

Impact of Human Resources Strategy towards SME Growth

Manali R. Patil

Dept. of Management,

RTM Nagpur University,

Nagpur, Dist. Nagpur (MS) India

Dr. Arvind Shende

Dept. of Management,

Kamla Nehru Mahavidyalaya,

Nagpur, Dist. Nagpur (MS) India

ABSTRACT

Indian Small & Medium Enterprises (SMEs) need to build systems and processes that will enable them to use strategic planning tools to guide their business towards a brighter future (Femin, J. 2003). Often it is asserted that the field of strategic management lacks coherence and it is highly fragmented. However, there is research evidence to show how companies have achieved excellent performance and sustainable competitive advantage by implementing strategic plans (Anderson M. 1999). This paper highlights the important HR strategies that need for SME's growth in India.

Introduction :

Strategy primarily deals with issues of long-term implications. In recent years, business organizations have gained the power to predict the future with reasonable accuracy using various performance management systems and harnessing the tremendous increases in computing power and communication technology. With this power, they can exploit the potential of the emerging scenarios (Anderson M. 1999). Unfortunately, most Indian SMEs are either unaware of the power of these strategic frame works or do not show any inclination to use them for strategic planning. As the tumultuous political and economic events of the present decade have made long - term planning a much more risky business, there is a real possibility of more small and medium firms staying away from strategic planning.

notwithstanding the fact that except a relatively small number of firms in the knowledge sector, a majority of the Indian SMEs are still operating in environments where probability distributions of outcomes are knowable (Gootoa, B. H., 1998). These firms may very effectively apply the standard tools for strategy implementation. Moreover, a disciplined approach to strategy formulation can also create an organizational mindset capable of handling totally uncertain situations better and produce superior results that call for the highest level of integration of entrepreneurial and strategic thinking (Frankel, R. P., & Venkatesan N.P. (1992), (McIntire, M. P. 1997).

CURRENT SCENARIO:

Henry Mintzberg's observation of strategic planning as an oxymoron is probably quite apt to describe the approach of Indian SMEs towards business strategy (Panzhus, J. 2003). Few Indian SMEs have formal strategic planning processes that generally do not go beyond formulation of mission-vision statements. In most cases the process neither provides a sufficient range of strategic options to consider nor presents an engaging road map of a compelling future.

A basic requirement for sound strategic planning is to formulate an action plan to achieve long-term objectives of SMEs, which are derived from its mission and vision. The firms need to clearly identify their value drivers and develop appropriate metrics. SMEs must demonstrate the necessary commitment, capability and discipline to generate, preserve and analyze data essential for continuous monitoring of their strategy implementation process. This process also has to be blended with a creative component (Friedman, S. 2000) (Gootoa, B. H., 1998). For firms that only focus on the data management part, strategy becomes a purely number-driven process and this is unfortunately true even for most of the large Indian companies. They try to explain the future merely on the basis of past data and hence the management's continuous appeal for out-of-box thinking does not generally motivate the employees to break the mindset barrier. On the other end of the spectrum, many small entrepreneurial firms do not make any investment at all to systematically collect and analyze data, without which it is impossible to implement a solid analysis based strategic planning process. These entrepreneurial firms formulate strategies banking on their creative thinking and pure gut feel (Mack, D. R. 2002).

STRATEGIC PLANNING TOOLS:

As a result of wide circulation of business plan formats by various training and academic institutions, consultants, leading institutions and popular publications, SMEs in India are aware of standard strategic planning tools like market research, strengths-

weaknesses-opportunities-threats (SWOT) analysis, five competitive forces (though many of them may not know it as Porter's framework), cost benchmarking, etc (Raghuel, T. 2001).

ROLE OF CONSULTANTS:

SMEs at a lower end, operating in a relatively stable market and with small capital base, often do not have the required management information system. Many firms are also not familiar with the applicability of standard statistical tools for decision-making. This has created a big demand for consultants to assist these SMEs in strategy formulation and implementation for achieving better performance (Gootoa, B. H., 1998). Unfortunately, the knowledge level of many consultants is also severely limited by lack of academic research in India to indicate the impact of various factors such as caste, culture, gender, industry, personal attributes, etc on performance of SMEs.

