

Corporate strategy tendencies – a case study on Kuwait Businesses

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Abstract: *Nowadays in Kuwait, given the Government's strategy of encouraging small and medium sized businesses with no interest loans, more and more small business projects are opened every year. Most of these businesses choose to outsource some of their tasks and activities. The purpose of this paper is briefly to describe several outsourcing and value chain corporate strategy tendencies in Kuwait, focusing mainly on small businesses (SMEs) as examples.*

Key words: *strategic management, small enterprises, outsourcing, business management*

JEL classification: M21

I. Introduction

Today's dynamically changing economy is connected with higher expectations of strategic management. Kuwaiti firms have different ownership structures: government, dominant family, individuals, and institutional investors (Alfaraih, Alanezi & Almujaed, 2012). The purpose of this paper is briefly to describe several outsourcing and value chain corporate strategy tendencies in Kuwait, focusing mainly on small businesses (SMEs) as examples. Like in many other countries, in Kuwait outsourcing is perceived as a highly powerful business strategy that allows companies to use outside resources in order to perform certain tasks that would have normally been done by their own employees. Instead, more and more companies decide to externalize certain services, choosing other companies to perform some of their tasks, while they continue focusing their resources on core activities. One of the most difficult tasks is to find answers to questions related to specific motives for starting the process, and those relating to the strategic dimension of the business (Papazov & Mihaylova, 2009; Todorova, Ruskova & Kunev, 2018; Pepur, Mihanović & Pepur, 2013; Galabov, 2007).

II. Corporate strategy tendencies – examples of Kuwait small business

Some studies in Kuwait show high willingness for both males and females to participate in small business creation (Al-Wugayan & Alshimmiri, 2010). This is a challenge for coordination of strategic and tactical managerial decisions suitable for small companies (Papazov, 2014; Simberova, 2014), but "smaller firms are even better in their effort to cope with changes in the environment" (Karadjova et al, 2016).

In Kuwait, given the Government's strategy of encouraging small businesses with no interest loans, more and more small business projects are opened every year in Kuwait, and most of these businesses choose to outsource some of their tasks. One of the main goals of an outsourcing strategy is to transform business organizations into entities that are highly flexible and adaptive to the changing business environment (Mihaylova & Papazov, 2018; Trajkov & Biljan, 2012). Small bakeries, for instance, advertise themselves on Instagram and other social media channels and sign partnership deals with delivery companies such as "Carriage" or "Tawseel", the leading delivery solution providers in Kuwait, in order to have their products delivered to their customers. Since they

are small businesses (so called SMEs), their resources are limited as well, and providing delivery services by employing several employees and either purchasing or renting delivery vehicles will require more costs than those required by the partnership with one of the delivery companies mentioned above, or with another similar company. Thus, small businesses save the time and resources that would have normally been allocated to delivery services and use these resources in order to purchase new baking equipment, utensils and ingredients, or attend additional baking courses. By delegating some of their tasks to other companies, especially big delivery companies such as the previously mentioned two companies, they have more time to focus on their core business tasks, corporate social responsibility (Antonova et al, 2018; Koev, 2013), and can negotiate low delivery fees which will attract even more customers, since most recent studies have shown that high delivery fees are a significant setback when it comes to online orders. Most delivery services inside Kuwait are charged with amounts as low as 1 Kuwaiti dinar, the equivalent of 3 Euros¹, which is even cheaper than standard delivery fees in most European countries.

In this case, outsourcing the product delivery task to specialized companies not only helps small bakeries save money, but it also helps them save time, which is an even more important issue for most businesses nowadays. By being able to save both time and money, in addition to negotiating a highly acceptable delivery fee, small bakeries stand a chance not only to make quick profits, but also to expand their businesses, and they might even consider outsourcing more of their tasks in the future. Some bakeries, for instance, may choose to outsource tasks such as sourdough starter feeding for their sourdough products, seed tossing and grinding, etc.; however, most bakeries tend to fear outsourcing these particular tasks, for fear that the quality of the final products might be affected. Outsourcing implies a certain degree of risks, and in the

case of outsourced delivery tasks, risks include untimely deliveries or inappropriate delivery conditions that might affect product shape and quality. Let's assume that a small bakery outsourced the delivery task for a wedding cake order. Although the final product meets the client's expectations in terms of texture, taste, size and shape, once it leaves the bakery, inappropriate delivery can completely ruin it, which will have a bigger effect on the bakery's reputation than on the reputation of the delivery company. It is essential to discuss delivery conditions before concluding delivery contracts and penalties should be imposed on delivery companies for faulty deliveries, so that bakeries can back up their businesses. Imposing penalties also influence the delivery methods adopted by the delivery companies, as extra care and delivery vehicles should be used when it comes to baked products, especially delicate ones such as cakes.

Not only small businesses in Kuwait choose to outsource some of their tasks. On a larger scale, many companies conducting business in Kuwait choose to outsource data entry, as managing data entry is a time-consuming task, which requires plenty of resources. Data entry includes, without being limited to, processing and storing documents, invoices, order forms, excel sheets, receipts, various records and other similar information that most businesses find hard to store properly, and would rather have their employees focus on more important issues such as developing new products, implementing new business strategies, prospecting new market ideas or concluding deals. Outsourcing data entry bears a certain level of risk; however, most companies which choose to outsource this type of services do not provide the outsourcing companies with sensitive or highly confidential information. In addition to that, as a precaution measure, non-disclosure clauses are being added to outsourcing clauses, to ensure that all data provided is handled in the most secure manner possible. By outsourcing data entry tasks,

¹ EUR = 0.3349 KWD ¹
<https://ec.europa.eu/budget/graphs/inforeuro.html>
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companies manage to reduce costs, but also enjoy the benefit of nominal turnaround time, as most companies specialized in data entry have their employees work around the clock in order to ensure that all data provided will be handled as per client's needs and according to a certain schedule. Most data entry companies that Kuwaiti companies prefer to work with are based abroad and apart from lower prices they can also benefit from time-zone advantage.

