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*NEW PERSPECTIVES ON MANAGEMENT AND RESILIENCE OF BUSINESS ORGANISATIONS*

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# HOW LOCAL SME BUSINESS CAN DEFEAT BIG MULTINATIONAL COMPANIES NOWADAYS?

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**Abstract.** There is perception within business community of multinational companies (MNC) that Small-Middle Size enterprises (SME) have limited potential to compete with them. The purpose of the study was to explore successful SMEs competitive advantages vs. their MNCs rivals on local markets. Technology SMEs with bigger to MNCs market shares and above average maturity level were selected for this study. Three production industry sectors were chosen: household chemistry, electrical/electronic assembly, and chemical products. Methodology was an assessment of SMEs and MNCs competitive advantages enablers by their soft and hard nature, performed by individual interviews and questionnaires. It was found that in order to successfully compete with MNCs, SMEs can use the right set of dominantly soft elements of organizational structure: selected ranger of operational strategies, skills and values such as deep relationships with customers, flexible agile response to their needs, niche bespoke products based on strong technology expertise, lean organizational structure and entrepreneurial behaviors. Some examples are given.

**Keywords:** competitive advantage, SME, MNC, business cunning, flexibility, agility, niche products, values.

**JEL Classification:** L10

## Introduction

There is common perception within international business community that small and middle size enterprises (SMEs) have limited potential to compete with multinational companies (MNCs) and vs. internationalized local SMEs (Masroor & Asim, 2019). This view is coming apparently from SME's lower economies of scale, less matured business processes and tools, less resources and expertise available.

However, in recent decades, the time of growing ambiguity and uncertainty, there are number of SMEs with seemed no separation between company's ownership and top management, no signs of social responsibility, poor top-down communication, signs of micromanagement, lack of delegation or empowerment, but they manage to compete successfully with MNCs and dominate on markets, gaining higher market shares.

Thus, the aim of this empirical study was to explore the root causes of described above paradox and scrutinize which of the elements of SMEs' organizations were contributing to success in their competition with MNCs.

## 1. Literature review

Any business, big or small, rely on hard and soft elements contributing to its performance. Soft ones are the corporate culture and Values, Skills and expertise of Staff, hard ones are Systems, Structure and Strategy (Channon & Caldart, 2015), see Figure 1.

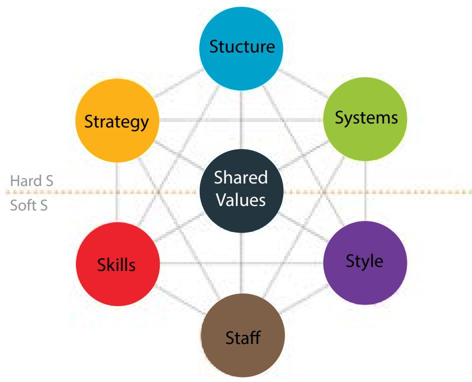


Figure 1. McKinsey 7S Model of Organization

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Ahmad et al. (2019) using another model – Business Excellence – founded not much difference in 6 *soft* enablers between MNCs and SMEs – Leadership, Strategic Planning, Customer Focus, People, Process and Information.

Bogdanović (2012) also describes contemporary management models being split into two approaches: based on hard elements (after Taylor fundamental work of 1919) and on soft (social, human-being-related) ones. Tukamuhabwa et al. (2021) shows examples of SMEs' competitive advantages in developing countries that can stem out from their logistics and supply chain *soft* practices including vertical integration of the logistics, i.e., keeping it in-house. Wee (2022) observed personalized approach of HR management in Malaysian SMEs, which can be considered as competitive advantage of the *soft* nature. Suganda & Rohman (2023) describes Product Innovation and Market Orientation as (*soft*) sources of competitive advantages of SMEs in Indonesia.

However, as a whole, there is not much literature available that investigates the roots of technology SMEs competitive advantage(s) especially coming from the *soft* elements of the organization. Though there are more studies devoted to the resource-based approach and MNCs within this context available (Beamish & Chakravarty, 2021; Chumphong et al., 2020; Estensoro et al., 2022; Farika et al., 2021).

## 2. Methodology

We observed 5 SMEs in Ukraine, UK and Russia and 4 MNCs in Ukraine, Belgium, Netherlands and in UK during meetings with employees, in some of them we conducted Questionnaires. All of them were in production sectors of household chemistry, electrical/electronic assembly, and chemical products (Table 1).

