

SMALL AND MEDIUM ENTERPRISE MANAGEMENT- THE CONTEMPORARY OUTLOOK

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Abstract

The paper discusses the new dimensions of managing Small and Medium Enterprises (SME) in India. SMEs mostly fall in the category of family businesses started by first generation entrepreneurs, with or without the formal knowledge of managing an enterprise. India's large proportion of industries is constituted by SMEs and they have been contributing 35% to 40% of India's industrial production. The entrepreneurs give more emphasis on managing very basic 4Ms to manage their enterprise, viz., Men, Machine, Money and Methods. There is no doubt that the earlier dimensions of managing an enterprise worked best to earn the profits to SMEs. Today the business scenario is rapidly changing. Globalization demands more than making profit anyhow for short term. Traditional management dimensions may not fetch the desired results in terms of sustaining the business of small and medium enterprises for long run. Many factors contribute towards the change in outlook of managing a SME. There is a strong need for SMEs to become professionally managed enterprises. SMEs are also expected to be learning organizations in the days to come. The paper discusses about four major Ts namely Technology, Time span, Talent and Terrain as new dimensions to manage SMEs, which determine the success of SMEs in future.

Keywords: SMEs, Professional, Learning Organizations and Four Ts.

Introduction

Small and Medium Enterprises (SMEs) have been the major contributor to the industrial output of our country, India. Apart of agriculture, SMEs have played a vital role in boosting Indian economy by creating employment opportunities, revenue generation through business transactions domestically as well as internationally. There has been a vast difference in the environment within which SMEs operated decades ago and how are they suppose to operate in today's intense competitive world. Businesses operate in open economies, which literally invite people from various countries to carry out business. Many SMEs in India had a hard hit when Indian economy opened to globalization during 1991 onwards. Earlier to 1991, closed economy in India, protected SMEs by item reservations, subsidies etc.,. There was definitely a comfort zone for businessmen as their businesses were protected from competitors or big industries taking over their business. ¹Reservation of items affords support to SMEs against competition from large/ multinational companies. The policy received statutory backing in 1984 under Section 29B of Industries (Development & Regulation) Act, 1951. Recent policy changes over a period of time indicate a decrease in the number of reserved items from 836 during 1989 to 35 during 2008¹. This is indeed a call for SME sector to come out of traditional ways of managing their business and adapt new dimensions of managing business.

Most of the SMEs in India have really transformed themselves to professionally managed organizations as a result of their learning curve since decades. The reasons for change may be either external environmental force or owners self interest to grow and sustain. Today SMEs which are racing along with big industries, demanding for separate stock exchange, customized ERP software (Enterprise Resource Planning), e-business etc., and this is a very positive sign towards growth of SME sector. This requires a change in the mindsets of SME owners, from being only short term profit oriented to long term growth oriented. SMEs need to be more collaborative in their approach with their

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big industry counterparts.

As SMEs are the growth-engines of Indian economy, even the Government along with financial institutions, supporting institutions meant to provide variety of services to SMEs, need to help them turnaround their business operation apt to the environment. Joint strategies and support will boost SMEs to initiate the change in their managing dimensions.

The new dimensions according to the author can be:

1. The way SMEs utilize Technology to their benefit,
2. The time taken by SMEs learn to adapt to the market conditions,
3. The art of leveraging their experience through human resource and develop team talent
4. The readiness of SMEs to expand their terrain of business operation abroad.

Dimension 1: Technology

²Technology up-gradation by the Small and Medium Enterprises (SMEs) would play a key role in their future growth². ³Technologies for SMEs should aim at fueling innovation, business agility, easy to integrate with existing systems and processes, leveraging communication and information management. To survive, grow and win, SMEs will have to continuously infuse the latest technology tools in their production processes and marketing and management functions to cut costs, gain efficiency and consistency³. ⁴In the recent past, information technology companies from Microsoft to IBM and Cisco to HP have all announced specialized solutions targeting SMEs.

Even as the rate of change in technology accelerates; the pace of usage of these technologies in businesses has not increased. The SMEs have been impacted only to a small extent, with usage being primarily driven by email, Internet access, accounting and promotional use of an inadequately-updated website. In fact, one could argue that what has been seen so far with technology adoption across the value chain has been restricted to the larger companies⁴. The owners/management of the SMEs can invest on technology such as ERP. The SMEs may also benefit from adapting e-commerce.

Apart from information technology, going for other technologies such as automating processes involved in production or manufacturing would be cost effective in the future. The technology enables SMEs to compete in the highly competitive market which demands cost effective quality products to be delivered just in time. SMEs need to be ready for the facelift of their organization as adoption of technologies may sometime mean change in physical infrastructure, inducting new generation employees and incur additional costs.

⁴Even among SMEs, there are two clear segments. The SMEs in the developed countries have a greater capability to spend on technology than do the ones in the developing countries like India⁴. This gap in spending can be bridged by supporting institutions like India SME Technology Services Limited (ISTSL) to felicitate easy technology transfers to SMEs going for technological restructuring. ⁵ISTL maintains the information about the various technology options available across the world. The SMEs should take the advantage of such facilities for remaining competitive in this business world. The concept of carbon credit can also be the major development for SME segment for reducing the fuel consumption thereby reducing the future cost⁵.

