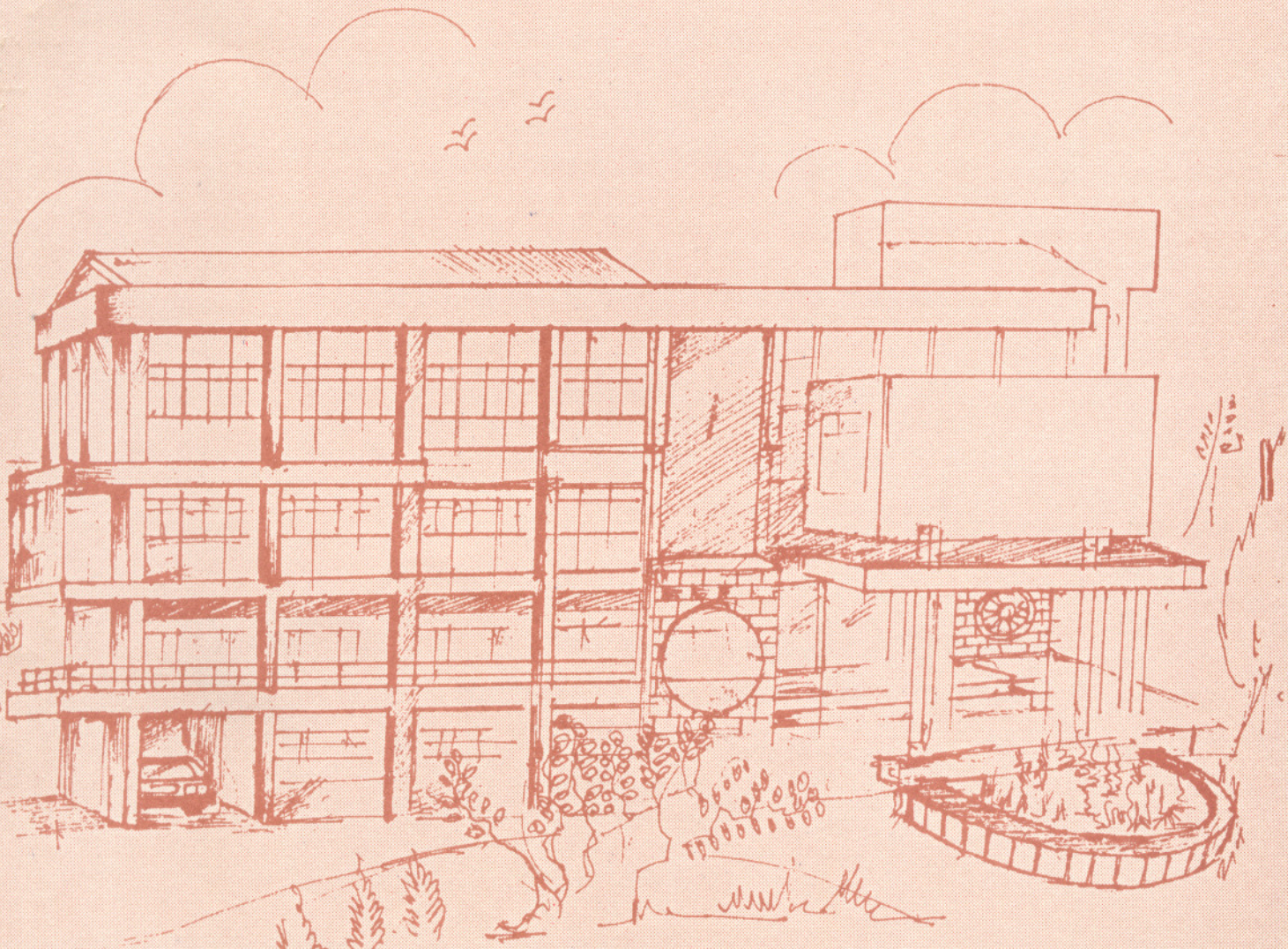


## Working Paper Series

### **Strategic Leadership In Small Manufacturing Organizations : An Empirical Study On Madhya Pradesh & Maharashtra**



# **Strategic Leadership In Small Manufacturing Organizations : An Empirical Study On Madhya Pradesh & Maharashtra**

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**STRATEGIC LEADERSHIP IN SMALL MANUFACTURING  
ORGANIZATIONS :  
AN EMPIRICAL STUDY ON MADHYA PRADESH & MAHARASHTRA**

