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Strategic Handling to Changes in Small Manufacturing Organizations in India

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Abstract

Strategic planning in small organizations is significantly different from large organizations. The process is informal in nature, as in most of the cases, the entrepreneurs are the sole strategic decision-makers. They manage the day-to-day operations and perform multiple tasks, chalking out a growth plan. The core necessity of strategic leadership is to view the market and opportunities. By design, small manufacturing organizations have the advantage of flexible economies of scale which the large-scale industries cannot create. There are many areas in which small organizations in India can take the role of an outsourced agent and provide support to large-scale industries. Small organizations have developed competence to work on uncertain conditions, largely to meet the demand fluctuations of their customers. While maintaining this skill, they should gradually create market focus. This can further enhance their capability and preparedness to deal with changes in the growing competitive market in India.

Keywords: Small manufacturing organizations, Strategic planning and leadership, Scope for further study

1. Introduction: small manufacturing organizations

Small manufacturing organizations (also called Small Scale Industries-SSIs) have been contributing significantly to the growth of the country. According to the Third SSI Census, there are 3.57 million units in the country with a fixed investment of Rs. 9.21 bn, contributing Rs. 74.2 bn (at current prices) worth of production and providing employment to 19.97 million people. The export contribution is more than Rs. 7.12 bn. It accounts for 95% of industrial units, 40% of the value addition in the manufacturing sector, and 34% of exports. Owner/manager with experience in business.

• Specialized knowledge of product and / or of the manufacturing processes.

• Previous supervisory or managerial experience.

• Access to adequate financial resources.

• Competitive advantage in terms of cost, product specialization, customer specialization, or various forms of price / quality specialization.

• A well-developed strategy through formal / informal processes.

Flexibility and lower cost are considered to be the key advantages of small business units. In a competitive environment, flexibility and adaptability are the key drivers of success. Small business organizations easily change their product profile and fill the gaps that larger firms take time to detect or find too costly to service. There are three major reasons for the flexibility, namely size and nature of operations, less hierarchical levels, and direct association of the entrepreneurs who own the success and failure of the business.

By definition, a small scale unit in India cannot invest more that Rs. 10 mn (Rs. 50 mn in selected sectors) in plant and machinery. This makes them less capital intensive and reduces the entry barrier on account of investment capability. Due to the large population, they offer more employment and mostly use local skills. (Vasudevan, 1998)

2. Review of literature

Historically, banks and financial institutions consider small business accounts as high risk exposure leading to significant Non Performing Assets (NPAs). Liberal policies adopted by the government are one of the reasons for this problem (Neelamegam and Inigo, 2000). According to a study carried out by the National Institute of Bank Management (NIBM) on public sector banks in 2002, Rs. 547.73 bn NPAs are with the public sector banks, out of

which large industries constitute Rs. 114.98 bn, medium-scale industries constitute Rs. 86.55 bn and small-scale industries Rs. 102.85 bn, which are 22.01, 15.24 and 18.21% of the gross NPA, respectively.

The process of economic liberalization in India has created many opportunities for the growth of small manufacturing organizations and has also thrown many challenges. Experts feel that the small manufacturing organizations could achieve greater sustained growth by increasing technological capabilities (Majumdar, 2004). The organizational decline starts with the change in the environment and/or in the characteristics of the organization. In many cases, the entrepreneur does not analyze the environmental factors influencing profitability or growth of the business. The managerial inadequacy to restore fit between the two triggers the decline process (Maheshwari, 2000, Ramana and Papaiah, 1998). The major reasons for sickness in small manufacturing organizations are inadequate management such as non-availability of raw material, ineffective marketing, infrastructural bottlenecks, inadequate finance and gaps in entrepreneurial skills (Khandwalla, 1989).

Small business organizations are mostly entrepreneur-dependant. Competencies of the entrepreneurs contribute significantly to the success of these businesses, but limitations on account of all specialized skills available with one entrepreneur can lead to inefficient functioning of the business. As a result, lack of knowledge and managerial expertise leads to strategic pitfalls. The managerial capability, knowledge, business techniques, attitudinal framework and the wholehearted devotion of the entrepreneur towards the business contribute a lot towards the success of small organizations (Patnaik, 1987).