Evaluation of SMEs and MNCs competitive advantages enablers by their soft and hard nature was performed with using the McKinsey 7S Model and scoring points method (1 – lowest score, 10 – highest) to evaluate their maturity level and this model elements' contribution to competitive advantages.

Table 1. List of SMEs and MNCs observed

| Entity | Headcount ± | Industry sector | Maturity |
|---|---|---|---|
| SME 1 | 150 | chemical products | 7 |
| SME 2 | 50 | electrical/electronic assembly | 8 |
| SME 3 | 100 | household chemistry | 9 |
| SME 4 | 100 | household chemistry | 10 |
| SME 5 | 100 | electronic assembly | 7 |
| MNC 1 | 350 | household chemistry | 8 |
| MNC 2 | 150 | electrical/electronic assembly | 6 |
| MNC 3 | 400 | household chemistry | 9 |
| MNC 4 | 300 | household chemistry | 8 |

## 3. Skills and Staff

MNCs love to say that they treat employees as the most valuable asset. The compensation packages here are full of fringe benefits and intensive development programs. The balance of working/private time (flexi-time schedule of working hours, remote jobs, shortened Friday working hours (Zoom-free Fridays since COVID-19), extra pay for overtime - all are well kept and usually part of a written or unwritten contract between employee and employer (Zayed, 2022).

Observed successful SMEs deployed another's strategies:

- They were often *more flexible in HR decisions* to employees' requests as they have much less restrictions and procedures, and they are faster/more agile because their hierarchy is much leaner. More *lean hierarchy* can also offer more personalized approach delivering more motivated and more engaging work environment.
- *"Combo-role" jobs assignments* for professional development (when employee or newcomer is performing additional business role in another department) were observed by us in several cases. These assignments were promoting inter-departmental communication and helping avoiding negative Silo effects.
- The workplace environment for employees in such SMEs is rather a "social club" with a family-like atmosphere where employees can have *more job security* (remember recent 150,000 workers laid off during 2022 in technology sector globally, a lot of them been informed by e-mail?).
- The balance of working/private time in SMEs is shifted towards the former one. But, to compensate that, SMEs simply *pays smalls extra* vs. labour market rates, without "bothering" with the fringe part of the compensation package.

Examples of above we observed in Ukraine and Russia in B2B electric/electronic assembly, FMCG chemistry goods sectors manufacturing.

## 4. Style. Attitude to time

Describing all observed successful SMEs corporate management style as a whole, we can say that it shifted towards a military, autocratic one in all SMEs we met. A metaphor of the mechanical clock for perfect organization – "every employee must perform right as one of many star-wheels – not faster, not slower – just as surrounding requires" – works better here for these SMEs and shows their strength in dynamic markets of developing/emerging countries. Whilst a "living organism" metaphor, used sometimes for successful big internationals, appears inferior to described successful SMEs.

Another observation – *attitude to trade-off and concessions.* SMEs' observed business culture was very much 'project' but not 'process' oriented one, this was a culture of shortcuts, when processes or procedures (even if available) can be ignored to the favor of short term ad-hoc fix. Thus, SME's manager were always more 'flexible' (as they called it) and less sensitive to deviations from mainstream like Quality Control or Safety procedures or business ethics or whatever. English business friend of mine used to say – SMEs managers are 'artists' so they cannot cope within process-oriented business cultures of, for example Anglo-Saxons' MNCs. They quickly become bored with procedures, policies and rules. They (managers from MNCs) like to live in culture of 'short cuts', when solution is designed ad-hoc, individually tailored for 'single use'. We back this point of view.

Another observation. In spite of seemed by us inferiority of the autocratic management style vs. democratic one, in all observed MNCs *the Value of Integrity* was at reality challenged if comparing it with one in SMEs. In MNCs we witnessed situations when top management did not want to listen about problems, they were expecting only to hear "good news". In SMEs it was easier to bring the problem to the table. We believe that this difference can be explained by more lean SMEs organizational structure: top managers here often are shareholders and there is no need to show off, in contrast to MNCs where hierarchy assumes down-top reporting of only good news, if you want to succeed and progress in your career.

We believe that concept of Barbarian and/or Builder and Explorer organizational life cycle early stages (Miller, 1989) fully match several SMEs in Ukraine, Russia we have seen.

