

PROBLEMS IN ADOPTING STRATEGIC MANAGEMENT IN INDIAN MSMEs

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ABSTRACT

MSME sector is called as the engine of economic development and the need for growth of the economy globally. This sector has been critically important for every developing country. MSMEs are exposed to greater opportunities and face huge challenges in global market. This particular research is undertaken to understand the problems faced by MSME in adopting strategic management as a tool for MSMEs in achieving competitive advantage over a long run. Significant research proved that the performance of MSMEs be increased by strategic management. Yet, most of the Indian MSMEs fail to adapt strategic management and the reasons of lack of strategic management in Indian MSMEs is not well understood. This article questions the common approach to understand the importance of strategic management and provides guideline in applying strategic management to prevent business failure

Keywords: MSME, Strategic management, competitive advantage

Introduction

In Indian economy Micro, Small and Medium Enterprises (MSME) is the most vibrant and dynamic sector. MSMEs play a crucial role in reducing regional imbalances and help in achieving reasonable distribution of nation's income and wealth by industrialization in the rural & backward areas and by providing great employment opportunities at relatively lower cost of capital compared to huge industries. Being a great supportive to large industries, MSMEs contribute immensely to the economic and social progress of the country. This segment has high potential for sustainable growth and is crucial towards the overall development of India

In India MSME's are considered to be a major industry sector and the Government is motivating this sector to grow through various initiatives and schemes under Make In India , Stand up India, Startup India etc. Due to rising competition and inadequate resources the MSME's has been exposed to many risks. In these turbulent times strategic management takes an important role. Most of MSMEs pay less importance on strategic management but strategic management and overall organizational performance are connected as strategic management practices helps SMEs in setting the long-term organizational goals and meeting the set goals (Hormozi, Sutton, McMinn & Lucio, 2002). To grow and sustain in this industry the companies have to develop certain strategies.

Although, there is still argument on the adaptation of strategic management practices in MSMEs by researches but the optimistic impact of applying strategic management as a tool to attain sustainable growth and competitive edge cannot be disregarded

Background of the study

The Indian Micro, Small and Medium Enterprises (MSMEs) plays a vibrant role in contribution towards the country's industrial production, exports, employment and creation of an entrepreneurial base.

- More than 80% of the total number of industrial enterprises are MSMEs.
- GDP's contribution is 8%
- 8000 value-added products are produced by MSMEs.
- 45% of the total manufacturing output is by MSMEs.
- MSME contribution towards export is 40%.
- Employment is provided for more than 6 crore people.

Objective of the study

1. To analyze the growth and performance of Indian MSME
2. To identify the problems faced by MSMEs in adopting strategic management.

Definition of MSME

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below:

Enterprise	Investment in plant & machinery	Turnover
Micro	Does not exceed 1 crore	Does not exceed 5 crores
Small	Does not exceed 10 crores	Does not exceed 50 crores
Medium	Does not exceed 50 crores	Does not exceed 250 crores

Importance of MSME:

MSMEs generates huge employment at relatively lower cost compared to large industries, They aid in the establishment of industries in rural and underdeveloped areas, decreasing regional disparities and ensuring a more equitable distribution of national revenue and wealth. MSMEs, as auxiliary units, support large industries and contribute to the country's economic and social development. They have high potential for sustainable growth and contributes to export revenue by attracting foreign direct investments. MSMEs also act as a breeding ground for budding entrepreneurs and help in maintaining reasonable growth rate.

Contribution of MSME towards the economy:

According to the MSME report there are more than sixty thousand products being produced and have been spreading their domain in many segments of the economy. The below table shows the contribution of MSMEs in building the economy of India by contributing, the total MSME GVA has increased from 3658196 to 5741765 in a period of 5 years with the share of MSME in Gross Value Added % has increased from 31.8 % in 2014-2015 to 33.5% in 2018-2019 which is a good sign of development and the contribution of MSME in All India GDP (%) 30.27 %. This number is very inspiring & should encourage the entrepreneurs to accelerate the growth of this sector by taking necessary steps.