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## **Abstract**

*The small scale sector especially in manufacturing segment is under severe pressure in the present liberalized business environment. The phase-shift in Government policies from protection to competition has thrown challenges for competitive growth.*

*In India majority of small scale organisations are proprietary firms. Strategies planning in small organisations are significantly different from the large organizations. The processes are informal in nature as in most of the cases the entrepreneurs are the sole strategic decision maker. They also manage the day today operations. In most of the cases they perform multiple tasks, in spite of that there is also a strong need for them to chalk out a growth plan. Viewing market and opportunities are the core necessities of strategic leadership. By design the small manufacturing organisations have advantage of flexible economies of scale which the large scale industry can not create. There a number of areas in which small organisations can take the role of the out – sourced agent and provide support to the large scale industries.*

*The paper concludes that the strategic processes in small manufacturing organisations take short term view of the market and the customers. The processes are informal in nature. Small organisations 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.*

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## **INTRODUCTION : SMALL MANUFACTURING ORGANISATIONS**

Small manufacturing organisations (also called Small Scale Industries - SSI) have been contributing significantly to the growth of the country. According to the Third SSI Census there are 35.72 Lakh units in the country with a fixed investment of Rs. 92087 Lakh, contributing Rs. 742021 Lakh (at current prices) worth of production and providing employment to 199.65 Lakh people. The export contribution is more than Rs. 71244

Lakh. It accounts for 95 % of industrial units, 40 % of the value addition in the manufacturing sector, and 34 % of exports.

Small manufacturing businesses generally have the following characteristics –

1. Owner / manager with experience in business
2. Specialised knowledge of product and / or of the manufacturing processes
3. Previous supervisory or managerial experience
4. Access to adequate financial resources
5. Competitive advantage in terms of cost, product specialisation, customer specialisation, or various forms of price / quality specialisation
6. A well developed strategy through formal / informal processes. (Steiner & Solem, 1988)

Flexibility and lower cost are considered to be the key advantages of small business units. In 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 they find it too costly to service. There are three major reasons of the flexibility, namely size and nature of operations, less hierarchical levels, and direct association of the entrepreneurs who own success and failure of business.

By definition a small scale unit (SSI) in India can not invest more than Rs. 1 Crore (Rs. 5 Crore in selected sectors) in plant and machinery, this makes them less capital intensive and reduces entry barrier on account of investment capability. Due to large population they offer more employment and mostly use local skills. (Vasudevan, 1998)

Historically, the banks and financial institutions consider small business accounts as high risk exposure leading to significant Non Performing Assets (NPA). Liberal policies adopted by the government are one of the reasons for this problem. (Neelamegam & Inigo, 2000) According to a study carried out in 2002 on the public sector banks by National Institute of Bank Management (NIBM) Rs. 54,773.16 Crore NPAs are with the PSU banks, out of which large industries constitute Rs. 11,498.10 Crore, medium scale

industries constitute Rs. 8,654.69 Crore and small scale industries Rs. 10,284.97 Crore, which are 22.01, 15.24 and 18.21 % of the gross NPA, respectively<sup>1</sup>.

