

A STUDY ON BUSINESS PLANNING AND MARKETING  
STRATEGY IN THE CONTEXT OF GLOBALIZATION FOR  
SMALL AND MEDIUM ENTERPRISES IN THE SELECT  
AUTOMOTIVE CLUSTERS OF INDIA

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Ph.D. THESIS SUBMITTED IN FULFILLMENT  
OF  
THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF  
**Doctor of Philosophy**

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# DECLARATION

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*I hereby declare that this thesis entitled, “A Study of Business Planning and Marketing Strategy in the Context of Globalization for Small and Medium Enterprises in the Select Automotive Clusters of India” is an original work done by me for award of the degree of Doctor of Philosophy in Management. Further, I declare that this thesis or any part thereof has not been submitted by me for the award of any degree, diploma, title or recognition before.*

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November 21, 2014

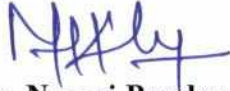
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# CERTIFICATE

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*Certified that the thesis entitled "A Study of Business Planning and Marketing Strategy in the Context of Globalization for Small and Medium Enterprises in the Select Automotive Clusters of India" which is being submitted by Mr. Dilip Nandkeolyar in fulfillment of the requirements for award of the Degree of Doctor of Philosophy in Management at Thapar University, Patiala, is a record of candidate's own work, carried out by him under our supervision and guidance. The matter embodied in this thesis has not been submitted in part or full to any other University or Institute for the awarded of any degree.*

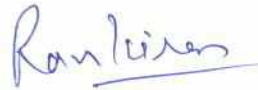
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# Acknowledgment

*“Tera tujhko arpan, kya laage mera”*

*(What is Yours, O Lord, is being proffered back to you, what is there that I give)*

---

This is amazing! After years of toil I am seeing my work shaped in this thesis. And acknowledgement is due to the Almighty for guiding me through rough times and the good. But it is said God has many faces and He acts through them. So whilst dedicating this labour of love to Him I deem it my privilege to bring forth those set of faces who represented Him.

The first face of God is my family, without whom nothing would have ever been possible, let alone this strenuous work. Late Ugra Mohan Nandkeolyar, my father and my best friend, always taught me to remain steady in the face of upheaval and turmoil and always see the positive side of negative situations. Sarla Nandkeolyar, my mother, has been a silent but towering personality in my life. She has endowed in me with the qualities of tenacity and perseverance that have stood me in good stead in achieving whatever I have. Ajay Nandkeolyar and Sanjay Nandkeolyar, my younger siblings, have always had faith in my abilities egging me to exceed myself. Rita Nandkeolyar, my wife, with her non-intrusive ways of encouragement has been the pivot of my efforts for past 33 years. The chirpiness of Ummeed Nandkeolyar Raut, my favorite daughter, and Raghuraj Raut, her loving husband, have always done much to drive away my blues. The steadfastness and the pride Vardaan Nandkeolyar, my worthy son and Neha Varma Nandkeolyar, his talented wife, have vested in me has always been a great source of strength. In addition, being product of a closely knit Indian joint family there are a host of uncles, aunts, brothers, sisters and cousins - both sides on my side and my wife's side - who have borne with me, throughout keeping me positively oriented to life itself. So thank you, this face of God for being there for me, as always!

The second face of God is my academic mentors or “gurus”. Quoting a couplet from famous poet in Hindi literature, Kabir Das:

*“Guru, Govind do-u khade ka ke laagun paaye.. Balihari Guru aapne jo Govind diyo bataaye”*  
[The Guru and Lord both are in front of me who shall I bow to.... Gratitude to the Guru for having shown me the Lord].