Table 1: Contribution of MSME towards GDP

Figures in Rs. Crores adjusted for FISIM at current prices						
Year	Total MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	All India GDP	Share of MSME in All India GDP (in %)
2014-15	3658196	-	11504279	31.80	12467959	29.34
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.90	13965200	32.24	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

Source: Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation

Contribution of MSME towards employment:

MSME play a significant role in addressing unemployment problem by providing huge employment opportunities at very low capital cost which gives competitive edge. The below table shows the contribution of MSME in all categories. Overall there is a 33% share of employment in service sector, 32% in manufacturing sector and a highest of 35% in trade. MSME provides a total of 1109.89 lakh of employment with 497.78 to rural and 612.1 to urban population.

Table 2: Employment generation activity wise

Activity Category	Employment (in Lakhs)			Share (%)
	Rural	Urban	total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other services	150.53	211.69	362.22	33
Total	497.78	612.1	1109.89	100

Source: Annual Report of Ministry of MSME 2020-2021

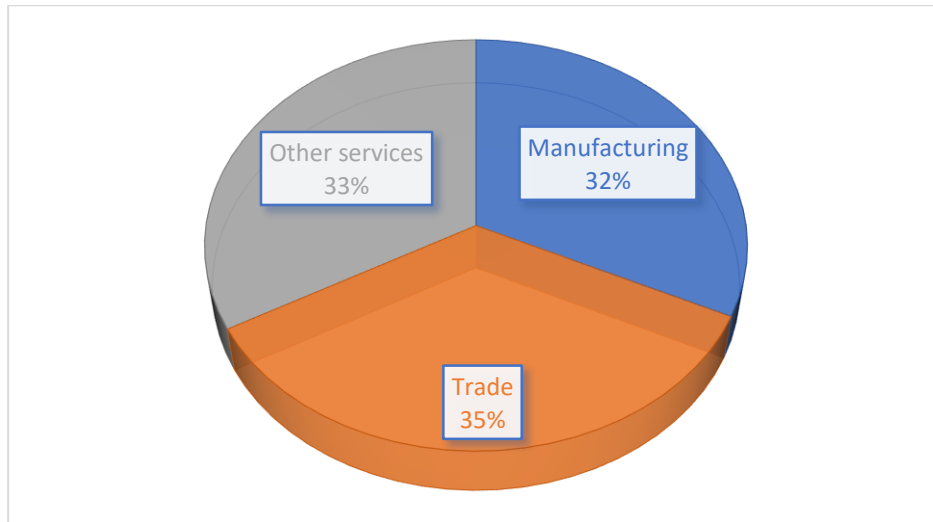


Figure 1: Graphical Presentation on Employment generation

• **Problems faced by MSME:**

Presently, the Indian MSME`S are facing various problems. Most of the problems faced by the MSMES are controllable while other are uncontrollable by the firms. Most of research has been made on addressing the major problems of MSME covering almost all major areas namely finance, marketing, human resource, production, and the impact of internal and external environment on the performance of MSME`s in India. Problems like timely and adequate availability of credit, high cost of capital, asset security requirement, having less access to equity capital, problems with government department in supplying, procurement raw materials at viable cost, packaging & storage problems, proper designing and display of products, insufficient infrastructure facilities, lack of access to modern technology and global markets and unavailability of skilled human resource

Strategic management

Strategic management entails determining the organization's objective as well as the strategies and actions necessary to achieve it. The enterprise's overarching direction is provided through strategic management. Strategic Management is an art, science of formulating, implementing and evaluating cross functional decisions that help an organization in achieving the set goals. Strategic management is a continuous process of managing an organization strategically.