The process of economic liberalisation in India has created many opportunities for growth of small manufacturing organisations as well as thrown many challenges. Experts feel that the small manufacturing organisations could achieve greater sustained growth by increasing technological capabilities. (Majumdar, 2004) The organisational decline starts with the change in the environment and / or in the characteristics of the organisation. In many cases the entrepreneur does not analyse 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 organisations 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 organisations are mostly entrepreneur dependant. Competences of the entrepreneurs contribute significantly to the success of these businesses. But limitation on account of all specialised skill 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 organisations. (Patnaik, 1987)

Hall (1992) after examining owner managed firms and 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 & Smallbone (1992) motivation plays major role in survivors and non – survivors i.e. the desire to grow or contract. Smallbone, North & Leigh (1992) identified five broad types

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<sup>1</sup> In India medium scale industries have not been classified as a separate group, however industries with investment in plant and machinery from Rs. 1.0 Crore to Rs. 10.0 Crore are generally called as medium scale industries.

of adjustments or changes – product and market, production process, employment and labour process, ownership and organisational adjustments, and locational adjustments. Small manufacturing businesses face challenges in finding the areas that fit their marketing capabilities, utilisation of financial and human resources to their actual potential and provide adequate return on the invested capital. (Van Kirk & Nonnan, 1982)

## **LEADERSHIP**

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

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

## **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 basic steps for strategic planning 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 underlying orientation of as proactive, reactive, and systematic respectively. He also referred to mixed modes for strategic planning based on different combinations of pure modes. Categorisation given by Steiner, Miner and Gray (1982) involves further sub – classifications 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 sub – divisions of Mintzberg’s adaptive mode and entrepreneurial mode, respectively.

The strategy planning process orientations are not same for entrepreneurial and professional managers. The entrepreneurial managers of small scale organisations are basically the owners of the firms. For them the 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. Entrepreneurs 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 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 strategy brings is consistency of action throughout the organisation and helps people 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 organisations use this process. Not having enough time, unfamiliar 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 the small organisations into three categories. The categories are based on levels of planning. They concluded that the organisations which are engaged in strategic planning perform better than those who do not. Those small organisations which are into strategy planning the entrepreneur 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 organisations. Personal and family needs also strongly influence the mission and objectives of the business. (Birley & Westhead, 1990 and Ward & Aronloff, 1994)

## **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 organisation'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 his aspirations with specific long term policies of the organisation. The entrepreneur should also ensure that the strategy should make organisation profitable and should enable growth to a desired size. The strategy should serve the purpose of the enterprise over long term.

Strategic leadership as concept has emerged due to the dynamic process of strategy planning. The strategic thinking was traditionally considered to be the job of the head of the organisation alone. Theorists argued that in 21<sup>st</sup> Century the leadership is going to have a different meaning, instead of rank and title it will be regarded as a position of responsibility towards a range of stakeholders. The 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 right questions. (Ireland & Hitt, 2001) Stevenson, Grousbeck, Robert & Bhide (2000) brought forward another dimension, as the firms define strategy to compete in the market place; they also have 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. Leader acts like a spark plug by getting the things on by coaching others. (Kotter, 1995, Hout & Carter, 1995, and Ghoshal & Bartlett, 1995)

In an organisation 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 –

- a) Staying on the top of what is happening and how well things are going
- b) Promoting a culture in which the organisation is 'energised' to accomplish strategy and perform at a high level
- c) Keeping the organisation responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities
- d) Building consensus, containing 'power struggle', and dealing with the politics of crafting and implementing strategy
- e) Enforcing ethical standards
- f) Pushing corrective actions to improve strategy execution and overall organisation performance. (Thompson & Strickland, 1999)

According to Ireland & Hitt (1999) through configuration of following six activities strategic leadership can be effective –

- a) Determining the firm's purpose
- b) Exploiting and maintaining core competencies
- c) Developing human capital
- d) Sustaining an effective organisational culture
- e) Emphasising ethical practices
- f) Establishing balanced organisational controls.

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 organisational learning efforts. Patel (1995) argues that many small organisations are born because the entrepreneurs want independence. In such cases purpose or vision does not directly

address the organisation rather entrepreneurial aspirations influences more. Successful small organisations do not imitate large companies and decide to create a niche. However he argues the agility and flexibility are the prerequisite for growth, entrepreneurs who do not possess these characteristics may not succeed in growth.