To fight competition, such SMEs has had become *friskier* (*more agile*) *in decision -making*. For example, the time for MNC's new operational investment decision is 6–12 months or even more. Lean SMEs show on average 1–4 months. Even if SME identifies an issue "on radar screen" later, the reaction to the issue is quicker.

## 5. Systems. Attitude to business tools and procedures

A high number of successful SMEs are using actively Accounting, CRM and ERP (Kakhi et al., 2022) tools. However, as regards to ERP, attitude might be different. "Excel MS is the best, and tools like ERP are source of rigidity, so useless!" – I heard from some SME's owner. At first instance, absence of ERP seems bringing no transparency, limiting operational planning and management capacities, challenging the decision-making and killing customer service. Some SME companies perform the daily, sometimes hourly corrective actions in changing the customer and production orders, raw materials purchasing, etc., then all above flaws are offset. Such an ad hoc practice appears to us as *not sustainable and exceptional/temporary* and requiring higher business planner skills vs. situation of MNCs where ERP provides to planner necessary "expertise" to make right business decisions.

Exceptional example: Ukrainian manufacturing company (SME specializing in fine chemistry components production) has managed to build really lean hierarchy and actively using cross-functional teams, JIT components delivery, actively encourage employee's involvement into NPD process (Dolmatova, 2022). Result: they do not use ERP and see it as tool bringing rigidity and excessive time for creation of new item for BOMs (Bill of Raw Material), account of new supplier or new client, etc. Result – their market prices are lower to Chinese and Israel competition; lead-times are shorter too!

Another example of difference in attitude to business tools – S&OP business process (Sales and Operations Planning): all observed MNCs (from B2C, B2B and B2G manufacturing sectors) were strong adherents of S&OP (Pawan, 2016). Reasons to implement it were to avoid Silo effect between Commercial and Operations departments, avoid Bullwhip effect (Dheeraj, 2023) in inventory management and at the end of the day improve the customer service. Implementation process in MNCs was painful but irreversible, delivering obvious improvements in OTIF (On Time in Full) customer services and stocks inventory reductions. SMEs, been introduced to concept of S&OP business process, struggled with motivation to implement it in spite of some symptoms of Silo effect "illness", poor customer service and unreasonably high inventory levels. Causes of this behavior (wrong in our opinion) were: lack of strong support from top executive management ("ad hoc approach is good enough, it does not kill our flexibility"), unwillingness to acknowledge Silo effect, an absence of single set of business data actual to date and available to all stakeholders. Not a surprise, any attempts to implement S&OP using down-top approach failed.

## 6. Values. Attitude to Product

MNCs, being a "masters of standardization", often have a product range, comprising of standard products, so clients sometimes forced to buy the product with an "excessive" amount of performance parameter or "excessive" functionality. Successful SMEs deeper investigate client's needs and offer *nonstandard bespoke or innovative products*. Fine-tuning of the formula/specification for particular clients and applications (even resulting in a higher SKU count in the SME's products portfolio) brings lower product cost and provides them with price competitiveness. Innovative products can simply bring additional revenue. To manage this, SMEs have an extra staff who is dealing with development of bespoke product and technology adjustments to reach the desired product spec parameters. However, these extra costs are offset by incremental revenue gained from competition who cannot offer precisely-fit product to the customer's needs.

It is common GMP practice of MNCs to manufacture the B2B and B2C products at the middle part of key spec parameters (Laubheimer, 2016). If, say, the active ingredient in the product spec is within the given range, then most of the decent MNCs producers try to be *within middle part of the spec*. SME's relevant strategy in contrast to MNCs is to be *at the lowest possible part of the spec*, sometimes even a bit *out of the spec*, this is well-spread practice in China. Also, we have seen the examples of intentional omission of important details in the products Technical Data Sheets.

Example: electrical and electronic lighting fixtures been produced (assembled) by one MNC have had more narrow range of functionality if been compared with almost similar product assembled by their local SME's rival. Innovation was coming from their Clients requests with whom SMEs sales managers were close friends.

## 7. Values. Attitude to Supply Chain

International companies usually distinguish between procurement and purchasing, they pursue vendor's partnership practice trying to select those with whom they want to develop optimal balance of short- and long-term contract relationships (Gilles & Aadhaar, 2020). SMEs in contrast, are quite entrepreneurial and often purchasing on the spot markets. As we have seen, they creatively use *temporary, ad-hoc agreements with other market players and their clients* to jointly source raw materials (to gain from the economy of scale), they even buy finished products from the competition for re-labelling and re-selling if faced with abnormal demand.

