

Small firms and strategic tools for competitive advantage

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ABSTRACT

Strategic management seems to be quite crucial in small organizations and at times it is distinctly different in comparison to large organizations. In most of the cases of small organizations, entrepreneurs or the promoters are sole decision maker. They perceive it to be one man show. We all understand that organization being a separate legal entity must have its strategy in place. The entrepreneur may possess qualities to run his / her organization on the basis of managerial acumen but now-a-days, a person with a distinct and strategic vision is required. The strategic leaders view the market and thus the opportunities and at the same time may meet the challenges and threats. Chances are there, some small enterprises might have developed competence to perform in the times of uncertainty because of their personal attributes but this alone may not be enough. They should gradually cultivate strategic insight and strategic vision that may result in strategic planning. Through this they will be able to meet the challenges of market unevenness and be ready to face other challenges and completion.

1. Introduction

Many studies have confirmed that the future of small enterprises lie in technological advancements, easy access to low-cost finance, and better marketing insight to make them globally competitive. Some of the studies that have been conducted in this case have concluded that the sector suffers from a shortage of raw material, access to finance, and effective marketing of products and consistent scarcity of technological knowledge.

Post liberalization economic environment has produced massive growth prospect for the small enterprises. The consistent expansion in computer and information technology, introduction of e-commerce, liberal policies of Govts., and improved infrastructure have all contributed to the growth of Small units. The government has also supported SSI through various policies of tax holidays and priority lending. The creation of WTO in 1995 resulted in a key challenge to the well being of the SSI. It can be concluded that if the SSI upgrades the technology, undertakes better management practices, reengineers the operations to gear up productivity and stresses on quality product; they would be highly competitive in the post WTO scenario.

Here the issue is whether these industries have become competitive or lack on various grounds and the results were not fruitful. If we notice the trend today we cannot stand alone on this plank that we should feel pity on their performance. Still there are immense unexploited markets in many sectors which are yet to be exploited and are far reach of multinationals because domestic firms are in a better position to capture them as they enjoy better knowledge of their home markets. But small firms are not competent enough to exploit the opportunities as they actually do not know where they are and where they want to reach. They are not aware of their strengths and weaknesses. They keep on out crying that they know the solution but they are really not aware of the problems, which

clearly indicate that they lack in confidential management and strategic insight. Lack of managerial skills and strategic planning is the root cause of all other problems. They have to work on the derivative of all the problems and pitiable growth of their firms.

2. Review of literature

The growth of Small enterprise is one of the long-standing puzzles in management research (Davidsson et al., 2005). Small businesses make up the largest chunk in every economy across the world (Culkin & Smith 2000) and, since the 1970s, have replaced 'big business' as key drivers of employment and economic growth in most OECD countries (Peacock 2004). In spite of their dominance (both in terms of absolute numbers and contributions to economic activity), small businesses are generally "plagued by high failure rates and poor performance levels" (Jocumsen 2004, p.659). To make certain about unrelenting development of the small business sector, extensive research has examined why some enterprises are more successful than others. It has been found that strategic planning is an important ingredient in small business development, competitiveness and success (Vicere, 1995). Regrettably, the majority of small businesses do not strategically plan. Their planning is not advantageously done.

SSI Units that plan strategically (compared to those that do not) are more likely to be those that achieve higher sales growth, higher returns on assets and higher profit margins (Berman, Gordon, & Sussman, 1997; Bracker, Keats, & Pearson, 1988; Carland & Carland, 2003; Gibson & Casser, 2005). Smaller units that are strategic in their approach are more innovative, and may attain higher global growth (Beaver & Prince, 2002; Gibbons & O'Connor, 2005; Stewart, 2002; Upton, Teal, & Felan, 2001) and those less likely to fail (Gaskill, van Auken & Manning 1993; Perry 2001). Kraus (2007) has suggested that it might be the 'right kind of planning' rather than the mere fact that formal planning is exercised which

distinguishes growing enterprises from non-growing enterprises.