Core competences are the resources and capabilities that give the organisation a competitive advantage. Long term strategies are based on core competences and an agreement is necessary across the organisation about the resources and capabilities on which the organisation can exploit the market. (Kuatko & Welsch, 2001) Success of an organisation 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 competences. Competitive strength of core competence increases through their use and continuing development. (Stewart, 1997 & Lei, Hitt & Bettis, 1996) Prahalad & Hamel (2002) describe core competence as the bundle of skills and technologies that enables the organisations to deliver some important benefits. They have taken a view of this concept from customer's perspective.

Human capital is the knowledge and skills of an organisation's entire workforce or citizenry. Hence continuous and systematic work on the productivity of knowledge and the knowledge workers enhance the capability of the organisation to perform successfully. Leaders find ways to encourage the people to fulfil their potential. (Kuratko & Welsch, 2001) In the context of small business organisations Patel (1995) raised another issue. In small organisation the entrepreneur often develop a belief that he is the absolute. Being the sole person who managed the organisation successfully since inception such complacent attitude is understandable. When these organisations 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) emphasised on innovation as one of the important determinant for success.

Organisational culture refers to the complex set of ideologies, symbols, and core values shared throughout the organisation. Culture provides the context within which strategies

are formulated and implemented. In organisational context culture relates to decisions, actions, communication patterns and communication networks. It reflects the organisational 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)

Organisational controls are formal and information based procedures that leaders use to frame, maintain and change organisational activities. (Simons, 1994) Controls influence and guide work in ways necessary to achieve performance objectives. Strategic control addresses the market, competition and organisational competences. 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 way that facilitate flexible and innovative employee behaviour and earn competitive advantage for the organisation. (Ireland & Hitt, 2001) Patel (1995) suggested that a normal degree of foresight can help small organisations to avoid many potential problems. He has also advocated usage of budgetary control.

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

## **OBJECTIVES OF THE STUDY**

The literature review concludes that the strategies planning in small organisations are significantly different from the large organizations. The processes are informal in nature as in most of the cases the entrepreneurs are the sole strategic decision maker. The objective of this research is to study the characteristics of strategy planning process and strategic leadership in small manufacturing organisations. The broad areas of study were identified from the literature on strategic leadership. Business process elements and drivers under these broad areas were identified from business excellence models - MBNQA<sup>2</sup> and EFQM<sup>3</sup> based on the concept of Total Quality Management. The study is based on the primary data collected in the year 2002. The organisations were selected from the manufacturing sector.

## **SAMPLING**

### **Sampling Units**

According to the Economic Survey, 2002 on the movement of state domestic product and relative share state in aggregate SDP of the major Indian States and the Union Territories in nineties shows that the country has changed little during the reform years. Immediately after the reforms were launched the gross domestic product has grown at a higher rate during the nineties. 5 states namely Maharashtra, Uttar Pradesh, West Bengal, Tamil Nadu and Andhra Pradesh together account for about 50 % of the aggregate domestic product. Bihar, Assam, Orrisa, and Madhya Pradesh have witnessed a decline in its share in aggregate SDP since the reforms. Maharashtra, tops in the list, it recorded about 1 % point increase in its share in aggregate SDP during period from 13.96 in 1990 – 91 to 14.96 in 1999 – 00. Madhya Pradesh and Andhra Pradesh are the only states which were in the top five bracket of SDP growth rate in 1990-91 but have displaced to the lower

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<sup>2</sup> Malcolm Baldrige National Quality Award (USA)

<sup>3</sup> European Foundation for Quality Management (European Union)

bracket. The data also shows that the rate of growth rate of the SDP in Madhya Pradesh is lower than Maharashtra. The table below shows the economic performance of Maharashtra and Madhya Pradesh in last 20 years -

