

Strategic Management-A Tool for Growth of Micro Small and Medium Enterprises [MSME] A Study

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ABSTRACT

Indian Micro, Small, Medium and Micro enterprises [MSME] play a predominant role in the economic development of country. It contributes nearly 45% of industrial output, 35% of exports, 42 million in employment, create one million jobs every year and produces more than 8000 quality products for the Indian and international markets. Today MSMEs are exposed to greater opportunities for expansion as the fundamental nature of competition is changing. The Indian market is growing rapidly and Indian industry is making remarkable progress in various Industries. It is becoming very difficult to determine the boundaries for industries and countries, therefore borders between different countries are vanishing. It is throwing a huge challenge for MSMEs to make their remarkable progress. Though huge opportunity is there for MSMEs to grow, they are facing a problem of lack of professionalism, adaptation of proper strategies at the right stage and severe competition from large scale industries. This particular research is undertaken to evaluate strategic planning as a management tool for MSMEs, with a view to help them to achieve more competitive advantage over a long run. The main objective of this research is to appraise the value of strategic management concepts and techniques, as applied to MSMEs & provide guidelines for them to apply strategic management to prevent major crisis and business failures which generally happens in Indian MSMEs. This conceptual research was supported by interviews of senior business professionals, research papers and review of research articles to arrive at conclusion.

The conclusion is that strategic management is most relevant to MSMEs. If proper implication of strategic management is done in various stages of business it is possible to avoid threats and crisis and MSMEs can achieve competitive advantage over a long run. To solve the problem of MSMEs stage wise implementation of strategic management is proposed, by considering the ground reality in India.

Keywords: Lack of professionalism, stage wise implementation, competitive advantage,

1. INTRODUCTION

Due to rapid globalization, changing business environment, advance in information technologies, rapid change in customers preference, changes in demand and supply ratio, increasing outsourcing activities, disintegration of value chain system, strategic management is increasingly playing a predominant role. Indian economy is growing at a rapid speed. Especially Indian MSMEs are contributing towards nation's growth. It contributes nearly 45% of industrial output, 35% of exports, 42 million in employment, create one million jobs every year and produces

more than 8000 quality products for the Indian and international markets. Strategy is considered to be a detailed plan for a business in achieving success. Managers employ strategy to achieve result. Strategic management practices and organization performance in small business enterprises goes together, but most Small business enterprises place less emphasis on making effective strategy for improved performance. The Indian market is growing rapidly and Indian industry is making remarkable progress in various Industries like Manufacturing, Precision Engineering, Food Processing, Pharmaceuticals, Textile & Garments, Retail, IT, Agro and Service sectors. SMEs are finding increasing opportunities to enhance their business activities in core sectors.

What is MSME?

Under the MSME Act 2006, the definition of micro, small and medium enterprises was redefined as below:

For MSMEs in the Manufacturing Sector, criteria for categorization were the investment in plant and machinery, as follow:

- Micro Enterprises: Less than Rs. 25 lakh
- Small Enterprises: Between Rs. 25 lakh and Rs. 5 crore
- Medium Enterprises: Between Rs. 5 crore and Rs.10 crore

For Service Sector MSMEs, the criteria were in the investment range as follows:

- Micro Enterprises: Less than Rs.10 lakh
- Small Enterprises: Between Rs.10 lakh and Rs. 2 crore
- Medium Enterprises: Between Rs. 2 crore and Rs. 5 crore

1.1 Statistics of MSME: Reality Check

The results of 4th All India Census of MSMEs (2006-07) reveal that there were 2.61 crore MSMEs in 2006-07 (as against the projected figure of 1.3 crore). This includes 0.15 crore registered units and 2.46 crore un-registered units. Of the total, 28% are in manufacturing and 72% in services. These units are largely in Apparel (14.03 %) followed by Food Products and Beverages (13.53%) and Maintenance of Personal and Household goods (9.25%). The MSME sector accounts for employment of 5.97 crore persons, of which, 0.95 crore are in registered units and 5.03 crore in the un-registered units.

The Data on registered units reveals that closure among MSMEs has decreased from the 39% in 2001-02 to 21.64% in 2006-07. Sickness in MSMEs has increased marginally from 13.98% in 2001-02 to 14.47% in 2006-07. Sickness is found to be largely on account of lack of demand and shortage of working capital. The data also reveals that the per unit employment has increased from 4.48 in 2001-02 to 6.24 in 2006-07, per unit fixed investment from Rs.6.68 lakh to Rs.33.78 lakh and per unit gross output from Rs.14.78 lakh to Rs.46.13 lakh in order of priority.

