of a strategic nature are given less attention, making it difficult to determine the trajectory of the development of the enterprise in the conditions of high level of influence of environmental factors;

less than half of small businesses are attracted to the process of decision-making employees. Very seldom decisions are made on the basis of proposals of personnel responsible for certain functional areas, or on the basis of recommendations made by external consultants. Delegation of authority in a small business almost never happens.

- at the stage of growth in small businesses have problems in making decisions due to non-compliance of the procedure with the increasing number of

problems associated with confusion in the priorities of the tasks are imperfect procedures of cost management, a mismatch between the number of tasks and amount of human resources, lack of clearly defined processes of information exchange and decision-making procedures. Managerial decisions in small business, largely based on their own experience of the Manager, sometimes are intuitive; the overall level of use in a small business formalized methods and programmes for managerial decision-making is extremely low.

Conclusions and perspectives of further developments

The results of the conducted research we can draw the following conclusions:

1. small business representatives are mostly people 30-40 years old with higher education and experience in business for over 5 years. That is, they began their business with a certain level of knowledge;

2. increasingly small businesses presented by the enterprises of wholesale and retail trade that operate in the market more than 5 years, have one founder and a simplified management structure. Small businesses are also characterized by positive dynamics of sales volumes, profits, an acceptable level of financial risk and low innovation;

3. the owners and managers of small businesses in the development and management decisions are guided primarily by personal experience, intuition and other subjective factors. The use of formalized methods of making management decisions is limited. In our opinion, due to the fact that these methods are largely designed for big enterprises.

4. confirmed the hypotheses about the lack of attention of a small business strategic management decisions; the vast centralized system of managerial decision-making in the absence of delegation of authority and the increase in problems in making managerial decisions at the stage of growth of activity of small enterprises due to non-compliance of the procedure with increasing number of tasks.

Future studies will be aimed at development of methodology of management decisions taking into account specificity of activity of the enterprises of small business.

References

- Simon G. A. (2000) Theory of decision-making in economic theory and in the science of behavior, Milestones of economic thought, V.2 Firm theory, p.54–72
- Kahneman D. (2011) Thinking, Fast and Slow, Farrar, Straus and Giroux, pp. 40-44.
- Hammond J., Keene R., Raiffe G. (2016) The right choice. Practical Guide to Making Weighing Decisions, 203 p.

- Tinsley K. H., Dillon R.L., Madsen P.M. (2019) How to avoid catastrophe. Making smart decisions. Top 10 articles from Harvard Business Review, p.49-68.
- Blenko M. U., Mankyens M. S., Rogers P. (2012) Decide and embody. How to turn a company into a leader, 270 p.
- Campbell E., Whitehead J., Finkelstein S. (2019) Why good leaders make bad decisions. Making smart decisions. Top 10 articles from Harvard Business Review, p.167-180
- Polman E., Wu K. (2019) Decision making for others involving risk: A review and meta-analysis, Journal of Economic Psychology, V.72, p. 2001.

Inna Kuznetsova, Doctor of Economics, Professor, Head of Management Department, Management, Accounting and Informational Technologies Faculty, Odessa National Economics University, Ukraine, e-mail: inna.stream27@gmail.com

Igor Sokurenko, postgraduate, Management, Accounting and Informational Technologies Faculty, Odessa National Economics University, Ukraine, e-mail: igorsokurenko@gmail.com