	1999-00	1998-99	1997-98	1996-97	1995-96	1993-94	1990-91	1980-81
<b>Net State domestic product at current prices in Rs. (Crore) (New Series)</b>								
Maharashtra	212216	185119	170700	155680	140730	101767	59325	15473
Madhya Pradesh	86385	79052	70546	65166	56631	45887	31602	8357
<b>Per Capita net State domestic product at current prices in Rs. (New Series)</b>								
Maharashtra	23398	20466	19275	17825	16379	12290	7612	2492
Madhya Pradesh	10907	10161	9234	8689	7705	6537	4798	1609
<b>Share in aggregate net state domestic product (%)</b>								
Maharashtra	14.95	14.36	15.03	15.18	15.80	15.44	13.96	13.45
Madhya Pradesh	6.08	6.13	6.21	6.36	6.56	6.96	7.44	7.26

**Table - Economic Performance of Maharashtra & Madhya Pradesh**  
(Data Source : Economic Survey, 2001 – 02)

According to Third Census of Small Scale Industries conducted during 2002 – 03, 52.5 % closed units were from five states namely Tamil Nadu, Uttar Pradesh, Kerala, Madhya Pradesh and Maharashtra<sup>4</sup>. The percentage of closed units varied from 0.002 (Lakshwadeep) to 16.212 (Tamil Nadu). The states which were reported to be better in terms of survival had less number of small registered units but low survival rate can not be considered to be the only indicator of better performance of small units in those states. There had been significant growth in ancillary units from 0.52 % (Second Census : 1987 – 88) to 34.3 % (Third Census : 2001 – 02), whereas a sharp decline of other SSI units from 96.4 % (Second Census : 1987 - 88) to 4.5 % (Third Census : 2001 – 02). This shows a strong relationship between growth of small and large manufacturing units<sup>5</sup>. The states with less industrial activities contributes less to sickness and closure of small units,

<sup>4</sup> The Third Census was based on the SSI registered upto March 31, 2001. Survey for the Census was launched in October, 2002.

<sup>5</sup> According to the Census 62.13 % units were reported to be engaged in manufacturing, assembly and processing activities.

due to this reason comparison of these states with more industrialised ones would not lead to any major conclusion.

In the study Madhya Pradesh and Maharashtra have been selected as sampling units. Maharashtra represents industrially advanced state with low survival rate of small manufacturing units. Madhya Pradesh represents industrially backward state with low survival rate of small manufacturing units<sup>6</sup>.

The major reason for focusing on manufacturing sector was that this sector was affected the most due to the liberalization process. The service sector has been excluded because the major growth in this sector has started after the liberalization. Also, the small units in service sector are not very sensitive to the investment limit which forms the basis for classifying a unit as SSI in India.

### **Sampling Design**

A sample size of 0.002 % of the population was selected for the study which comes out to be 34 and 27, for Madhya Pradesh and Maharashtra, respectively<sup>7</sup>. Support was taken from the Confederation of Indian Industry (CII) to identify the units. Follow up was made on telephone and personal visits to receive the filled up questionnaire back. In most of the cases financial data were not provided for which the units were pursued. In many cases the questions were clarified to the organizations through personal interaction. 28 and 21 questionnaires were received back from units of Madhya Pradesh and Maharashtra, respectively. From Madhya Pradesh 11 questionnaires were found incomplete whereas 4 incomplete questionnaires were received from Maharashtra. Considering completeness of data supplied by units 17 small manufacturing organisations each from Madhya Pradesh and Maharashtra were found to be usable for the study.

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<sup>6</sup> According to the Census 7.371 % and 7.078 % of small scale units are closed in Madhya Pradesh and Maharashtra, respectively.

<sup>7</sup> According to the Census 171376 and 137819 units were registered in Madhya Pradesh and Maharashtra, respectively.

## **QUESTIONNAIRE DESIGN**

A list of the elements under the broad headings of resources, business processes and leadership were made. The elements of study were based on literature review and the research objectives. The broad headings and the elements were as follows -

Resources : primarily included financial resources

Business Processes : included the customer and sales related processes, operation planning processes, operation and quality management processes, technology management processes, information technology related processes, people management related processes and change management processes

Leadership: leaders' profile, vision, policy, policy deployment through planning, leadership styles and perception about external environment.