Example: one observed SME was simultaneously buying raw materials and selling own-produced chemical ingredients to the same "Client-Supplier".

We consider this practice as a good source of SME's additional resilience reached via collaboration that bringing closer proximity (Customer Intimacy) to the Client. We never ever observed such a practice done by MNCs: all of them were following the rule of "classic": Supplier can be only Supplier, but not a Client, otherwise management of accounts payable and receivable inevitably will come to mess.

Product outsourcing is another example of the difference. We observed cases when MNCs after conducting "Buy vs. Make" studies had outsourced "non-core" and/or declining "Dog with Bone" and sometimes "Cash Cow" (BCG's product life cycle model, see Figure 2) activities to gain from someone's economies of scale and better price.

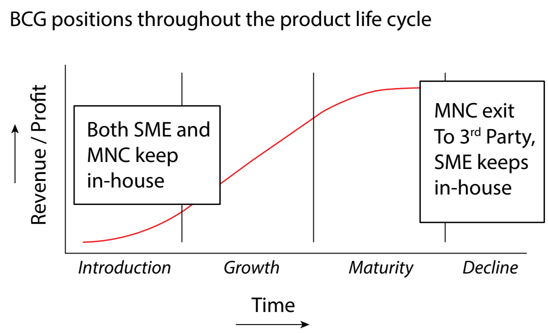


Figure 2. BCG's product life cycle model and observed SMEs and MNCs positioning

SMEs in our observations often do not follow this "exit" pattern of MNCs. One of the reasons for this is that they being "younger" business-wise vs. MNCs, have less products belonging to last forth phase of the product life cycle ("Dog with Bone").

Moreover, they perform opposite strategy and invest in the vertical (own) supply chain, they see here the advantages of gaining benefits from lower costs and higher margins.

Also, SMEs seek the ways to grow by offering themselves as Contract Manufacturing provider to MNCs (Zhang, 2013). They see there not only a chance for an additional revenue but also the opportunity to gain new product/technology knowledge and expertise from MNCs.

## 8. Values. Attitude to Customers

Successful SMEs manage to build a strong relationship with selected Customers. Being with them at closer than MNCs proximity, SMEs deeply immerse into their needs, spend a lot of time with them, and compensate them own and their mistakes. *Time to spend with Customers*, individual service, speed of reaction seems to us is higher than comparing with one we have seen from MNCs.

MNCs usually have lengthier and less flexible supply chain vs. local one of SMEs, so they have more complexity in it (Villegas & Haasis, 2017). We witnessed several times when MNCs demonstrated an examples of "extreme" customer loyalty blindly following the rule "Customer is always right" (slogan pioneered first in UK's department store Selfridges in 1914) by delivering household goods and electronics components by airfreight to meet Customers abnormal demand.

In contrast to MNCs, for local SMEs the client is not only a King but also a "counterpart" generating revenue. They do not overestimate the strategic importance of Customer relationships to above mentioned extent and prefer avoiding loss-generating deals ("a bird in hands is worth two in the bush"). Example: observed MNCs payment conditions policy and SMEs relevant practices were quite different: MNCs been often reach with cash sometimes use it wisely by offering extended payment terms conditions to the Clients, this practice cannot be affordable for most of observed SMEs. However, some Clients in developing markets often follow the tough rule (with some degree of exaggeration): "If our Invoice is due in 30 days, we pay it in 60 days, if 60 – we pay it in 90 days, if 90 – they do not need money!" which can bring MNCs to cash crisis. SMEs are much tougher with Clients within this context.

## 9. Values. Business Ethics and Cost/Price Competitiveness

Compliance, Code of Conduct, traditional Business Intelligence practices, licensed software, HQ burdens (royalty, management fee, and manufacturing licenses) usually are resulting in higher costs of products made by MNCs (Maskus et al., 2005). In contrast, SMEs overheads typically are lower that means they can spend this "excess" wealth to streamline their operations, invest into new products, or to market shares (via aggressive pricing /payment conditions policy). Attitude to safety, health, and environment differs too: if these topics are solid part of corporate culture for big internationals, for SMEs these topics are "opportunities" for cost avoidance.

Example: electrical and electronic lighting fixtures been produced (assembled) by one MNC have had significantly higher product cost if compare with almost similar product assembled by their local SME's rival. Even if MNCs product components quality and scale of their procurement were higher and BOM part of the product costs were comparatively equal, the overheads in MNC were much higher to ones in SME limiting MNC product competitive positioning on the market.