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This is the first Census after change in definition of the sector and includes, for the first time, medium enterprises and services. For purposes of the Census, an enterprise is defined as a unit with fixed premises and hence does not include hawkers, road side vendors, etc. The 3rd All-India Census of Small Scale Industries with reference year 2001-02 was completed in the year 2003. The 4th All-India Census of MSMEs was launched in May 2008 and its field work was completed in March 2009. This required collection of data for 24 lakh registered units and around 4 lakh unregistered units. The Census was done in cooperation with the State/UT Governments.

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1.2. MSMEs & Indian Economy

World over, the Micro Small and Medium Enterprises or MSMEs have been recognized as engines of economic growth. In India, MSMEs are the second largest source of employment after agriculture. They account for almost 40 per cent of industrial production, 95 per cent of the industrial units, 34 percent of the exports and manufacture over 6000 products. It is estimated that to create one job in the MSME sector, only Rs 72,000 is required as against Rs 5.5 lakh required in the large organized sector.

In the present scenario of global recession, where several large industries are on the verge of collapse, the role of MSMEs assumes significance. It is estimated that to achieve the target of 10 per cent growth by 2011, the MSME sector needs to grow at 12%. However if we compare the growth of MSMEs in India with those in the neighboring countries in South East Asia like Thailand, Malaysia, Japan, China, etc. it is found that we lag far behind. There are some major hurdles which do not allow this sector to flourish well.

Table 1: MSME's contribution: Industrial Production & GDP

Year	Total Industrial Production	GDP
1999-00	39.74	5.86
2000-2001	39.71	6.04
2001-2002	39.12	5.77
2002-2003	38.89	5.91
2003-2004	38.74	5.79
2004-2005	38.62	5.84
2005-2006	38.56	5.83
2006-2007	44.12	7.44
2007-2008	45.00	8.00

Source: Annual Report 2008-09, Ministry of Micro, Small and Medium Enterprises

The MSME sector in India is acting as a Fuel for an engine. The above statistics proves this growth has surpassed overall industrial

growth. The period between 2004 to 2008 saw a double digit growth in the MSME Sector.

Table 2: Comparative growth rates: Industry & MSME Sector:

Year	MSME Sector[%]	Overall Industrial Sector [%]
2002-03	8.68	5.7
2003-2004	9.64	6.9
2004-2005	10.88	8.4
2005-2006	12.37	8.1
2006-2007	12.60	11.5
2007-2008	13.00	8

Source: Annual Report 2008-09, Ministry of Micro, Small and Medium Enterprises

2. RESEARCH METHODOLOGY

“Strategic Management-a tool for growth of Micro Small and Medium Enterprises [MSME] A Study “ this study aims at investigating and testing the implications of concept called strategic management as a competitive tool for MSMEs to achieve sustainable growth.. For this purpose the **information collected** from various sources like Books, Magazines, Research Papers, and Research Articles and also conducted informal interview with senior business consultants of etc. Different research articles are reviewed for this purpose.

Scope for the Study: in the era of this 21st century changes are taking place rapidly, every organization is looking for silver lining in their performance. This strategic management concept revolutionized the organizations in terms of sustainability, profit, growth and consistency. Lot of scope is there to study this strategic management to understand, adopt and implement it in the organization to achieve the concept called synergy. Due to globalization, increasing competitiveness among all fields it's a challenge for MSMEs to frame proper strategies by understanding internal and external environmental variables. Majority of SMEs have simple systems and procedures, which allows flexibility, immediate feedback, short decision-making chain, better understanding and quicker response to customer needs than larger organizations. In spite of these supporting characteristics of SMEs, they are on tremendous pressure to sustain their competitiveness in domestic as well as global markets A sincere attempt is made to contribute towards this strategic management concept.

Limitations of the study: time spent for conducting this research is too short and using of non statistical tools to analyze and interpret the data may not be applicable to whole market

3.0 SIGNIFICANCE OF MSME

MSMEs are considered the engine of economic growth:

- Generates employment opportunities
- Assists in regional and local development by accelerating rural industrialization by linking it with more organized urban sector.