Hall (1992) after examining owner-managed firms, concludes that as the firms become aged they are more likely to be buffeted by strategic and environmental shocks for which they do not have managerial skills to respond. According to North, Leigh and Smallbone (1992), motivation plays a major role in survivors and non-survivors, i.e., the desire to grow or contract. Smallbone, North & Leigh (1992) identified five broad types of adjustments or changes-product and market, production process, employment and labor process, ownership and organizational adjustments, and locational adjustments. Small manufacturing businesses face challenges in finding the areas that fit their marketing capabilities, utilization of financial and human resources to their actual potential and provide an adequate return on the invested capital (Van Kirk & Nonnan, 1982).

2.1 Leadership

At the individual level, leaders mentor, coach, and motivate; at the group level, they build teams and resolve conflicts; and at the organizational level, they build culture. In most organizations, these three levels are discrete and easily identifiable (Mintzberg, 1998).

Good leaders are necessary for visionary companies to survive in the long run. Peters and Waterman (2003) sum up the qualities of a good leader-they concentrate on the market with just a product idea, riding the growth of an attractive product cycle. The highest agreement on conceptualizing leadership by various experts is `the ability of an individual to influence a group towards organizational goal'.

The purpose of the firm is that description which makes it distinctive. It also describes what the company wants to achieve. Practitioners also link this with organizational learning efforts. Patel (1995) argues that many small organizations are born because the entrepreneurs want independence. In such cases, purpose or vision does not directly address the organization, rather entrepreneurial aspirations influence more. Successful small organizations do not imitate large companies and decide to create a niche. However, he argues that agility and flexibility are the prerequisites for growth, and entrepreneurs who do not possess these characteristics may not succeed in growth.

Core competencies are the resources and capabilities that give the organization a competitive advantage. Long-term strategies are based on core competencies and an agreement is necessary across the organization about the resources and capabilities on which the organization can exploit the market (Kuatko & Welsch, 2001). Success of an organization will be determined to a large extent by its ability to develop and exploit core competencies. Knowledge sharing and learning are the keys in developing core competencies. Competitive strength of core competence increases through their use and continuing development (Stewart, 1997 & Lei, Hitt and Bettis, 1996). Prahalad & Hamel (2002) describe core competence as a bundle of skills and technologies that enables the organizations to deliver some important benefits. They have taken a view of this concept from the customer's perspective.

Human capital is the knowledge and skills of an organization's entire workforce or citizenry. Hence, continuous and systematic work on the productivity of knowledge and the knowledge workers enhances the capability of the organization to perform successfully. Leaders find ways to encourage the people to fulfill their potential (Kuratko and Welsch, 2001). In the context of small business organizations, Patel (1995) raised another issue. In a small organization, the entrepreneur often develops a belief that he is the absolute authority. Being the sole person managing the organization successfully since its inception, such a complacent attitude is understandable. When these organizations hire knowledgeable and competent people to support growth, there are problems in adjustments as these people may not

accept the knowledge superiority of the entrepreneurs. Retaining competent people in such cases becomes a problem. Phansalkar (1999) emphasized on innovation as one of the important determinants for success.

Organizational culture refers to the complex set of ideologies, symbols, and core values shared throughout the organization. Culture provides the context within which strategies are formulated and implemented. In the organizational context, culture relates to decisions, actions, communication patterns and communication networks. It reflects the organizational learning through continuous challenges of survival and growth (Kuratko & Welsch, 2001).

Ethical practices provide a moral filter through which potential courses of actions are evaluated. The influence of top management and leaders on ethical practices is accepted by all (Kuratko & Welsch, 2001). Organizational controls are formal and information-based procedures that the leaders use to frame, maintain and change organizational activities (Simons, 1994). These controls influence and guide the work in ways necessary to achieve performance objectives. Strategic control addresses the market, competition and organizational competencies. An effective information system provides support to this type of control. Financial control takes care of short-term performance goals. Effective leadership needs to create a balance between both (Kuratko & Welsch, 2001). Strategic leaders are able to establish controls in such a way that they facilitate flexible and innovative employee behavior and earns competitive advantage for the organization (Ireland & Hitt, 2001). Patel (1995) suggested that a normal degree of foresight can help small organizations to avoid many potential problems. He has also advocated usage of budgetary control.

While recommending the actions for strategic leaders, Ireland & Hitt (1999) emphasized on some major areas. First, the leaders should carry out growth orientation matching with resources, capabilities, and core competencies in order to take advantage of market growth opportunities. Second, they should enable the organization to develop, exploit and protect the intellectual capital i.e., knowledge bases. Third, they should mobilize the people to increase their adaptive capabilities and should throw challenging questions to the team members to work on newer dimensions. Fourth, they should facilitate in creating an effective organizational culture as culture influences performance. Last, they should remain focused on the future and should take some time to predict the future competitive conditions and future challenges.