This summarizes my emotional gratitude to all the staff and faculty at LMTSOM, which includes Dr. Padmakumar Nair, Dr. K.K.De, Dr. Piyush Verma and Dr. Gurprakash Singh and Mr. Pradeep Gupta. But this gratitude will not be complete without thanking Dr. Ajay Baatish, who as member of doctoral review committee guided many of my efforts to success. But most of all, my biggest mentors and supervisors, who stuck through my thick and thin, were Dr. Neeraj Pandey, Associate Professor at NITTIE, Mumbai, Dr. Shailendra Kumar, Assistant Professor at IIT, Allahabad and Dr. Ravi Kiran, Professor, SBSBS, Thapar University, Patiala. No amount of thank you would pay back the debt I owe them in this endeavour. I must add further that Dr. Pandey, particularly, not only toiled with me but was a brilliant source of motivation; for there were times when I was even willing to let go, it was he who inspired me. Dr. Kumar's unflinching and prompt attention added to this motivation. The silent concerns and ever smiling ways of Dr. Kiran was often an elixir to jaded soul for rejuvenation. A heartfelt thank you! This God was Your second face that gave me the gumption to achieve this!

The third face of God is my group of friends and professional in my network and all those who chose to spare time to participate in my research. Of special mention is Jaspal Singh, a friend philosopher, guide and a dear brother who has always taken keen interest in all that I have done in my professional and academic career and has been an emotional bulwark. Then there is Dr. Rajesh Arora, who has always been ready to contribute to my efforts ex-gratia. Mention must also be made of Nanda, my petite and loving mate for the keen interest taken in my endeavors and for those engaging debates on a variety of subjects including mine and making my life's journey so loveable. There are many, many others who have been unconditionally encouraging and motivating. My heartfelt gratitude God! For showing me this third face according me such affectionate and encouraging friends and professional peers!

And finally, the fourth face of God was all those who chose to negate me. For they only served to stoke the fire within to achieve this. Their criticism and their barbs, frustrating and painful at times, only stimulated me to strive ever so harder. The result: this thesis! Thank you God for this fourth face! You gave critics and people negative to me, for they made me hungry to do more!

Grateful thanks, O Lord, for making this possible through your various angels!

**Dilip Nandkeolyar**

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## **Abbreviations used in this thesis**

<b>Acronym</b>	<b>Expanded Form</b>
ACMA	Automotive Component Manufacturers Association of India
AHP	Analytic Hierarchy Process
AIMA	All India Management Association
APCTT	Asia and Pacific Center for Transfer of Technology
CAD	Computer Aided Design
CAGR	Compound Annual Growth Rate
CFA	Confirmatory Factor Analysis
CLRI	Central Leather Research Institute
CSIR	Council of Scientific and Industrial Research
EFA	Exploratory Factor Analysis
GDP	Gross Domestic Product
ICICI	Industrial Credit Corporation of India
IDBI	Industrial Development Bank of India
IIT	Indian Institute of Technology
IT	Information Technology
KPI	Key Performance Indicators
MADHU	Modernization of Artistic Design for Handloom Units
MAUT	Multi-Attribute Utility Theory
MERADO	Mechanical Engineering Research and Development Organization
MSME	Micro, Small and Medium Enterprises
NISSAT	National Information System for Science and Technology
NISTAD	National Institute of Science Technology and Development
NRDC	National Research and Development Corporation

## Abbreviations used in this thesis

<b>Acronym</b>	<b>Expanded Form</b>
NSIC	National Small Industries Corporation
OEM	Original Equipment Manufacturer
PTI	Press Trust of India
R&D	Research and Development
ROI	Return on Investment
RPED	Regional Programme for Enterprise Development
SBI	State Bank of India
SEM	Structural Equation Modeling
SIDBI	Small Industrial Development Bank of India
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
SRISTI	Society for Research and Initiatives for Sustainable Technologies and Institutions
SSI	Small Scale Industry
SSSBE	Small Scale Service Business Enterprises
UN- ESCAP	United Nation's Economic and Social Commission for Asia and Pacific
WTO	World Trade Organization
YOY	Year on Year