OBSTACLES TO STRATEGY:

With the continuous drop of software and hardware prices, many Indian SMEs are technologically well equipped to strategize. But the inability to change mindset in quick succession to adapt to qualitatively new situations appears to be the major obstacle for strategizing. For many years, while operating under a license-and-permit Raj system, Indian businesses had developed a mindset suitable for a seller's market (he did not require assessing customer's mood and uncertainty). Liberalization during the 1990s demanded a new mindset appropriate for a customer-led system. It also demanded innovation, though mostly incremental, for sustainable performance (Raghuel, T. 2001). Uncertainty has reached a qualitatively new level today, accompanied by a mind-boggling pace of technological progress (Friedman, S. 2000). The SMEs, particularly in the knowledge sector, now require every different kind of mindset for effective strategic planning to meet the challenges and exploit the tremendous opportunities created by such uncertainties (Anderson M. 1999)

RESOURCE MOBILIZATION IS KEY:

SMEs must have a realistic assessment of their assets that are critically important for implementing their strategies (Gootoa, B. H., 1998). Particularly in a networked economy, they must learn how to mobilize and leverage network ties, strong and weak, depending upon the nature of their innovations.

A STRATEGY GUIDE MAP:

The firms that are operating in less knowledge-intensive sectors can still make reasonably accurate projections and implement their chosen strategy to achieve superior performance. Techniques like scenario planning and dynamic modeling can be also very effectively used to implement strategies depending upon the level of uncertainties a firm is

fixing. Firms that are operating under a very high level of uncertainty must learn to formulate and implement strategies to promote radical innovation that calls for a different kind of organizational mindset (McCartney, C. 2002), (Reynolds, A. 1997).

Management by metrics can still provide the right roadmap for strategy implementation for most Indian SMEs. The firms need to acquire the skills to develop the key performance indicators, their measurements and setting realistic but stretchable targets. Quality, cost, schedule, safety, management, delivery, timeliness and security are some of the key areas that are directly tied to a firm's mission. In order to make strategy implementation all pervasive, the departments, business units and individuals of the firms have to develop their own indicators to provide linkages with the strategic indicators of the firm (French, R. P. & Van Harrison N.P. (1992).

COMPETITIVENESS:

SMEs must leverage the advantages provided to them by their size and flexibility in order to be competitive, rather than blindly adopt the precedent set by large enterprises (Gootee B. H. 1998). Competitiveness has become a generic word encompassing everything from cost efficiency to innovation; its general use has obliterated its significance (Forsaker, J. 2003). A business maximizing profits is said to possess a competitive edge without actually delving into the factors that determine this difference. Sales and cost are synonymous with business and by reducing costs or increasing sales, profits can be increased. More clearly, Profit = Sales - Cost. However, this is not an end. How do you increase sales and how can the costs be reduced? In the answers to these questions lies the root of competitiveness. Reducing costs is a matter of achieving optimum utilization of resources, upgrading systems, improving human capital and introducing advanced technologies - a phenomenon we call operational effectiveness (Parus, B. 2000). Sales, on the other hand, are a function of positioning, promotion and marketing. Both approaches achieve similar results but with a fundamental difference. Operational effectiveness has limits to it. One can use the best possible technologies available but cost curves can be bent only to a certain extent. Sale is a marketing approach and can tap existing as well as potential markets to a wider extent. Positioning as a strategy is therefore critical for a company to be competitive (Friedman, S. 2000).

THE COMPETITIVE EDGE:

Creating value and an image in the minds of the consumer about the product is the essence of positioning. The competitive edge is determined by its uniqueness, its features, the value it provides and the emotions attached to it create a need for the product in the minds of the consumer (Parus, B. 2000).

The competitive edge of the firm is defined by the novelty offered by the company. Its innovative structuring of the value chain defines its productivity, which in turn determines its competitiveness. This approach creates sustainability as well as vulnerability. The former is due to its continual ability to capture and retain market share while the latter occurs due to ever-changing customer and product environment (Gootee, B. H., 1998).

ADVANTAGES OF BEING SMALL:

Small rocks can hold within a great wave. (Homer, 1990). Big industrial structures exemplify operational effectiveness. They possess the resources and the capital to create an efficient and unique value proposition, but their weakness lies hidden in their strength. Unlike smaller units, their structures are rigid for the dynamic environment they exist in. Their imagination is restricted by their sheer size and their strategies unbending to the ever-changing rules of the game (Anderson M. 1999). The small-scale sector has the agility required to compete with the shifting dynamics of the world. They are better placed to foresee the metamorphosis of the industrial structure and the origin of newer and different demands in the market. Their strength lies in their ability to grasp that change and adapt their structures to provide a solution. They become the epicentre of the tidal wave of innovation, which transforms the market realities as it spreads.