The list was reviewed with functional specialists to establish the relevance in each functional area of business management. Subsequently CII was approached for a final review of these elements of study. A detailed review was carried out with the support of the then Chairman, SME Council, Western Region, Confederation of Indian Industry. The major outcome of this review was that more focus was needed in the study on Government Policies and Credit related issues. The list of elements was modified accordingly.

A draft questionnaire was prepared based on the list of elements as discussed above and pilot study was carried out with the help of six small manufacturing organisations located in Bhopal and Indore (Madhya Pradesh). Modifications were carried out in the questionnaire. This was followed by a detailed study.

## **PARAMETERS**

Based on the literature survey following aspects on strategic leadership were identified for a study in small manufacturing organisations –



- a) Purpose and vision
- b) Change and improvement to work in the new opportunity areas
- c) Balanced organisational controls
- d) Culture, Human capital and People Management
- e) Market leadership and effort to remain a leader
- f) Managing core competence.

Under purpose and vision three more broad areas have been studied, they are self management and styles, strategic management, and perception about external environment. While studying change and improvement to work in the new opportunity areas factors for change, facilitation and results were addressed. Financial and strategic controls were the major areas of study under balanced organisational controls. Training and skill enhancement system, performance analysis and social issues were included as parts of culture, human capital and people management. Issues related to market leadership were evaluated with regard to demand assessment and competition. Core competence was studied through various organisational processes namely communication, capacity and resource management, sales management, manufacturing and quality management, information and information technology management and technology management.

## **ANALYSIS**

Statistical significance was established with the help of z – test. Initially the z - statistic for each element was tested against a probability value of 0.5 (or 50 %), very few elements qualified to be significant. In order to validate the conclusion statistical analysis of similar studies were reviewed. The results of similar study conducted in the United Kingdom between 1989 and 1992 on small and medium scale enterprises under the auspices of Economic and Social Research Council under the leadership of David J. Storey data showed that mean rating of many similar business process element in growing organisations are very low. The researchers concluded that this is the typical behaviour of small and medium scale enterprises where motivation for growth varies. The results of pilot study as a part this research work also support similar inferences. Hence, the percentage incidence of the elements which were statistically not found to be

significant, were reviewed again against 40 % incidence. Inferences were drawn accordingly. (refer Appendix)

## **DISCUSSION & INFERENCES**

### **Strategic Planning**

Small manufacturing organisations 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 customers forms the basis of preparing short term plans. Such plans are prepared after due consultation with the managers / executives who look after operations.

### **People Management**

The entrepreneurs of small organisations support group processes. The entrepreneurs 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.

### **Competencies of Entrepreneurs and Influence on Strategic Process**

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 liberalised and global business environment they expect protective support from the government. The support expectations are in form of composite loan, 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 operationalising the policies. The entrepreneurs have expressed satisfaction on the current policy of excise duty exemption and credit guarantee scheme.

Since adoption of liberalised 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, WTO and other issues like benchmarking could have been 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 organisations it was found that the day today operational issues keep the entrepreneurs busy to such extent that they can not focus on change issues.

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

### **Organisational Controls**

Small organisations 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 excellence initiatives such as TQM, six sigma are not implemented, the data on results such as customer satisfaction, quality parameters, training effectiveness, etc. are also not monitored on regular basis. In absence of medium or long term strategy planning absence of felt need for monitoring these aspects can be understood. On market expansion the small scale manufacturing organisations depend on the existing customer base and their short term business projections.

### **Market Orientation**

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

## Competences

Organisational 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,

a) Small manufacturing organisations possess strong customer relationship. This enables them steady sales and help to 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. Sales being the primary focus is looked after by independent personnel. On further investigation it was reported that experienced personnel are recruited of this job and hence sales team is not subjected to formal training. Also they are not offered additional incentives. The organisations do not have any plan to go for on – line selling as a future strategy.