## EXECUTIVE SUMMARY

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SMEs/SSBEs form the back bone of the economic development in every country across the world – be it developed, emerging or developing country. Besides industrial development in the country, they have unequivocally accounted to increased employment and exports. Their importance can be gauged from the fact that in the recent budget (Financial Year 2014-15) the Indian government had announced INR 100 billion fund for creating new businesses. The government further announced to reinforce substantively the manufacturing sector to revive economy and employment opportunities. Manufacturing has a cascading effect on the service sector as well besides ensuring industrial growth and employment. This is in addition to creation of a dedicated Ministry of Micro, Small and Medium Enterprises (MSME) way back in 2006. This emphasizes the resolve of the nation to ensure that SMEs grow and become profitable, thus contributing to the national economy. Attempts are also being made by government and other stake holders to rescue dying SMEs and revive those that are now dormant to unleash the locked resources through a variety of interventions and actions.

Literature on what should be done to support the SMEs in their efforts are copious and freely available. However, there is sparse literature on what the Indian SMEs could do to help themselves survive and succeed. This study seeks to cull out factors and steps that SMEs and SSSBEs, particularly in the automotive and related light engineering sectors could take to withstand the kaleidoscopic changes happening in the business eco-system. A survey of literature was done to ascertain research gaps. Based on this and expert opinion a questionnaire was designed consisting of 57 items to test the three hypotheses formulated on the Likert scale of 5. There were also 9 items on nominal scale viz. Yes/No type in the questionnaire. A pilot test of this was done to test the rigor, relevance and the ease of administration on 51 respondents. The questionnaire was also checked for its reliability and validity. The questionnaire was then finalized and administered to 654 respondents of which 517 valid responses were obtained.

Exploratory Factor Analysis (EFA) and Analytic Hierarchy Process (AHP) were conducted. EFA gave the success factors for the SMEs; and AHP, using pair-wise weights to all the items, gave the normalized weights based on expert opinion. Combining the results obtained through EFA

(using SPSS 20.0) and AHP gave the priority-wise steps/initiatives that the SMEs need to focus

for being successful. Further SEM (Structural Equation Modeling) was used to further check the strength of relationships and what could be final take-away in form of top most priority steps by SME owners/managers. Hypotheses were tested using Minitab 16.1 and AMOS 20.0.

What this study concluded was that there was a very strong case for business planning and it was important that SMEs engage in crafting their own marketing strategies to meld with the current and impending business scenarios. There were 18 factors needing their attention but that were far too many for resource starved SMEs to engage in all at once. Hence, a step-by-step recommendation was made:

1. Proactive innovation (0.529)
2. Technological Preferences (0.385)
3. Competitiveness (0.095)
4. Quality (0.057)
5. Product Innovation (0.055)
6. Negative attributes (0.049) i.e. Governmental support and required compliance

In other words, in order to be successful an SME would have to take the following steps:

1. Being small and resource-crunched, SMEs must constantly be innovating in all of its business processes to stay ahead of the competition.
2. Awareness of advances in technology and being prepared for the changing scenario, even when the resources are limited, means they must make right choice of technology they use.
3. At all times, they would need to be assertively competitive and sensitive to the actions in the market by other players such that they are able to leverage competition to their advantage.
4. Building quality in their entire endeavor means systematizing their business processes to give them a leg-up on their competitors besides coming with substitute offerings.
5. SMEs need to improve and innovate in their offerings especially product innovation.
6. Thorough understanding of support mechanism in terms of subsidies, loans, excise exemption schemes, industrial testing facilities, etc. available from the Government besides the mandatory compliances would help smoothen operations and free them to fully concentrate on the business of their business.

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## CHAPTER – I: INTRODUCTION

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With advent of WTO and various trade blocks, businesses have had to now think globally in order to survive and grow (SIDBI, 2001). Basically, a business has two choices when it comes to running the organization: Be intentional about the path the organization must follow or turn on some kind of auto-pilot (Olsen, 2006). Turning on the auto-pilot is like sitting in your car turning on the satellite navigation system and following the direction from your home to Aurangabad. Unfortunately, computers are not the best at making decisions, so you may get to Aurangabad eventually but are you going to Aurangabad, Maharashtra or Aurangabad, Bihar? If, instead, you plot your course before you set off, you are a lot more likely to get to your destination in an efficient and effective manner. This is as valid for personal lives as for businesses.