For example, during the dot com bubble, small enterprises with minimal capital and equipment became the highest amassers in the game. Sameer Bhatia did not require the packing of Microsoft create Hotmail, which acquired it later. From a strategic point of view, a small-scale industry has a greater ability respond to the changes in the environment and recreate its value proposition to maintain their uniqueness in the market (Montague, J. 2001). Continuous improvements, reinventions of ideas, consumer-centric products, creating niches in the market and competing with the changing political and economic environment are the need of the hour, but the stark reality is the ever-abiding determinants (Gootee, B. H., 1998). Another prime example of the effectiveness of a small structure is fashion designers. Their compact production and marketing units allow the designers to satiate the demand for variety and most quick demand and supply schedule. The last fifty years have seen a distinct shift from supply-driven to demand driven businesses. Technology has made transactions simpler. Consumer demands are met precisely. Big industrial structure cannot cater to the needs of the people at such close levels.

SMALL IS BIG:

What small enterprises need to do is adopt a more strategic approach and exploit their potential in cater to change. Their imagination at present is clouded with the brilliance of

the bigger sizes around oblivious to their own weath. Their strength lies in their size and their capability to produce, not goods and services, but solutions to the emerging challenges in the market. They have the potential to form centres of innovation. Their focus should be to monitor these changes and to adopt their models to cater to them and create strategies to exploit these opportunities better. As Friedman, S. (2000) said, "Don't be afraid to take a big step if one is indicated. SME can't cross a chasm in two small jumps."

FACING GLOBAL COMPETITION:

Several existing elements in the SME universe need to come together to create a strategy for facing global competition, writes Chandrasekar Salunkhe, President, Small and Medium Business Development Chamber of India (SME Chamber of India). No one can deny the need to educate, nurture, guide and assist the small and medium enterprises (SMEs) in all possible ways to perform well against competitors, especially in the present scenario (Anderson M. 1999). The cluster approach, networking, supply chain management, support from banks and financial institutions, technology transfers, contract manufacturing and innovations are some of the major factors that would facilitate the improvement in the functioning of the SMEs to enhance their competitiveness. Here are some elements that SMEs can use to create a strategy to tap international markets.

THE CLUSTER ADVANTAGE:

Clusters can achieve better results for SMEs improvement and business growth through cooperation with one another, and often with large buyers, at different stages of production and marketing. This promotes the effective and sustainable use of available resources, generate scale economies and fosters the dissemination of project-specific information and experiences that feed into important lessons learnt and best practices used (Famersher, J. 2003).

NETWORKING AND PARTNERSHIPS:

Entrepreneurs require effective interaction with customers, suppliers, bankers, regulatory authorities and government agencies. SMEs would need to constantly update information about existing stakeholders while being on the lookout for new contacts (Lee, C. 1999).

MANAGING THE SUPPLY CHAIN:

Any manufacturing or trading activity requires a stream of suppliers for their needs. The relations between the customer and the supplier should be strengthened to ensure a steady supply of raw materials, components, semi-finished and finished products at regular intervals at short notice. As every enterprise wants to minimize its inventory costs, it is very important to

identify, develop and support the suppliers and sub-suppliers to produce and supply the goods in time with the main customers requirements (Famersher, J. 2003). Ancillary units developed around the major large establishments are one way to cut short the transport time as well as for close monitoring of the products. To build effective supply chains, enterprise must develop their technical and managerial capabilities and be able to extract payments from large corporates on time in addition to assured yearly orders. Imparting proper training towards this end periodically could be a responsibility taken up by major customers and other SME-supporting agencies (Friedman, S. 2000).

TECHNOLOGY TRANSFERS AND JVS

Another important avenue to improve the competitiveness of the SME sector is by resorting technology transfers and joint ventures (JVs). As the global demands continuously change and the buyers specify stringent international standards, SMEs should update their knowledge and adopt latest technologies to produce quality products to match the market demand and also look for joint-venture partners from across the world. The mass-scale production facilitated by new technologies, machineries and processes will result in reduced cost, which will make SMEs competitive in the world market (French, R. P., & Ven Harrison N.E. (1992).