From the mid seventies we can note that scholars makes the distinction between small and large businesses in terms of needs, level of sophistication and range of strategic planning. Various authors have formulated definitions of strategic planning which take the uniqueness of small businesses as one of the important factors and allow for the fact that Small Business Units cannot depend on management and material resources in a manner similar to that of larger organization.

Given all the substantiation on the benefits of strategy and planning however, most small businesses do not strategically plan. In practice, the primary focus of small business operators is on short-term operational rather than long-term strategic issues, and their decision-making is generally reactive and intuitive rather than proactive and deliberates (Brouthers, Andriessen, & Nicolaes, 1998; Gaskill, van Auken, & Manning, 1993; Jones, 1982; Mazzarol, 2004; Stonehouse & Pemberton, 2002). For those operators that do plan, planning is frequently ad hoc rather than formal and subsequently provides little basis upon which business performance can be measured or analyzed (Kelmar & Noy, 1990).

Researchers have suggested that Small business operators may be hindered or discouraged by 'planning barriers' such as a less time, a lack of required expertise, improper knowledge of the planning processes, or sometimes reluctance to share strategic plans with employees and external consultants (Robinson and Pearce 1984).

The enlargement of economic liberalization in India has created many opportunities for the growth and development of small manufacturing organizations and has also thrown many challenges. Many small firms have also started looking for new markets, new product offerings and have started realizing that strategic vision is required to face competition and to take butter of the market. But the realization won't solve their purpose of being competitive in the market they have to plan strategically.

The major reasons for sickness in small manufacturing organizations are inadequate management and such as non-availability of raw material, ineffective marketing, infrastructural bottlenecks, inadequate finance and gaps in entrepreneurial skills (Khandwalla, 1989). The organizational spinning starts with the makeover in the environment and/or in the characteristics of the organization. In many cases, the entrepreneur does not explore the environmental factors influencing profitability or growth of the business because they do not have strategic vision. It has been noticed that their definition of growth is totally different. Let us examine the concept of strategic planning and factors which have become the grounds for pitiable strategic planning.

3. Objectives of the study

The objectives of the study are:

- To investigate to what extent small businesses make use of formal long-range planning or strategic management in bettering their chances of survival.

- To evaluate whether strategic management can help small enterprises in gaining competitive advantage.
- To find out what entrepreneurs and managers can do to become strategic leader.

4. Methodology

Strategic management is not as complicated as it sounds but the study of strategic management in small enterprises is complex and extremely difficult to do well. The word is still unknown to small entrepreneurs. The aim of this paper is to study the strategic management and its application in small enterprises. For this reason, a structured questionnaire was administered to a convenience sample of 30 entrepreneurs of small scale garment industry through direct mode in New Delhi region.

The present research process begins with the identification of the research objectives. The main component of the research was identified i.e. owners/managers of small enterprises. After identifying above vital constituent of the research, an effort was made to develop an appropriate questionnaire to extract maximum information from this constituent. After finalising the questionnaire, the type of industry to be surveyed was decided. Garment industry was specifically selected as it is highly competitive which really requires innovation to line up with the customers and inform them regarding day-to-day fashion. To them strategic management is boon if they use it as a success kit.

The primary data was collected using direct interview method. At first instance appointments were taken and questionnaires were personally given to the owners/managers at their offices. It was decided to follow up the questionnaire after 15 days. To increase the response rate, again appointments were taken to personally interview and meet the concerned persons at their offices. To get the complete information, repeated visits were made to the selected units in the selected region. The units were selected on the basis of the convenience and judgment sampling for reasons of non availability of the complete list of small-scale units and the nature of the study. To fulfill the objective of the research, secondary data related to topic was also collected. The responses collected from respondents were classified and analysed. Finally conclusion was made.