Most people plan their personal lives, but when it comes to business, they do not seem to take the same approach. So if a business is running without a concrete plan, it is using the navigation system. This concept may sound rudimentary but the fact is that majority of Small and Medium Enterprises (SMEs) are running without a plan. And, all of them are hoping that the navigation system does not fail!

With liberalization coming in, many have fallen by the way side and there are a myriad of industrial estates/clusters spread across the country plagued with chronic illness and then there are some that are gasping for breath. The fast changing business environment particularly after the end of ‘License Raj’ and freeing of economy, had led to unprecedented competition that businesses must face. Gone are the days when inefficient and rudderless deployment of resources would be covered or protected by the License Regime. Businesses must now not only anticipate better and be more effective; but also those look beyond national borders in terms of products, processes and best practices. Irrespective of size, today a business must “Think Global & Act Local” (SIDBI, 2001).

The present research was undertaken with the aim to study the prevailing practices amongst the Small and Medium Enterprises (SMEs) in many ways that typifies the Indian business scenario. The endeavour is to study successful enterprises and their business practices in

relation to those that have been unfortunate with the march of times in post-liberalization era. Having done that an attempt has been made to suggest a road map.

We all know that success of a nation like India rests, in a very large measure, in not only making the SMEs more effective and productive but also in unleashing the resources locked-in within so many sick or even dead small and medium enterprises. For, it is not too difficult to see that for countries like India, which is recording currently GDP growth rate of around 5% (PTI, 2014), by any standards, there still exists a rather wide chasm of the 'haves' and 'have-nots'. Unemployment is being taken as a necessary hardship on one hand, and on the other we have several failures amongst SME's who could very conveniently and rather efficiently absorb a rather large chunk of the unemployed youth, should they mercifully survive (AIMA, n.d.). The purpose, therefore, of this study was to look at what could lead to success and suggest some effective steps to help shore up the SME fortunes leading to a more vibrant and yet competition ready SMEs and the industrial estates.

## **1.1 Background**

In India, the Small and Medium Enterprises/Small Scale Service Business Enterprises (SMEs/SSSBEs) sector has acquired a prominent place in the socio-economic development of the country during the past 60 years. This sector constitutes 95% of the industrial units and contributes 40% to the total industrial output of the country and 35% to direct export. As per the latest official statistics, there are over 3.6 million SME/SSSBE units in India (Dudhe, 2012). They employ approximately 19.3 million people. This is second highest next only to agriculture.

This accomplishment could be attributed to the consistent and continued policy support from the government through their policy of reservation, ceiling on investment for the SME sector and priority in funding small ventures. The economic reforms started in 1991 in India provided the opportunity for SSIs (small-scale industries) to grow big. However, the formation of WTO in 1995 started posing a major challenge to the SMEs/SSSBEs. There had been some sweeping policy changes regarding SSI sector in last few years. The hitherto protection of the SSI sector by way of reservations and quantitative restrictions have been removed. More than 160 items which were reserved for the SSI sector have been de-reserved (Gumma,2009).

The period 1991-2000 witnessed a higher rate of growth amongst SMEs/SSSBEs vis-a-vis the general industrial rate of growth. However, thereafter the growth has started to plateau and is a cause of concern especially in the manufacturing sector. Whilst the contest for Indian market space from players from developed countries is yet to be fully felt, competition from South-East Asian and Chinese manufacturers, whose productivity levels are higher by 60% to even 100% is already now troubling the Indian SMEs (Dudhe,2012).