- Growth of MSMEs helps to achieve fair and equitable distribution of wealth by regional dispersion of economic activities.
- Contributes towards export revenue
- Assist in fostering self-help and entrepreneurial culture by bringing together skills and capital through various lending and skill enhancement schemes.
- Helps to withstand economic upheavals and maintain a reasonable growth rate since being indigenous is the key to sustainability and self-sufficiency.
- Converts the raw material within the country into semi-finished items and later pass it on the Large Scale industries that have capital, skill and equipment to process these into finished goods. Thus supports large industries.
- Provide rural people an opportunity for income generation and personal growth since they can work at home. This helps to achieve fair and equitable distribution of wealth by creating nationwide non-discriminatory job opportunities.
- Attracts direct foreign investment since multinationals and big conglomerates have started to outsource from countries with strong SME sectors. The low labour cost makes production of semi finished goods very economical for large concerns operating in international markets.
- The SMEs act as engines through which the growth objectives of developing countries can be achieved.

3.1. Major Challenges for MSMEs

- **Lack of Professionalism:** Improper management in MSMEs. They lack proper policies, planning and strategic decision making. Many owner manger small firms lack strategic thinking.
- Due to globalization, increasing competitiveness among all fields it's a challenge for MSMEs to frame proper strategies by understanding internal and external environmental variables.
- Majority of SMEs have simple systems and procedures, which allows flexibility, immediate feedback, short decision-making chain, better understanding and quicker response to customer needs than larger organizations. In spite of these supporting characteristics of SMEs, they are on tremendous pressure to sustain their competitiveness in domestic as well as global markets.
- The pattern of global competition, technological advances and needs of consumers, competitive paradigms are continuously changing. These changes are driving firms to compete, simultaneously along different dimensions such as design and development of product, manufacturing, distribution, communication and marketing. It is one of the major challenges for MSMEs today in India.
- Manage finance and proper utilization of funds is another challenge. Though credit to MSMEs fall under the category of priority sector lending, but with the expansion of the priority sector lending to accommodate fast growing areas such as home loans, education loan, the percentage share of credit to MSMEs is falling. According to the Third All-India SSI Census (2001–02), only 14.2% of the registered and 3.09% of the unregistered MSMEs availed finance from bank.
- One of the major challenges for MSMEs is the lack of technological innovation and the knowledge of market demands. This is true particularly in the textiles sector. Most of the household units still work on obsolete technology

because of which not only the cost of production remains high but the product also fails to meet the demand of the market in terms of quality. Because of liberalization and opening up of the economy, the MSMEs are now facing stiff competition from imports and therefore need technological up gradation to manufacture better quality products at cheaper rates.

- India is known for the qualitative human resource in science and technology but technology intervention in the small industry sector is still very low and as a result the cost of production is much higher in India than other developing nations in Asia.
- Indian MSMEs lacks proper marketing skills to market their products. It is because of lack of awareness about marketing strategies and strategic thinking. Most MSMEs do not have money to invest in market research and are unable to carry out design and technical improvements to keep up with market demands. It is because of this lack of information that the middlemen are able to take advantage of and exploit the poor artisans, weavers by paying a paltry sum for their products and selling those products in the international market at exorbitant prices.

3.2. Strategic Management and MSME

Strategic management is the process of examining both present and future environments, formulating the organizations objectives, implementing and controlling decisions focused on achieving these objectives in the present and future environments. In other words, strategic management is involved in deploying a firm's internal strengths and weakness to take advantage of its external opportunities and minimize its external threats/problems (Adeleke, Ogundele and Oyenuga, 2008).

Thompson and Strickland (2003) defined strategic management as the process whereby managers establish an organization's long-term direction, set specific performance objectives, develop strategies to achieve these objectives in the light of all the relevant internal and external circumstances, and undertake to execute the chosen action plans.

According to Durcker (1974), the prime task of strategic management is thinking through the overall mission of a business, i.e. asking the question what is our business? This leads to setting of objectives development of strategy and making of today's decision for tomorrow's result. This should be done by balancing the present objectives and needs against those of the future in the light of available resource (both present and future) of men and materials.

Studies on strategic management have shown that strategic management is concerned with deciding on strategy and planning how that strategy is to be put in to effect. It can be thought of as having three elements within it: there is strategic choice stage which is to do with formulation of possible courses of action, their evaluation and the choice between them. Finally, there is a strategic implementation stage which is to do with planning how the choice of strategy can be put into effect (Johnson & Scholes, 1999; Dess & Miller, 1999; Aluko et al, 2004; Oyedijo & Akinlabi, 2004 & 2008, Kazmi, 2008).