CONTRACT MANUFACTURING:

Not all products and services can be manufactured and offered by the SME sector with its own resources. Contract manufacturing, in which enterprises shift their manufacturing bases to cheaper locations, is very beneficial for both the buyers and sellers and creates a healthy supply chain from big to medium to small to micro-enterprises.

INNOVATION:

In order to stay ahead of the competition, SMEs should innovate new products, services and adopt innovative financial, marketing and other management techniques from time to time.

CHALLENGES INTO OPPORTUNITIES:

It is imperative and important for SMEs to convert challenges into opportunities. This can be better achieved with the support of organizations that are dedicated to the development of the SME sector. Organizations like the SME Chamber of India, SME Development Institute of India and India International Trade Centre (IITC) create awareness and provide assistance for the enhancement of export-import, investment promotion, industrial development, setting up technology and joint ventures, contract manufacturing, setting up works and offices in India for businessmen, appointing marketing agents

representatives, undertaking market surveys, training and skill development and other business related services (Anderson M. 1999). Through SME Development Councils in 40 countries including China, Bulgaria, Turkey, Malaysia, Mauritius, and Zambia, SMEs can network with counterparts in other countries and learn from them.

GEARING UP FOR RECESSION:

The current scenario of economic crisis and recession in the global market will be affecting the Indian manufacturing sector, especially in SME sector. Indian SMEs have to compete with China and other manufacturing countries whose governments are supporting SMEs for developing their market. However, the Indian government and SME support agencies are not putting sufficient efforts to promote SMEs at a global level. SMEs are struggling to get adequate working capital and financial support from banks and financial institutions within a certain time frame despite policy initiatives in this area.

Some SMEs are manufacturing high quality and innovative products, which do not have competitors even from China and European countries. A large number of Indian SMEs are functioning in traditional ways by utilizing local methods and unskilled labor to make products that are unacceptable even in the Indian market; leave alone abroad where quality expectations are higher (Prasanna V. 2004). In the era of globalization, SMEs need the latest technology, innovative ideas, and assistance for export promotion, timely working finance, skilled labor and finance at lower rate of interest. It is only then that SMEs can compete in the world market on an equal platform and succeed in the globalized world (Priestman, S. 2000), (Leander, M. 2002).

HANDHOLDING IN STRATEGIC AREAS:

SMEs need expert strategists and talent management consultants to help them find their strengths and overcome obstacles, especially during a global slowdown. Large companies and SMEs alike have been hit by the global economic downturn. This has triggered a renewed focus on the role of SMEs and the impact they can have on overall economy. During the last few months, the SME voice rose and reached the ears of the Prime Minister as more than 35 SME associations collectively represented their cause. The dominant issue raised by one and all has been non-availability of finance from banks. Many SMEs have gone belly up, reporting negative profits after taxes (PATs) steadily. Specifically, the export focused companies in textiles, gems and jewellery, leather, chemicals and auto-components have taken a beating. The SME sector needs a new set of experts who can assist them in the following areas: Cost management: Realize the excess capacity, disperse the piled up inventories and cut costs both fixed and variable. Total cost management is one of the known tools that can

help at this stage.

INNOVATION

Identify and explore new business ideas for new markets or existing customers. New ideas have to be commercially evaluated and new business models and plans developed. The idea is to connect into an innovation eco-system anywhere in the world and leverage external resources or get into collaborative innovation. The global business climate offers an Open innovation system for the players to tap into.

STANDARDIZATION:

Standardize new practices that help to bring down costs and innovate. Adopt these as the future of 'best' practices, prevent slipping back into old ways (Goose, B. H., 1998).

LEARNING FROM EXPERTS AND PEERS:

For any organization, it is essential to have a crystal clear strategy to convert its vision into results. It has been observed that SMEs are generally more inward focused and try to find their own solutions internally. They are usually reluctant to take on experts. However, they are good at learning from peers, i.e., other SMEs. This has been our experience in IIL in implementing the 145 clusters where more than 1000 SMEs have demonstrated the capability to learn from each other. External experts can bring a real map, but the change in practices or mind-set happens faster when they are in a peer group. This is the success of the cluster approach, which facilitates improvement across the member companies. Ten to twelve companies together form the best learning group (Anderson M. 1999).