Strategic management as a tool to achieve sustainable growth

The MSME sector has a significant role to play in developing economy of India by providing large employment, reducing regional inequalities and has become a breeding ground for entrepreneurs. According to Jocumsen(2004) SMEs they are plagued by high failure rates and poor performance levels despite of the valuble contributions made by them. According

to SIDBI annual report 21.6 % of MSME have closed and 14.47% are considered sick industries. According to provisional data of RBI, India has 5.37 lakh sick MSME units as stated by Giriraj Singh Minister of State for MSME (2015) where Karnataka stood in 4th place with 38,277 sick units. Which is of great concern for a developing country like India and draws interest in knowing the reason for failure. According to IBM institute for Business value's study in collaboration with Oxford Economics, 90% of Indian start up fail within 5 years. **Why do small business fail?**

Dr.T.Sree Krishna and Maturi Bala, have stated that important internal causes for sickness in MSMEs are inadequate management, Lack of management depth. Poor post – acquisition management, Poor marketing and distribution, Lack of financial control etc. According to Durgaprasad Navulla, Siva Krishna Golla, Dr. G. Sunitha Improper management decisions and entrepreneurs with lack of skill and proper planning as one of the major internal reasons for industrial sickness./ Strategy management has been gaining lot of importance and is been publicized worldwide during the last few years Although, there is still argument on the use of strategic management in MSMEs by researches but the positive effect in achieving sustainable growth and competitive advantage by using strategic management as a tool to cannot be disregarded.

Benefits of implementation of strategic management:

- Better identification, prioritization and exploitation of opportunities
- Improvement in coordination and control of activities
- The management is more formal and disciplined
- Better awareness of external threats
- Understanding about competitors strategy is enhanced
- Improvement in productivity ,sales and profits of the company

Research design

In order to accomplish the above objective, this research will be considered as an analytical study.

The population for the survey was taken from 250 registered MSMEs through convenient sampling to cover both manufacturing and service units. The organizations were located India. A questionnaire was created to gather data, it is divided into two sections: the first deals with demographic characteristics, while the second focuses on the challenges that MSMEs confront when it comes to strategic management adaptation. The structure of the questions was logical and systematic including multiple choice questions, Likert scale responses. In total 250 responses were found to be valid to be used in our study.

Data analysis and interpretation

Table 3: Demographic Profile

Slno	Particulars	Details	Frequency
1	Type of enterprise		
		Manufacture	198
		Service	52
2	Gender		
		Male	167
		Female	83
3	Position in the company		
		Owner	142
		Manager	108
4	Types		
		Micro	135
		Small	82
		Medium	33
5	No. employees		
		Less than 10	96
		11-20	53
		21-30	38
		31-40	24
		Above 40	39

In major challenges faced in adaptation of Strategic management in the enterprise five statements were kept for the MSMEs opinion in 5-point scale and analyzed the data by means of mean score for each of the statements and presented in table below

As per the table it is observed that the statements (serial number 1 to 7) have scored mean more than 3.00) The responses of owner /manager on major problems faced in adaptation of Strategic management in the enterprise is divided into seven elements i.e., for lack of financial resources, Lack of strategic thinking, Lack of strategic management experts, Organizational culture, Organizational structure, Organizational regulation and procedure and Employee resistance to change mean

Table 4: Percentage representation of problems faced MSME in adopting strategic management

	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)
Lack of financial resources	2	7	16	59	16
Lack of strategic thinking	1	6	32	53	8
Lack of strategic management experts	2	9	21	57	11
Organizational culture	1	8	45	40	6
Organizational structure	3	9	33	39	16
Organizational regulation and procedure	2	8	18	64	8
Employee resistance to change	1	10	18	52	19