3.3. Is application of Strategic Management improves MSME Performance?

The strategic management concept is very useful for improving performance of companies. The concept of strategic management developed in the midst of difficult economic meltdown and fast

changing environment, so over the years much of the empirical research in the strategic management was centered on identifying which set of strategies seen to enable business firms to achieve economic success. Early studies carried out by management researchers concluded that increased profitability does not normally accompany the application of strategic management (Fulmer and Ruel, 1974).

However, a significant number of recent investigations suggest that an efficient and effective strategic management system can increase profitability. Recent studies show that there is a close link exists between strategic management and performance of companies. In one of such studies by Rhyme (1963) it can concluded, "firms with strategic planning systems more closely resembling strategic management theory were found to" exhibit superior long-term financial performance both relative to their industry and in absolute terms".

Strategic management helps in following ways:

- It provides better guidance to the entire organization on the crucial point of "what it is we are trying to do" that is, the vision.
- It makes managers and organizational members more alert to new opportunities and threatening development.
- It helps in overcoming risks and uncertainties and therefore contributes to organization success.
- Strategy increases the quality of business decisions.
- Creating a more proactive management posture
- Helping to unify the organization
- Promoting the development of a constantly evolving business model that will produce sustained profitability for the business

So we can say that **strategic management can make a difference!** Basically, using the strategic management approach, where managers at all levels of a business interact in planning and implementation has great behavioral consequences almost similar to those of participative decision making (Pearce and Robinson, 2003, Adeleke, Ogundele and Oyenuga, 2008).

Nmado (2007) maintain that in spite of all these benefits, the greatest persuasions for use of the strategic management approach are the financial benefit associated with successful practitioners. Greater financial and Competitive success than would be possible otherwise is one benefit chief executives can reasonably expect.

This has been statistically proven along the lines of;

- Continuing growth of rates. Increase in relative market share,
- Growth in earnings, growth in earning per share,
- Continuing addition of new products and product lines,
- Continuing expansions of the firm's customers population
- Absence of excessive seasonal or cyclical fluctuations.

In summary, it would be stressed that strategic management has become more important to managers in recent years and defining the mission of their organization in specific terms have made it easier for managers to give their organization a sense of purpose. Moreover, organization that get involves in strategic management are better able to predict the future than others.

The process of small firm strategic management:

Formal business planning in small firms is often a process in which owner-managers attempt to examine their industry environment systematically and establish a framework and direction for future activities. The first stage is often preparation of a mission statement, an examination of the current situation facing the business and the preparation of forecasts for future growth (O'Gorman and Doran, 1999), after which objectives and strategies are developed. These elements are documented for

internal and external stakeholders and a monitoring-evaluation process is established (Linder and Vick, 1984).

Finding the best fit between mission, opportunities and the firm's capabilities is frequently a major challenge (Bryan, 1998) and external consultants are often used to assist. However, the owner-manager has ultimate responsibility for the plan and its implementation (Bracker and Pearson, 1985).

There is usually considerable uncertainty associated with such opportunities and an entrepreneur needs to secure resources and to guide the team's activities. However, a strategic plan for an established and growing venture needs to address the interaction and management of strategy in balance with available resources and organizational structure (Mazzarol, 2005; Chandler, 1962)

Within strategy, the most important focus is likely to be the identification of the firm's strategic intent, which includes a clear vision and mission that can guide the business and unite key stakeholders, particularly employees (Hamel and Prahalad, 1989).

4. CONCLUSION

The strategic management has an effect on the performance of MSMEs. Also, implementation of strategic management has a positive relationship with organizational profitability. Therefore, it is recommended that appropriate strategic planners, strategic situation, strategic analysis and choice are put in place. The implementation is possible only stage wise. The management should have a positive rethink towards the use of strategic management. The success of a business or strategy depends primarily on the value judgment, energy and skill of its top managers and the strategic implementation within the context and parameter of the uncertainty and ambiguity of the environment subjected to volatility. Strategic management issues are of important with respect to environmental and capability analysis, strategic formulation, strategic implementation, strategic evaluation and control, capacity utilization among others. The use of strategic management practice is considered as indispensable in small scale enterprises and MSMEs should consider strategic management policy for improving organizational performance and to face the global challenges.

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