FACING COMPETITION:

Liberalization opened up global frontiers and India's protected units suddenly had to confront the onslaught of competition. Having experienced the delight with imported goods and services, the customer demands the same from local manufacturers. SMEs are facing competition in terms of new designs, new usages, reduced cost, improved quality, products with higher performance and variety, better services, all delivered simultaneously to enhance value to the customers (French, R. P., & Van Harrison N.P. (1992).

TALENT:

To be competitive, SMEs have to excel in product, process and organizational innovation, which call for new technology and processes to be rapidly incorporated to remain in business. While technology and know-how can be quickly deployed, it's the hands capable of operating them critical area of concern for SMEs. They have to accept the changing paradigm and develop dynamic strategy building expertise and not just remain fixed with traditional time-tested methodologies. Leaders with a wide and deep vision are the ones need

of any organisation with a will to be successful among its competitors.

SMEs have been struggling in the past to retain high quality managers and technical people due to the lucrative opportunities with larger enterprises. SMEs need highly talented managers who can lead them out of this bottleneck situation. It is only the people with great vision and high degree of management aptitude that can provide valuable solutions to be market leaders and even compete in the same arena as the giants (Banerjee, J., 2003). An answer to these issues would be turn towards consultants having specific expertise so that they transfer the knowledge to the companies in a shorter time. Until the reality is in the absence of any viable business from the SME sector in past for historical reasons, there are very few consultants who would have the mindset to see the problem and find a meaningful solution from the SME level of operations. Consultants of visionary stature would be found more tilted towards larger companies and the SMB sector generally leans on consultants for regulator and compliance related activities (Lalonde, M., 2003).

NEED TO HANDHOLD SMEs:

SMEs in India add more than 40 per cent value in the manufacturing sector and provide employment to over 30 million people. These figures are too important to be ignored and highlight the need to enhance SME competencies. There is a need to enable the SME sector to have access to enriching knowledge and methodologies to enable them to draw global strategies (Lee, C., 1999). To meet the affordability factors there are some very successful models of a group of companies forming a cluster and gaining the expertise of consultants amongst themselves with resultant sharing of cost. Some larger companies also, realizing the potential of such efforts, have identified groups of their vendor companies and coaxed them to undergo competency enhancement and also provided outside support for this initiative. International organizations like United Nations Industrial Development Organisation (UNIDO) and United National Conference on Trade (UNCTAD) have an extensive setup in India to assist the SME sector in India as well. The situation is no different for independent SMEs that are now seeking guidance from industry associations or consulting services. Today, CII has a team of almost 20 experts who are dedicatedly working to upgrade SMEs under the CII-UM Thapar Centre of Excellence, headquartered in Chandigarh (Lalonde, M., 2002).

CONSULTANTS CAN HELP:

For willing consultants to SME, there lies a deep but attainable challenge to swiftly analyse the case studies of various organisation under similar and non-similar conditions and thus by comparing the results achieved as per their experiences and knowledge gained, they

can provide a feasible strategy (Friedman, S., 2000). Consultants have the edge in concentrate on acquiring deep knowledge of their individual needs and share their experiences along with results expected to be achieved, which further help SMEs in formulating a practical work plan for future growth and tackling of market challenges (French, R. P., & Van Harrison N.P. (1992).

CONCLUSION:

There is a great need to identify and formulate strategy for SMEs. Resource strack SMEs not only struggle to transit into larger firms during hay days but also struggle to survive during tough days and do not find it feasible to employ the liability of an expensive, high quality (skilled management pool) along with them (Friedman, S., 2000). At the same time, high-quality and knowledgeable services do provide calculated benefits towards those SMEs who can employ them for leading from through towards achieving of their objectives. Thus the gap between objectives and practical implementation of strategy within SMEs can be diminished to minimal (Anderson M., 1999). The issue between industry needs of talented strategists or advisors on one hand and scarcity of resources on the other has been comprehensively addressed in Indian SME sector through services of CII-UM Thapar Centre for Competitiveness for SMEs. The Centre has been instrumental in providing cost-effective expert consulting services. It conducts national seminars and open and in house training sessions for the industry, thus serving as a one-stop shop to help SMEs.

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