2.2 Strategic planning

The process of strategic planning, not the plan itself, is the key to improving business performance. Strategic planning involves long range plans for effective management. It includes defining mission and objectives, developing strategies, and setting policy guidelines. (Wheelen & Hunger, 2004) Mintzberg (1994) defined some basic steps for strategic planning such as examination of internal and external environment of the venture, formulation of long and short-term strategies, implementation of strategic plans, evaluation of the performance of strategy and feedback. According to Mintzberg (1973), there are three basic modes of strategic planning namely, entrepreneurial mode, adaptive mode, and planning mode with the underlying orientation being proactive, reactive, and systematic respectively. He also referred to mixed modes for strategic planning based on different combinations of pure modes. Categorization given by Steiner, Miner and Gray (1982) involves further subclassifications of Mintzberg's pure modes giving rise to five approaches for strategic planning. While the formal structured approach of the researchers is comparable with the planning mode of Mintzberg, the intuitive anticipatory approach and entrepreneurial opportunistic approach may be viewed as a risk-based subdivision. Similarly, the incremental approach and adaptive approach may be considered as further subdivisions of Mintzberg's adaptive mode and entrepreneurial mode, respectively.

The strategy planning process orientations are not the same for entrepreneurial and professional managers. The entrepreneurial managers of small-scale organizations are basically the owners of the firms. For them, strategic planning is opportunity-driven and they remain flexible to undergo change in technology, willingness of the consumers to pay, social values and political climate. Entrepreneur’s chase the opportunities fast and manage the risks associated with these opportunities. They commit resources at various stages in order to manage the risks (Stevenson, 1999). As the entrepreneurial firm matures, its strategic planning process tends to become formal (Berry, 1998). Absence of strategy planning leads to misunderstanding of industry attractiveness and competitive advantages, which may result into attempting unattainable competitive position. These entrepreneurs fail to work on strategy for growth (Porter, 1991). The fundamental benefit that strategy brings is consistency of action throughout the organization and helping people to take right decisions (Porter, 1996).

Bracker, Keats & Pearson (1988), Karger & Parnell (1996) and Schwenk & Shrader (1993) concluded that in spite of the fact that strategy planning is strongly related to financial performance, not many small organizations use this process. Not having enough time, unfamiliarity with strategic planning process, lack of skill, and lack of trust and openness are the major reasons (Wheelen & Hunger, 2004). On performance and planning sophistication, Rue & Ibrahim (1998) classified small organizations into three categories. The categories are based on the levels of planning. They concluded that the organizations which are engaged in strategic planning perform better than those who do not. In those small organizations which are into strategy planning, the entrepreneurs are the real strategists. All three levels of strategies-corporate, business, and functional are the concerns of the entrepreneurs (Wheelen & Hunger, 2004).

Environmental scanning is less structured in these organizations. Personal and family needs also strongly influence the mission and objectives of the business (Birley & Westhead, 1990 and Ward & Aronloff, 1994).

2.3 Strategic leadership

Entrepreneurs generally start business to seize short-term opportunities without a focus on long-term strategies. However, successful entrepreneurs make transition from tactical to strategic orientation in order to build capabilities and gather resources (Bhide, 1999).

Child (1972) explained that an organization's top-level manager had the discretion or latitude to make choices that would affect their firm's outcomes. Specific knowledge, experience, values, and performances of top managers are reflected not only in their decisions, but in their assessments of decision-making (Cannella & Monore, 1997). Bhide (1999) argued that entrepreneurs should formulate an explicit strategy which integrates their aspirations with specific long-term policies of the organization. The entrepreneur should also ensure that the strategy should make the organization profitable and enable the growth to a desired size. The strategy should serve the purpose of the enterprise over a long-term.