Several studies (Dudhe,2012; Olsen, 2006;SIDBI,2001) on SMEs have concluded that it needs to remain competitive in the era of globalisation. These studies have suggested that competitiveness is possible only if there is a technology up-gradation and adoption of new technologies. There is a need to introduce new tools and equipments for production, changes in manufacturing process, improvement in the quality of products and quality assurance, introduction of new designs and diversification, use of new raw materials and usage of modern management and IT tools. There could, however, be other factors besides technology which have impacted the growth of the SMEs/SSSBEs. It was felt that there is an urgent and immediate need for strategic planning at each SME/SSSBE level and they need to become more marketing savvy.

### **1.1.1 Definition of Small and Medium Enterprises**

Regardless of the way that business scientists and experts ordinarily allude to 'small', 'medium' and 'large' organizations, the literature accessible on the subject uncovers hardly any consensus concerning what is precisely implied by these terms. A variety of definitions have been utilized to portray organizations by their size (Brooksbank, 1971). Such studies have considered four principle regions for definition purposes. First and foremost, to place the entire issue of hierarchical size into setting, a percentage of the significant issues encompassing the meaning of organization size is talked about. Second, there is a concise audit of past meanings of 'small', 'medium' and 'large' organizations. Third, on the premise of past definitions, we move ahead to develop another set of categories of organization size. Fourth, the key contemplations are focused upon for their applicability to research in business affairs.

It appears that there are three fundamental, correlated issues which encompass the issue of business size: what is size? In what manner ought the size to be measured? What is more, what is the cut-off point between a small, a medium and a large business?

There has been almost no preferment in theory of the concept (Kimberly, 1976). For instance, would it be right say it is 'the scale of operations' (Aldrich, 1972) or 'the extent of organization and its responsibilities' (Blau, 1972) or, as it is all the more regularly and dexterously characterized by objectives of study, would it basically be defined the employee strength, number of assets owned or companies revenues? Plainly, when diverse definitions are utilized, researchers might or might not be discussing the same idea, with their decisions customarily reflecting their own particular specific objectives for research. For instance, an organization's scale of operations is in no way, shape or form fundamentally linked with the size of manpower employed, nor can the manpower strength be linked with turnover and so forth. In this manner, while the idea is generally acknowledged and it is very normal for researcher to allude to 'small', "medium" and "large" organizations, in the expressions of Kimberly (1976) it to a great extent happens is hypothetical and assumptive.

Notwithstanding how the idea is characterized and measured, there still remains the issue of choosing how to separate between what is 'small', "medium" and 'large'.

#### **1.1.1.1 Some Popular Definitions**

Accessible body of research seem to suggest that past meanings of a 'small', "medium" or "large" organization have a logic, which may be classified as basically quantitative or qualitative. The quantitative-based definitions pick criteria that are promptly quantifiable and normally little endeavor is made to defend these. Three fundamental quantitative criteria are utilized:

1. Number of workers
2. Revenue or turnover
3. Size of owned assets

On these criteria, then again, there is next to no concensus in respect to what constitutes small, medium and large. Evaluates are clearly culled of thin air and picked on the basis of comfort, individual's judgment or traditoonal thought. In a few cases, more than one measure is utilized in an exertion to deliver more hearty definitions (Brooksbank, 1971). On these criteria, then again, there is next to no assention in respect to what constitutes small, medium and expansive. Evaluates are clearly 'culled of slim air' and picked on the basis of comfort, particular judgment or 'tried and true way of thinking'. In a few cases, more than one measure is utilized in an exertion to deliver sturdier definitions (Brooksbank, 1971).