Data outsourcing is considered to lead to a significant increase in business productivity and cost reduction. In Kuwait, as well as in the entire Arab Golf area, almost half of the companies have chosen to outsource IT or business functions, and the increasing outsourcing demand is also linked to the government's plan of diversifying different business sectors, as oil revenues will not last forever, and therefore new income sectors should be invested in, as part of the government's long-term business plan.

All in all, outsourcing seems to be a common practice for most businesses in Kuwait, irrespective of their business type or size. Outsourcing offers quality assurance, cost effectiveness, skilled personnel, data confidentiality, customized services and more time for businesses to focus and develop their core tasks, and that is why the number of Kuwaiti companies which choose to outsource part of their tasks is constantly increasing.

Outsourcing is a strategic and effective management tool meant to create competitive advantages and it should be closely linked to cost management in order to ensure the success of a business. However, apart from outsourcing, there are several other factors that small and medium-sized companies should be considering.

Cost management should be in keeping with the competitive strategies implemented. In the case of a small bakery in Kuwait, the main cost strategy should be that of determining which type of product price the business will target in the first place. In the case of the above-mentioned bakery, the targeted costs range from medium to high, given the long preparation time and costly ingredients used for most of the sourdough products.

High prices may be a risky business strategy, but when they become synonymous with high quality products, chances are the strategy will lead to an increase in customer number and satisfaction. This is called differentiation strategy, and it should only be applied after having carefully observed the spending habits of existing customers. For instance, in the case of a bakery, before launching a rye and spelt loaf using stone ground imported organic flour from Italy, which not only has more nutrients than regular flour available at Kuwaiti local mills, but is also more expensive, as import fees should be added to the purchase price, the bakery should first calculate the production price, add a small profit percentage to that and thus obtain the final selling price. In addition to that, newer and more costly products should be introduced, based on existing customer demands, or simply based on the spending habits of existing or target customers. More health-oriented customers, or those having certain allergies, will most likely be willing to pay more for such a product, as consequently, the number of loaves produced on a daily basis should somehow try to reflect such a demand, as unsold bread means wasted resources and business loss.

Cost calculations are important to all types of businesses, and the bigger the company, the more stages they go through. In the case of small businesses, for instance, the bakery mentioned in the paragraphs above, the number of stages is reduced to the initial stage of calculating direct manufacturing costs and assigning them to the existing number of employees, followed by the cost calculation for future periods.

Other elements of the value chain in terms of cost calculations include inbound logistics, a task outsourced as per the description above, followed by outbound logistics, which may include either present or future operations, such as monthly rent prepayment, etc.

Other important elements of the value chain, as far as cost calculation activities are concerned, are marketing and sales costs. Especially in the case of newly opened small businesses, the products sold need to be advertised through appropriate channels in order to reach

potential clients fast. Most small businesses in Kuwait choose to promote their products via social media, mostly through Instagram and Snapchat, by creating a business account and posting daily pictures and videos of their products, paying for sponsored ads targeting people living in the same area and sharing interest in their type of businesses. For instance, small bakeries will target either people with interest in cooking, or food related businesses, such as restaurants, coffee shops, etc. In order to reach a larger number of people in a very short time, most businesses pay local influencers who have plenty of followers in order to advertise their products by posting videos of them and sharing their impressions on the products with their followers. In recent years, this type of marketing has proven to be the most effective, as famous influencers advertising their products can easily convince their followers to give the new products a try. Businesses using this rather new marketing tool have reported a serious increase in the number of online followers as well as in the number of orders received. The tariffs of influencers vary on the duration of the post or video and on the number of followers they have. Needless to say, influencers who have over 1 million followers will charge at least 10000 Kuwaiti dinars per post, however most businesses choose to pay such high rates because they lead to an instant boost in sales. And if their products are of high or good quality, most customers will soon become returning customers, generating a continuous sale flow. Understandably enough, most businesses will not continue promoting their businesses by means of local influencers once they have reached their targeted customer number, as maintaining their products at a high-

quality level and their prices reasonable will ensure the overall satisfaction of the clients, who will have no reason whatsoever to try similar products from other businesses.

In terms of technology related costs, small bakeries will not need to invest many resources into that after having purchased the initial technology needed to start the business. However, over time, and based on the customer order increase, small businesses may consider investing in technology or, better said, in additional technology, meant to further expand their line of business.

III. Conclusion

In order to attract and maintain customers, small businesses (SMEs) in Kuwait, need to keep the quality of their products at high standards, and therefore, constantly invest the profit obtained, in order to develop new products, train their employees and hire additional staff whenever necessary. Such managerial decision affects organizational performance (Arun, 2015; Mitev, 2016; Hofbauer & Bergmann, 2012; Bagautdinova, Gafurov & Svirina, 2014; Papazov, 2011) and factors such as top management support, perceived benefits, etc. (Al-Ali, 2014). Effective management and resource allocation, as well as marketing through appropriate channels can significantly contribute to a business's success, thus constituting a competitive advantage as opposed to other businesses which not only fail to acknowledge the importance of all the above mentioned factors, but are also unwilling to further invest their profit or allocate additional resources for gaining competitive advantage. In the long run, this will make the difference between a successful and a non-successful business.

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