5. Findings

The contributions of this research is with regard to entrepreneurial involvement in adopting strategic management, as this research could enhance the understanding of owners of Small businesses, how to support strategic management practices in order to increase the organizational innovativeness and gain competitive advantage. It was found in research work that firms want to be competitive in the market but was not aware of strategic planning. It was found in the study that though the small entrepreneurs want to showcase their business and products in the practical world but the remoteness and boundaries in the acceptance of innovation is a big constraint. Today, Indian small enterprises are moving up the global value chain. It was found in the study that they lack in strategic planning, because of scanty managerial skills, compact strategic vision and inept leadership.

In the present global scenario there is imperative call for competitive and aggressive human skills who can work on formulating and implementing strategies for their firms. If they understand it they would be able to find the solutions of other problems. No doubt complex roads are ahead of small enterprises, where there is intense competition from large firms. They should be made understand the global scenario. It is true that entrepreneurs are born they are not made but this is also true that we can enhance and polish the qualities of a person to make him innovative entrepreneur. They require strategies which can make them competitive. The competitive advantages must be highlighted to adapt to competitive environment. Their mission, vision and strategic intents should be clear.

Understanding of a particular line is valuable but acquaintance of innovative and efficient management techniques is equally important. Efficient management techniques have become pre-requisite for strategic planning. It was found in the study that out of 30 units, only 11 units were found to be efficient in management techniques. This indicates that 37% of the units have owners/managers, who are equipped with management techniques, rest 63% are not clear of management techniques. Owners are liberal on this issue and this is the reason that they are not energized about their staff to be efficient in management techniques.

It was again found in the study that owners/managers in 15 units i.e. 50% units carry this notion that strategic planning is not adequate for them as it doesn't indicate any assurance of the similar results as in case of large firms. This is the reason that very few firms have transformed themselves from small organization to big corporate. They should remove this misconception and understand that there is relationship between performance and strategic planning. Long term survival of any business depends on strategic planning. It has become life blood of all organizations than how small firms can keep them away from it. Strategic planning depends on various factors but the more important factors are tremendous managerial skills, strategic leadership and strategic vision. These factors can create strong pillars for the small firms to stand in intense competition. Now the question is- do these firms are characterized by these factors? Generally small enterprises are characterized by scanty managerial skills, inept leadership and compact strategic vision. The result is deficiency of strategic planning.

Scanty managerial skills

We have been educated that an entrepreneur is a person who works with scarce resources. Why these units were not able to give maximum output from minimum input? Why we will always blame the financial, technical and marketing problems as the only problems for the failure of these units in facing competition? If they knew how to manage with scarce resources, all the problems could have been handled wisely. They actually lack in what is called as managerial skills. Scanty management skills are one of the reasons for the malfunctioning of these industries. At this point the justification of managerial skill is essential as it haul many terms with reference to small scale units. It has been noticed that these

units are characterized by stumpy use of installed capacity, problem of specialized training and guidance, problem of trained and experienced management, less advance and innovative actions in these units, lack of knowledge and understanding of global trade laws. They lack in basic business management which is crucial to run a unit.

An entrepreneur should be capable of creating new resources or bestow existing resources with improved potential. Innovation lacks in their products, processes and even organization. It was found during study that only 37% of the units had owners/managers equipped with efficient management techniques and 40% of the units had trained and specialized employees. In 53% units, the presence of logical decision making skills was not found with the owners. To researcher logical decision making is innovative solutions for hard choices which is so important in garment industry where every other day fashion changes. Those who have logical decision making skills can think of something new with change in industry. Units badly lacked in basic business management and they didn't know how to manage with scarce resources.

An innovative entrepreneur must know that market information is related to new product, technology developments, needs of consumers, consumer requirements etc.. Many owners of small businesses are beleaguered by a lack of high-quality management talent. Most small business owners rely on their own decision-making and managerial judgment, because they cannot afford to hire management experts. Actually, failure in various areas may be directly linked to poor management practices. What appears to be an inopportune and unfortunate economic development might have been overcome by more appropriate and informed management.