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

c) Manufacturing capacity planning is based on the machine manuals. Material planning is carried out once in month. This is in alignment of policy to work on short term plans. The organisations 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.

d) Manufacturing is the core focus of the small manufacturing organisation. The organisations 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 organisations. They adopt preventive maintenance for maintaining the machineries 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.

e) On information and information technology management, usage of computer, internet and email for day today work and communication are statistically significant. However availability of website and usage of ERP or similar system for operational efficiency enhancement are not significant. This supports the argument against usage of technology as discussed above.

f) The organisations feel that lowering of investment limit from Rs. 5 Crore to Rs. 1 Crore 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 analysed. 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 organisations being at the buffer end of the supply chains face pressures on account of these reasons.

## **CONCLUSIONS & SCOPE FOR FURTHER STUDY**

Vision gets translated to an actionable plan only when an enlarged view of the market and opportunities are seen by the entrepreneurs. Viewing market and opportunities are the core necessities of strategic leadership. By design the small manufacturing organisations have advantage of flexible economies of scale which the large scale industry can not create. There a number of areas in which small organisations can take the role of the out – sourced agent and provide support to the large scale industries.

Strategic management and strategic leadership are commonly understood to be appropriate only for large organisations. The study concludes that the strategic processes in small manufacturing organisations take 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 reactive mode as described by Mintzberg and they continue to follow entrepreneurial strategic approach. A critical review leads to the conclusion that these small organisations 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 organisations 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 possibility of growth in domestic and

international market. Two, they can operate on a growth plan through which they could acquire competence to compete with others. Both of these strategic options need a detailed analysis of market and the industry.

Peters (2003) and Ghoshal, Bartlett & Piramal (2000) advocate that small is manageable, small is efficient, and small is 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 organisations by design possess these inherent advantages. The very design of small business model is based on agility and cost benefits; these are the issues for large organisations which they try to address through process re-design or re-engineering. The basic considerations behind such decisions are long term perspective and competitive advantage on which the small manufacturing organisations are yet to focus.

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

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

**Appendix**

**Inference based on z – test at 0.05 % significance level**

**Purpose & Vision –**

<b>Strategic Leadership Aspect</b>	<b>Statistically Significant</b>	<b>Statistically Insignificant</b>
a) Purpose, Vision & Planning	Nil	Vision Policy
b) Self Management and styles	Group Process - Review of suggestions of quality circles Computer literacy Target for self performance Self Planning Frequency of planning – every day Self Learning Planning Protection expected from the Government	Nil
c) Strategic Management	Tactical Planning Method of strategy planning - discussion with other Directors, discussion with Managers	Long Term Planning Medium Term Planning  Support taken from outside experts TQM implementation Frequency of review of strategies & plans – quarterly, six monthly, annually, as & when necessary
d) Perception about External Environment	Satisfaction on government policies – excise duty exemption and Credit Guarantee Scheme	Satisfaction on government policies – Composite Loan Limit, Collateral Security, Credit Linked Capital Subsidy, and Back Ended Capital Subsidy

**Change and Improvement in New Opportunity Areas :**

<b>Strategic Leadership Aspect</b>	<b>Statistically Significant</b>	<b>Statistically Insignificant</b>
	Change facilitation by CEO	Most important reason for change as perceived by the CEO – value improvement, meeting the requirements of existing customers, manufacturing cycle time reduction, and / or new opportunity in the country
	Least important reason for change as perceived by CEO – implementation of a Business Excellence Model, implementation of a ERP or similar package, anticipate change in global competition, system benchmarking, retaining the skilled manpower, exploring	Result of change implementation

	new business opportunity abroad, process benchmarking and / or product benchmarking	
	Opinion on future leadership – Only son or daughter as a future leader	Transfer of leadership to others in case no one within the family is found suitable