The more qualitative methodology starts by picking criteria which are basically qualitative in nature and afterward develops these as a premise for allotting quantitative criteria when undertaking research. Once more, such criteria are picked to a great extent on the premise of individual judgment and experience, however with the accentuation being on the investigation of the dissimilarities that are naturally "known" to separate organizations of distinctive size. Henceforth, there is an endeavor to characterize 'small', "medium" and "large" organizations through an attention to the impact of size on business. Thus, they attempt to minimize the innate shortcomings of the quantitative methodology with respect to the issues of correlation, and in any event give a hypothetical base on which to fix numbers. A decent illustration of a qualitative-based methodology is given by Van Hoorn (1990). Concerned with examining the planning exercises of SMEs, Van Hoorn proposes five 'deliberated strategic ' aspects, which separate more small businesses from bigger organizations:

1. A nearly predetermined number of sorts of execution (items, innovations, know-how, and so on.)
2. Comparatively constrained assets and capacities (restricted capital and skilled workforce, and so forth.)
3. More rudimentary management frameworks, authoritative methodology and strategies important to assess and control the key position of the organization
4. Management style is ad hoc and unmethodical leading to casual preparation
5. Senior administration positions and the dominant part of shares are held by either the prime movers of the organization and/or their relatives

The main point of interest of the qualitative methodology infers from its solid foundation in theory, which represents an extensive variety of 'instinctively compatible' criteria of different size, for example, control frameworks, execution estimations, reward frameworks and so forth. On the drawback, notwithstanding, there are numerous pragmatic issues encompassing its application or execution.

In order to circumvent the issues of execution connected with qualitative criteria, it is proposed to utilize adaption of the idea of "stages" of organization development and enhancement from research done in the field of organizational behavior (Stettner, Aharonson, & Terry L. Amburgey, 2014). The contention is structure takes after methodology, and that organizations have a tendency to develop hierarchically and strategically (Chandler, 1984).

Numerous writers (Leontiades, 1977; Scott, 1971; Thain, 1969) have expounded and reinforced Chandler's work. They have upheld the hypothesis that an organization's development and enhancement adjusts to a progression of overall articulated stages.

In India the standard definition, as given by Government of India and being followed for the purposes of planning, is based on assets in terms of Plant and Machinery. Various industries and product lines have special Small Scale Industry (SSI) thresholds; the largest threshold is Rs. 50 million for investment in machinery and equipment. Unlike other countries, business turnover and employment size are not criteria used for defining an SME/SSSBE in India. The Ganguly Committee has recommended the following thresholds by business turnover (Asian Development Bank, 2005):

1. Up to Indian Rs. 20 million—tiny units
2. Up to Indian Rs. 200 million—SSI units
3. Up to Indian Rs. 500 million — Medium-sized units

This was again revised as under (AIMA;, 2012):

1. Manufacturing Enterprises :-
  - a. Micro Enterprises - investment up to Indian Rs. 25 lakhs
  - b. Small Enterprises - investment up to Indian Rs. 5 crores
  - c. Medium Enterprises - investment up to Indian Rs. 10 crores
2. Service Enterprises :-
  - a. Micro Enterprises - investment up to Indian Rs. 10 lakhs
  - b. Small Enterprises - investment up to Indian Rs. 2 crores
  - c. Medium Enterprises - investment up to Indian Rs. 5 crores

Will the current millennium be the story of David and Goliath in the world of business? Issues and hurdles faced by large corporations are many and does slow them despite their sinewy presence. In that context SMEs do appear more energetic and nimble. The dynamics of entrepreneurial environment had led to regeneration and rejuvenation of intense productivity focus in the more vibrant regions of world economy. Newer and more innovative businesses are being launched every day though mostly in the service sector of the economy. These require lower capital and are generally higher on skills and expertise. The examples include printing, transport solutions, plastics, and even specialized equipment (Sengenberger and Loveman,1987).

Nonetheless, the aphorism- 'small is beautiful' - does contain more than a grain of truth. The managers of large organizations have now understood that the tendencies to centralize has become excessive, and are now veering towards setting-up smaller and more autonomous decision making units. Work-life balance is not sacrificed any longer on the altar of profitability. On the contrary, the new thinking is that it plays an important role in maintaining organizational vibrancy. In large companies, quality circles, enterprise micro-culture and 'intrapreneurship' now an increasing trend. Task force and also the creation of outsourced units, whether or not associated with the core activities of the units, are popularly supported so as to keep the structure lean and mean.