Strategic leadership, as a concept, has emerged due to the dynamic process of strategy planning. Strategic thinking was traditionally considered to be the job of the head of the organization alone. Theorists argued that in the 21st Century, the leadership is going to have a different meaning, instead of ranks and titles, and it will be regarded as a position of responsibility towards a range of stakeholders. Strategy planning, as a function, is performed at various levels. The overall strategic direction is also emerging as a group process rather than the sole discretion of a single individual. The leaders, instead of providing the right answers to complex issues, are going to ask the right questions (Ireland & Hitt, 2001). Stevenson, Grousbeck, Robert & Bhide (2000) brought forward another dimension, that as the firms define a strategy to compete in the market place, they also have an internal strategy to coordinate the efforts. The strategies of coordination are delegation of responsibility and use of formal control systems. These strategies influence the efficiency and effectiveness of the firms.

Authors of strategic leadership are of the opinion that explaining strategy formulation and implementation is easy, but this is to be charged by leadership. Leaders act like a spark plug by getting the things on by coaching others (Kotter, 1995, Hout & Carter, 1995, and Ghoshal & Bartlett, 1995).

3. Identification of position of small manufacturing org in India

• Small manufacturing organizations do not operate on long-term plans. Not defining formal vision or policy statements support this conclusion. Short-term planning is based on the sales projections provided by the customer forms. Such plans are prepared after due consultation with the managers/executives who look after operations.

• The entrepreneurs of small organizations support group processes. They share data on overall cost performance data with people, informally. They award salary increment to the employees based on own judgment without any data support. Human resource forecasting in any form is not found to be statistically significant.

• Data on the individual competence of the entrepreneurs indicate that the entrepreneurs possess computer skills. They are also focused on their own performance, as entrepreneurial leaders of small enterprises generally identify themselves with the enterprises they are leading. In spite of liberalized and global business environment, they expect protective support from the government. The support expectations are in the form of composite loans, collateral, credit linked capital subsidy and back ended capital subsidy. Since policy guidelines on credit and subsidies already exist and various agencies have been assigned the responsibilities to execute them, the gap does not necessarily highlight problems in the policy frameworks; the problem may lie in operationalizing the policies. The entrepreneurs have expressed satisfaction on the current policy of excise duty exemption and credit guarantee scheme.

• Since the adoption of liberalized policies, the government is gradually withdrawing the protective measures. In the light of this development, many change initiatives were expected by the small-scale sector. But the entrepreneurs did not appreciate that competition, global business issues, the World Trade Organization (WTO) and other issues like benchmarking could have been the possible reasons for initiating changes. Various dimensions of operational excellence like improvement in manufacturing cycle time, value improvement, meeting customers' requirements were also not found to be significant. On further investigation with select few organizations, it was found that the day-to-day operational issues keep the entrepreneurs busy to such an extent that they cannot focus on change issues.

• For future leadership, the entrepreneurs wanted only the sons or daughters as future leaders in their business. They also did not agree to transfer operational control to others in spite of not finding their sons or daughters competent to be the future leaders.

• Small organizations maintain close financial control. Product, process and quality costing are the most commonly adopted methods of control, in addition to budgeting. But human resource costing is not carried out. The process focused on excellence; initiatives such as TQM and six sigma were not implemented, the data on results such as

customer satisfaction, quality parameters, training effectiveness, etc., were also not monitored on a regular basis. In the absence of medium or long-term strategy planning, absence of the felt need for monitoring these aspects can be understood. On market expansion, the small-scale manufacturing organizations depend on the existing customer base and their short-term business projections.

• The small organizations depend on a select few customers (many of them are large scale organizations). As discussed previously, the planning process builds a scenario and becomes the basis for creating a blueprint for organizational growth, and the problem with regard to this view towards the market is one of the major strategic leadership issues in small organizations. As a result, data-based demand assessment, readiness to change as per the emerging market scenario, and willingness to remain competitive has not been found statistically significant.

• Organizational processes, namely communication, capacity and resource management, sales management, manufacturing and quality management, information and information technology management and technology managements were studied. The conclusions are as follows:

• Small manufacturing organizations possess strong customer relationship. This enables them steady sales and helps explore new opportunities with the existing customers. They depend on direct sales to the customers which in turn help in maintaining a strong customer relationship. A sale, being the primary focus, is looked after by independent personnel. On further investigation, it was reported that experienced personnel are recruited for this job and hence the sales team is not subjected to formal training. Also, they are not offered additional incentives. The organizations do not have any plan to go for on-line selling as a future strategy.

• The entrepreneurs communicate with the employees. They share production and productivity-related data with them. The channel is mostly verbal and informal.