Thus technology as a new dimension for managing SME can definitely provide a competitive edge for SMEs in near future.

Dimension 2: Time

⁶Expectations are high, prospects are bright, but capitalizing on the new emerging opportunities will be a challenge for SMEs. Some prerequisites to be included in the globally competing SMEs are:

- Imbibing global best practices
- Adopting rapidly changing technologies and efficient processes
- Innovation
- Networking and better supply chain management
- Ability to link up to global value chains⁶.

The obvious question is how fast SMEs can race with the pace of globally changing business scenario. The lies in the readiness, preparedness of SMEs, and support extended by external agencies like Government, financial institutions. Most of the SMEs in India are dependent on big industries as their customers, and need to be accommodating the requirement of their market driven requirement. So, SMEs should keep updated about future needs of the market and accordingly manage the knowledge, experience to build their fast moving learning curve.

Dimension 3: Talent

⁷Smaller organizations are more relaxed about recruitment difficulties than their larger counterparts but still face real difficulties persuading talented managers and professionals to join them. Smaller firms face particular problems finding suitable recruits to fill IT, engineering, personnel and sales roles, where their difficulties seem much greater than in larger organizations. The reasons include pay package, growth opportunities, and even lack of training & development activities in SMEs. Many SMEs claim that they operate with low profit margins and consider formal training programmes as burden. Generally small organizations go with on the job training and allow people to gain expertise over a period of time. On the contrary, investment in formal training and development programmes can help to attract and retain senior management talent⁷.

Talented people have a key role to play in getting culture and business direction right. Talent Management can be a new dimension added to usual personnel management function to create and nurture learning environment, which adds to business benefit in the long run. One can see that many SMEs are coming forward to develop their people and sending them for workshops, seminars, conferences or any higher courses to sharpen their skill. Knowledge management is also a buzz world in SME segment. It is important for SMEs to create a larger mass of 'professionalized' employees who, in turn, become more engaged and motivated to perform beyond expectations. Smaller firms must adapt their talent-management strategies quickly, so that they can continue to attract the best people, nurture them to help maximize their contribution, and retain them, rather than lose them to competitors.

⁸Lack of professional management talent is one of the reasons for the present status of SMEs. The fact that SME organizational strategies tend to be driven largely by concerns for survival and operational needs, may often result in SME leaders placing greater emphasis on the job training rather than formal education and qualification. This may come in the way of effective development of potential SME leaders.

Thus one of the areas of key concern is SMEs' succession management. This could be tackled first by identifying and selecting potential candidates by the concerned SME leader and secondly by offering a fast-track scheme for selected individuals to help them rapidly develop their leadership skills. In the emerging scenario the SMEs would have to make determined efforts to meet the challenges including marketing their products, maintaining high quality of the products, coping with stringent environmental norms, and following new set of labour standards⁸.

Dimension 4: Terrain

⁹The world is the marketplace for many businesses today, and has created exciting opportunities for smaller entrepreneurial and innovative firms. Exploiting them, however, is no easy job.

The SMEs need to leverage all the above explained dimensions along with one more important aspect that is ability to network with right partners present globally. Market information is also a success factor in achieving international growth. There are at least three vital facets of market knowledge.

1. An understanding of potential customers and competitors in the key market(s).
2. Knowledge about norms, laws and language of the targeted country.
3. Expertise over developing and executing a strategy to go global.

While internal knowledge resources are important, SMEs must also leverage external resources. This means leveraging network relationships — with customers, suppliers and strategic partners and so on. SMEs worldwide are known to use their networks extensively, which leads to many business opportunities. This is the way to expand their business terrain globally. Collaborations with MNCs as value chain partners can be one more option⁹.

¹⁰"Since bigger companies are going global and focusing on the international markets through M&As and buyouts, new vistas for the medium scale companies have opened up in the domestic arena," feels Rahul Sehgal, CMD, Nestor Pharma. Small and medium sized companies have chosen various models in avoiding competition with big companies. In addition to getting into contract manufacturing and contract research, a number of these companies are also looking at small markets in the rural areas¹⁰

The scope of going global is not only limited to establishing business or for collaborations, but SMEs can also tap alternative markets in Dubai, Singapore and London for raising the capital. For example ¹¹Rana Sugars is a small north-India based sugar refiner. It has been listed on the Dubai International Financial Exchange (DIFX), thus becoming only the second Indian company to do so. It was preceded in March by Man Industries, which too, chose to list on Dubai's new exchange. (The exchange was set up on 26 September 2005.) Two other emerging exchanges — London's Alternative Investment Market (AIM) and the Singapore Exchange (SGX) — has also been busy attracting Indian small and medium enterprises (SMEs)¹¹.

Hence expanding the business horizons beyond boundaries and breaking the comfort zones keep SMEs alive in competitive world.

Conclusion

Author concludes that if SMEs want to be financially strong and as effective and efficient as possible, just as any other professional profitable organization, they need to manage their organization by adopting relevant technologies, developing human capital and strategically expanding their business globally at a right time. These four dimensions namely Technology, Time, Talent and Terrain if managed in combination will give long term sustainability to SMEs by also making them profitable in this competitive world.

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