Economists and industrial sociologists are now beginning to reflect on the explanations behind the small organizations being renewed, or even retrieved for efficiency. Prevalent theories, in the field of enterprise social science with its popularly abiding story of economies of scale, assumes that larger the size better the economic productivity. Social scientists, note that the 'bureaucratic phenomenon' (Crozier, 1976), had long been identified as a incompetency resulting from massive size. Most of all is the 'laxness' that is leading to growing problems in mega-organizations (Reix, 1976). Thus, this reinforces the popular views of the re-appraisal of management systems. However, most economists still consider smaller corporations as being less productive and thus having lower efficiencies. The argument is that if such firms become economically productive, they grow overcoming critical thresholds and become huge. Firms who are not able to grow have only their lower levels of productivity, attributable to less effective management and outdated technologies and failure to adapt to unfavorable markets (Marchesnay and Julien, 1990). Here, for example is the model of firms of craftsmen and handicraft that failed to evolve to contemporary advances in production techniques.

As per Marchesnay and Julien (1990) the actual fact, however, must be looked at and that is that almost all small companies are born small and expect to remain so. Moreover, many still insist that small size now seems to be a precondition for obtaining efficiencies, especially in view of recent technological advances (informatization), demand variations (market segmentation and/or emerging desire for newer services) and new management techniques required for emerging activities. As a matter of fact, it has the potential to show that the kind of recent companies now being created is basically a system of internal and external transactions in a much disciplined network from where it imbibes its efficiency and from that

it acquires its current or future size. This kind of futuristic concept of the small firm represents a brand new way to look within the field of conventional economic and social sciences. If the market is more effective than a company's formation, in terms of cost of exchange, it is prudent for it to stay away the alone and 'outsource' instead of 'do it yourself' (Williamson,1976). By this logic the large conglomerate owes its being to its highly efficient internal composition.

Traditionally, as elucidated by Marchesnay and Julien (1990), the 'market versus hierarchy' theory justified replacing 'putting out' - that is, working from home - by the nineteenth-century factory. In addition, in the early twentieth century, advances in technology and enterprises as well as workshop organization and administration (Fayolism, Taylorism) reinforced the view that large was efficient due to their economies of scale. However, the question could be asked, logically: although recent advances underscore 'tertiary industrialization' (increased division of job-work, automation, clustering at one production site), do they not also question the idea of a minimum efficient size, through advances made in such fields such as production techniques and communication technology. Customer's needs are becoming more and more exacting. SMEs are increasingly required to use standardized raw material, combine them in a variety of ingenious ways and add on services, in order to adapt them to industrial and individual demand. The firm's competitiveness is not only about cost minimization but progressively on the services that it offers with its products.

The service quality actually depends on the close relationship that can be established between the provider and the consumer. The consumer plays his part by elucidating his requirement thus participating in creation of the service. A case in point is a travel agency customizing a tour plan for their customer. Similarly, an industry may want his vendor or its specialized sub-contractor to develop and supply particular specialized machinery or a complex part or assembly in shortest possible time. There could also be a case where a business may want a consultant to carry out a very incisive and complex market research. Likewise, task based relationships develop within an enterprise to accomplish project based assignments targeted to creating products and services.

The theory of transaction costs hardly explains the need for managing service. This is because the evaluation of services are qualitative than quantitative making it hard to determine. The aim here cannot be on transaction cost minimization but building a 'social,

personal and business relations based on customer's trust and loyalty. Building such networks or clustering of customers is known as 'transaction space' (Falemo, 1989). It is these transaction spaces that play an important role in enabling a small business to manage its ecosystem in a relatively more efficient and effective ways for the long terms.