There are number of other correlated factors, if enhanced can trounce some management related problems. One of the ideologies of entering into any new business should be to gain experience before hopping into a business venture. Most of the entrepreneur's have false impression that it is a one man show. Most of the entrepreneurs by no means want a blow to their self esteem. They have difficulty in keeping good people and small businesses drop talent and aptitude. If they want to stay one step ahead of competitor, they should either enhance their skills or hire talented people. All the above problems are associated to what is so called as poor management. Lack of managerial skills has resulted into a deep downfall of the small enterprises.

Inept leadership

Strategic thinking should not be related to just the work of head of the organization. Among performance requirements at the strategic level, there is a critical requirement for strategic vision and to have that strategic vision, a strategic leader is required. Strategic leaders are required to set long term directions which are essential part of large organizations but absent in small firms. It is a risky business as leaders have to have clear vision for strategic decisions which is full of uncertainties. Small firms have limited resources and strategic leadership requires a selection of most competing alternatives. A strategic leader has to find out the best alternative so that

resources can be allocated to that alternative but cannot be allocated to other later on. This situation is difficult to handle in small firms which are always on a work of balancing present and future outlook. In small firms it becomes a strategic responsibility of strategic leader to trade – off between present and future. Strategic leadership has emerged as a vibrant thought of strategic planning. This requires openness to new ideas and thoughts and effectual communication skills. In 53% units, the environment of uncommunicativeness was found. In fact a restraining environment was noticed in some units. The owner/managers straight away explained that they never invite ideas from their employees. In 67% units, owners were not impressive in communication skills. They were found incompetent to deal not only with outside parties but also internal employees.

In this global scenario, small firms are finding too difficult to fight with competitive environment and therefore they require future oriented leaders with good judgment of time. They also require leaders who can scan uncontrollable variables of environment and quickly produce an action which is a timely action. These leaders have to work as protector, prospector and planner. Small firms must understand that the definition of these leaders is little different from those of large enterprises. Strategic leaders should have 3P's or we can define as:

Strategic leader = protector + prospector + planner

Compact strategic vision

The value of long-term vision is essential to the continuing health of any organization. At all levels, leaders must make crucial decisions, generally with the use of resources. Decisive trade-offs reflect a choice between current effectiveness and projected future effectiveness. Each decision is bounded by risk, imposed by cost and the uncertainty of future developments. Strategic leadership is a matching and balancing act, between present and future Resources all gone today in the wrong direction becomes a loss. This is why strategic vision is crucially important to organizations and especially to small firms. Out of 30, owner/manger in 21 units feels they have to struggle hard to solve the present competition with scarce resources so it is difficult for them to

have strategic vision. This indicates that 70% of the units are suffering from myopia.

Globalization has posed immense challenges as well as opportunities to small enterprises. International business is no longer limited to giant multinational enterprises. But it requires such a sight that can see major drivers of globalization. But most of the small enterprises have compact strategic vision that they are unable to watch technology, information, key markets, Product development, investment and various other related factors. They have to be careful about the innate risk in the global market as it is not only difficult but challenging job. The strategic vision can help small enterprises to be successful in hard global markets. Number of strategic programs is required by strategic leaders which in turn require the strategic vision to observe those programs. Small firms should be able to protect themselves from the risk and uncertainties. They should start from their domestic boundaries. They should face competition in their home country and tap the growing markets which are still untapped by large firms.

6. Conclusion

Strategic Management as a management tool has long been used, with big achievements, in large national and multinational organizations to help them in managing uncertainties, exploiting opportunities and to better position these organizations for long-term growth and profitability, but in small firms too it can act as success kit to gain competitive advantage and competitive sustainable growth. Competitive sustainable growth has become hallmark of organizations. Large organizations have carried forward through formal strategic planning but small units follow only during contingencies. Every business today calls for clear understanding of multiple areas. Formal planning is necessary in place of informal planning. A regular activity of formal planning can lead to small firms on path of competition where they can realize their competitive strength and later on their capabilities. Small is attractive, small is manageable, small is controllable but this small has to transform it to large because large is eye catching.

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