**Balanced Organisational Controls :**

<b>Strategic Leadership Aspect</b>	<b>Statistically Significant</b>	<b>Statistically Insignificant</b>
Financial Control	Budgeting system in practice	Human Resource Costing
	Product Costing	
	Process Costing	
	Quality Costing	
Strategic Control	Nil	Measurement of results - customer satisfaction with data base, customer satisfaction – without data base, quality performance parameter, value addition, six sigma implementation, productivity, training effectiveness, others

**Culture, Human Capital & People Management :**

<b>Strategic Leadership Aspect</b>	<b>Statistically Significant</b>	<b>Statistically Insignificant</b>
	Cost Performance Data Sharing	Independent Person to look after welfare & training
	Performance analysis system in practice (without data base)	Training Budget
		Strategic Training Plan
		HR Forecasting
		Training of contractual employees - on the job training, formal induction & skill training

**Market Leadership and Effort to Remain a Leader :**

<b>Strategic Leadership Aspect</b>	<b>Statistically Significant</b>	<b>Statistically Insignificant</b>
	Demand Forecasting without based on targets given by customers	Benefits of Demand Forecasting – budgeting and fund planning, material planning, manpower planning, and production planning
	Promotional support expected from the Government - Market expansion	Data source for assessment of future demand growth - based on standard literature, surveys or similar sources
	Competition is a problem at national or international level	Promotional support expected from the Government - foreign technical collaboration, in house R & D activities, product standardisation, financial assistance, anti dumping duty



		barriers, and countervailing duty barriers
		Competition from large scale industries in abroad

**Managing Core Competence :**

<b>Strategic Leadership Aspect</b>	<b>Statistically Significant</b>	<b>Statistically Insignificant</b>
Communication	Customer relationship - Communication with customer every day	Nil
	Customer relationship – Communication with customer for product marketing	
	Communication with customer for exploring new market opportunities	
	Customer relationship – Communication with people anytime (within the organisation)	
	Reason for communication of business performance with people (within the organisation) – Production and Productivity	
	Method of communication (within the organisation) - Verbal and Informal	
Capacity & Resource Management	Assessment of manufacturing capacity based on – supplier manuals	Formal system for resource identification
	Material or purchase planning (once in a month)	Adequacy of resources for export
Sales Management	Sales process – direct to the customer	Sales incentive to sales persons
	Sales function looked after by an independent person	Sales Training system
		Future plan for on line selling
		Awareness about SIDBI scheme for sales promotion
Manufacturing & Quality Management	Production planning – once in a month	JIT in practice
	Quality Control systems in practices – incoming inspection	ISO 9000 / QS 9000 / USFDA certification
	Maintenance system in practices – preventive	Quality Control systems in practices – first piece approval, patrol inspection, inspection after manufacturing
	Internal Audit of the manufacturing and quality system	Automation for processing or value addition
	Audit conducted by customers	
Information & Information Technology Management	Usage of computer for routine office work, maintaining inventory, day today reporting, and for internet	Website
	Usage of internet – email &	Usage of ERP or similar systems

	global data access and communication with customers & suppliers	
Technology Management	Cost of Technology – high / very high	Awareness about SIDBI scheme on technology transfer
	Impact of lowering of investment limit from R. 5 Crore to Rs. 1 Crore on Technological Development	Preparedness to face the WTO – R & D challenges
		Possible scope and / or reasons of R & D in the light of WTO - product development through innovation or reverse engineering, improvement in products, innovation in manufacturing process, improvement in manufacturing process, self initiated quality improvements or cost reduction or product simplification or value engineering or facilitation in product repair / servicing or reduction in manufacturing time, meeting additional needs of customers and benchmarking
		Support from outside agencies for R & D – technical educational institutions, CSIR, and consultants
		Mode of technology search – consultants, membership of associations, and participation in seminars / conferences
		Expectations from the Government on technology – subsidy, tax relief, setting up of common facilities, and setting up of incubation lab
		Product or process patents in possession
		Gadgets in use & knowledge preservation

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