• Manufacturing capacity planning is based on the machine manuals. Material planning is carried out once in a month. This is in alignment of policy to work on short-term plans. The organizations do not follow a system for resource identification and planning. The entrepreneurs felt that the current resource level is not adequate to cater to the potential export market.

• Manufacturing is the core focus of small manufacturing organizations. The organizations carry out production planning once in a month, based on the demand projections of the customers. As a measure of quality control, they carry out inspection of the incoming goods. Systems of process control such as first piece approval, patrol inspection are not in practice. Regular audits of manufacturing and quality systems are carried out. Many of them are also subjected to system audit by the customers as they act as sourcing points for large organizations. They adopt preventive maintenance for maintaining the machinery and utilities. ISO 9000/QS 9000 or similar certifications are not significant. Process automation has been found statistically significant but this aspect remains inconclusive as it does not match with conclusions on technological upgradation.

• On information and information technology management, usage of computer, Internet and e-mail for day-to-day work and communication are statistically significant. However, availability of website and usage of ERP or a similar system for operational efficiency enhancement is not significant. This supports the argument against usage of technology as discussed above.

• The organizations feel that lowering of investment limit from Rs. 50 mn to Rs. 10 mn has adversely affected the technological developments; they also feel that the cost of technology development is high.

• The possible scopes of improvement lie in a large continuum, from process improvement to a new product development; no single element was found statistically significant. This issue was further analyzed. The manufacturing sector has faced two consecutive shocks in the recent past-one, recessions in the last decade, and two, immediately before that the manufacturing sector was exposed to global competition. Small manufacturing organizations being at the buffer end of the supply chains face pressures on account of these reasons.

3.1 Bringing change

In an organization, major change efforts have to be vision-driven and led by the top. Leading change has to start with diagnosing the situation and then deciding on the way to handle it. The leadership roles which dominate the strategy implementer's agenda are as follows:

• Staying on the top of what is happening and how well things are going.

• Promoting a culture in which the organization is `energized' to accomplish strategy and perform at a high level.

• Keeping the organization responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.

• Building consensus, containing `power struggle', and dealing with the politics of crafting and implementing strategy.

• Enforcing ethical standards.

• Pushing corrective actions to improve strategy execution and overall organization performance. (Thompson & Strickland, 1999)

• According to Ireland & Hitt (1999), through the configuration of the following six activities, strategic leadership can be effective:

• Determining the firm's purpose.

• Exploiting and maintaining core competencies.

• Developing human capital.

• Sustaining an effective organizational culture.

• Emphasizing ethical practices.

• Establishing balanced organizational controls.

4. Scope for further study

Strategic management and strategic leadership are commonly understood to be appropriate only for large organizations. The study concludes that the strategic processes in small manufacturing organizations take a short-term view of the market and the customers. The processes are also informal in nature as in most of the cases the entrepreneur is the sole strategic decision maker. In other words, they function in a reactive mode as described by Mintzberg and they continue to follow the entrepreneurial strategic approach.

A critical review leads to the conclusion that these small organizations have developed competence to work on uncertain conditions, largely to meet the demand fluctuations of their customers. While maintaining this skill they should gradually create market focus. This can further enhance their capability and preparedness to deal with changes. Small organizations can work on two broad strategic options. One, they can gain competence in niche areas in which scaling down may not be possible for the large-scale industries. This option does not rule out the possibility of growth in the domestic and international market. Two, they can operate on a growth plan through which they could acquire competence to compete with others. Both these strategic options need a detailed analysis of the market and the industry.

Peters (2003) and Ghoshal, Bartlett & Piramal (2000) advocate that small is manageable, efficient, and profitable. Large corporations are dividing themselves into SBUs, they are adopting small batch production and small inventory levels; the businesses are redesigned to be lean to get better values. Small organizations by design, possess these inherent advantages. The very design of a small business model is based on agility and cost benefits. These are the issues for large organizations which they try to address through process redesign or re-engineering. The basic considerations behind such decisions are long-term perspective and competitive advantage on which the small manufacturing organizations are yet to focus.

The Indian small-scale sector is known for manufacturing competence. Although technology adoption/upgradation is not significant among the small manufacturing organizations, they are able to upgrade their skill and competence on processes for survival. This aspect calls for a detailed study.

Small organizations not only address the needs of employment creation, but also have the capacity to deliver the economies of scales to the large industries. Coexistence of the SSIs with the large ones is a business imperative. To remain competitive and flexible, large organizations depend on the small ones for value added sourcing.

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