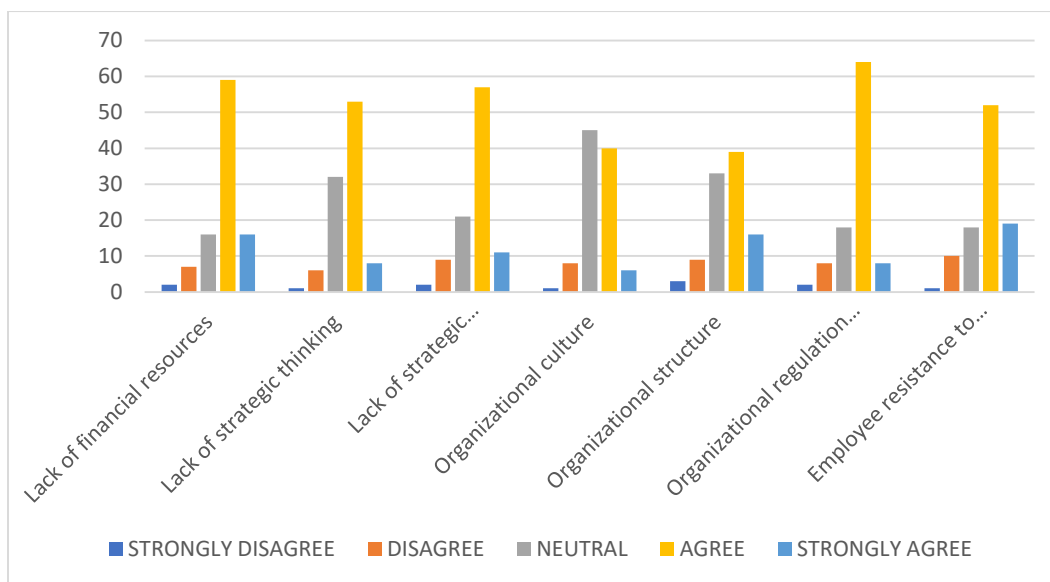


Figure 1: Graphical Presentation on problems in adopting the strategic Management in MSME

The perception of the owner /manager on the problems in adopting the strategic management Lack of financial resources (75%) is the major problem faced , Organizational regulation and procedure (72 %) to be the second major problem faced by the MSMEs followed by Employee resistance to change(71%) , Lack of strategic management experts (68%), Lack of strategic thinking (61%) ,Organizational structure (55 %) and Organizational culture with (46%) is the least agreed problem faced by sample MSMEs

Table 5: Problems faced MSME in adopting strategic management

S.No	Items	N	Minimum	Maximum	Mean	Std. Deviation
1	Lack of financial resources	250	1	5	3.86	.803
2	Lack of strategic thinking	250	1	5	3.61	.799
3	Lack of strategic management experts	250	1	5	3.60	.881
4	Organizational culture	250	1	5	3.38	.765
5	Organizational structure	250	1	5	3.53	1.008
6	Organizational regulation and procedure	250	1	5	3.68	.838
7	Employee resistance to change	250	1	5	3.76	.886

Source: Primary data

The descriptive statistics table challenges faced by MSMEs shows the mean and standard deviations. The mean value for lack of financial resources challenges is highest (M=3.86). Lack of strategic thinking has mean =3.61 with 0.799 standard deviation. Lack of strategic management experts mean =3.60, Organizational culture has mean =3.38, mean for Organizational structure is 3.53, Organizational regulation and procedure has mean value 3.68 and Employee resistance to change mean is 3.76. Almost all the mean values of challenges are near to agreement degree it indicate MSMEs consider these challenges as major challenge.

Conclusion

Observing the role of MSME in the growth and development of economy, this study suggests the MSME to adaptation of strategic management and should be institutionalized as it seems to be a necessary approach for coping with the dynamic, highly competitive and unstable business environment. The MSME's should inculcate strategic entrepreneur approach than the traditional approach in order to increase their performance, competitive advantage in the global market. To prevent the major sickness and harness the power of the sector MSMEs should adopt formal approaches like strategic management to improve productivity, quality, cost reduction and innovation and enhance the skill of the labor force to meet the global requirements.

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