Product price volatility: all observed MNCs have had a tough pricing policy for Clients. Prices were "static" and fixed for entire fiscal year with only excuse to review of product cost deviations were exceeding some certain threshold. It was varying within range of 5–10%. Observed SMEs practice was different: all of them reviewed prices to Clients monthly (*"dynamic pricing"*), sometimes even more often, following costs of procured raw materials and components, costs of energy and labour bills, currency exchange rates fluctuations.

Business ethics: we witnessed that some SMEs deploy "no-rules" malpractices. They fetch of competition's transactions databases in order to see their prices, clients, suppliers. They offer kickbacks to clients, use pirate software, practice tax evasion – all that resulting in additional cost/price competitiveness but exposes them to high risks of various nature (Lutge et al., 2014).

## Results and Conclusion

Score results of SMEs and MNCs evaluations – *soft* ones including Values and *hard* ones presented in the Table 2.

We can see that MNCs appears to be stronger vs. SMEs by some 30% in *hard* elements, whereas SMEs appears to be stronger by 15% vs. observed MNCs in several *soft* ones, such as:

a) Business cunning;
b) Agility and flexibility in relationships with Customers and in decision-making;
c) Product innovation and technology knowledge along with deep market understanding;
d) Proximity to customers.

SMEs competitive disadvantages of *soft* nature are:

a) "no-rules" malpractices;
b) Attitude to tools, systems and business processes.

We found only one SMEs competitive advantage of *hard* nature: product portfolio comprising of bespoke products (additionally to the range of standard products), whereas *hard disadvantages* were more numerous: recourses and assets, tools and systems, and economies of scale.

One obvious explanation of observed soft nature of SMEs success is that they simply have fewer *hard* elements available to them so forced to utilize "what's available". As a result, MNCs, possessing the abundance of resources, assets and economies of scale from global supply chain, deploying matured business practices and tools, showing stable product quality and prices, caring attitude to environment and society, - appearing to be long-term sustainable and competitive, in our cases tactically failed to SMEs and eventually lost locally their market shares.

Risk-aversion was another source of difference found between SMEs and MNCs: in areas of product innovation, entering new markets, building new technology, creating new in-house element of supply chain, deploying malpractices – in all these activities the observed SMEs were showing much less risk-aversive behaviour coming from their shareholders shared Values.

We did not find any correlation between maturity level of sampled SMEs and their soft/hard elements balance. One of the possible explanations could be a small sample size and/or prevalence of SMEs with high maturity level within the sample.

Mentioned earlier concept of Barbarian and Builder-and-Explorer stages of organization's evolution matches all SMEs we have seen. In addition, there is a good correlation between the stage and the type of management style: SMEs Barbarian and Builder-and-Explorer life cycle stages have tendency to autocratic style, whereas all observed MNCs were showing signs of Administrator and Bureaucrat types of organization and democratic style of management.

It is difficult to judge – where (country, industry sector) it is easier for SMEs to compete with big internationals due to small, non-representative size of the sample of our study. However, in our opinion namely the developing countries offer more opportunities for SMEs' success – from lower cost of labour and energy, less regulated (more correctly to say with weaker legal enforcement environment) and fewer competitors.

Thus, we see that SMEs that over-perform MNCs, manage this by developing and capitalizing mainly their

Table 2. Evaluation score results of SMEs and MNCs observed

| Entity | Structure | Systems | Values | Staff |
|---|---|---|---|---|
| SME 1 | 6 | 5 | 10 | 9 |
| SME 2 | 6 | 6 | 9 | 9 |
| SME 3 | 7 | 7 | 8 | 8 |
| SME 4 | 8 | 8 | 9 | 8 |
| SME 5 | 7 | 5 | 7 | 8 |
| MNC 1 | 10 | 8 | 7 | 8 |
| MNC 2 | 9 | 7 | 8 | 8 |
| MNC 3 | 10 | 10 | 7 | 7 |
| MNC 4 | 10 | 10 | 7 | 7 |

*soft* elements of organization. We see the only one most feasible way for MNCs to compete with these successful SMEs in developing countries - via merges or acquisitions.

In order to support further the findings and conclusions of the dominance of soft elements of the SMEs organisations as success enablers, we will consider performing in a future similar empiric study with bigger sample size.

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