There appear to be two basic features that typify this new kind of qualitative transaction space of a SME. Firstly, the entrepreneur essentially becomes a sort of driving force – a kind of appraiser and central to the stability and composition of the business for the team he leads. Secondly, it is the multiplicity of roles to be played in ever-changing business environment. This is not just a simple choice between market conditions and the organizational set-up but a more complex linkage with the entire value chain. In the days of yore the small firms were about focusing on entrepreneur who met the four basic economic conditions, the fourth criterion being localized development.

Studies that have dealt with behavioral aspects of entrepreneur or owner-manager of a small business have culled out two major categories. On one side there is the opportunistic entrepreneur (Smith, 1967). This category comprises of entrepreneurs who are more managerial and technical. Such entrepreneurs are most comfortable in stable market environments. On another side, we have commercially oriented entrepreneurs. The artisan-entrepreneurs are a good example of this. Hence they could be categorized as 'MIGs' – that is, these entrepreneurs look for the following (Julien and Marchesnay, 1990):

1. (M) – Maintaining their business
2. (I) – Independence financially
3. (G) – Growth averse

The opportunistic entrepreneurs, on the other hand can be categorized as GAP or those looking for:

1. (G) – Growth
2. (A) – Autonomy in decision making
3. (P) – Perpetuation of their venture

Many of the SMEs prefer not to develop excessively, since their significant object - control and autonomy of their business - would be jeopardized. This deliberate choice to small may, in expanding business scenario may mean surrendering certain exercises, even certain capacities, inside the venture, and turning to outsourced transactions (Marchesnay, 1981). Accordingly, at the inverse end of the scale to the 'hyperfirm', the "hypofirm" would come to

fruition, or even the 'hypogroup', made out of interrelated small ventures (Marchesnay, 1981). The owner-manager of such SME is less concerned with developing capital and more with keeping up or creating individual capital and procuring a pay which he believes as "respectable" - an element which changes as per the needs of the individual and his family or company - made up of immediate income i.e. pay and a slice of profit and vicarious profit i.e. utilization of the company's a variety of assets (Gibb & Scott, 1986).

The goal of higher productivity, however, is an issue to be considered. In customary industrial situation, expansion happens in both capital and labour outputs which might be measured, but only as an approximation. Yet obviously productive outputs cannot be measured, on the grounds that quality and even quantity can frequently be judged just as a function of client fulfillment. Restaurants and computer professionals are great cases in point.

Rationalists scholars assume that organizations choose 'logically', as indicated by the 'knowledge – modelization' – decision making procedures adopted by owner-managers. In this manner, in actualizing the choices, an arranging procedure must be appropriated. On the off chance that the SMEs do not organize their priorities, they may not become proficient and therefore will not grow - an outstanding prologue, which overlooks the way that they really would prefer not to end up growing up too large. The owner-manager will rather take a heuristic route built more with respect to instinct than arranging through a rationale. For some 'strategy', or settling on deciding priorities, his mental outlook will be more susceptible and responsive as opposed to being more enthusiastic and forward looking (the opportunistic owner-manager will be more inclined to this than the techno-commercially oriented owner-manager). His key approach will appear to be more incremental, comprising of progressive moves and short steps, as opposed to deciding in favour of giant leaps of choices. He will have a tendency to make the "right" choice naturally, and after that set out to advocate it, searching out data to help his conviction, and afterward endeavoring to persuade his team in the venture of the soundness of his vision. The SME owner-manager needs the buy-in and agreement from his teammates if only to ensure full blooded application and execution of his strategic choice. This requirement for accord is more intense as per the level of intuitiveness within the organization. From this viewpoint, might it not be said, that a real job responsibility of the SME owner is to arrange for transactions (Chicha, Julien and Marchesney 1990)?

Another trait witnessed prominently in modern SMEs is that they tend to strengthen their external transactions more than internal ones. Progressively, they have a tendency to approach a "particular" network of 'outside' partners with whom they have interacted on some past projects, for activities that were at one time internal endeavours, or even for new projects (Marchesnay and Julien 1990). In the conventional economic sense, the way that the SMEs is 'under-sized' implies that they are overwhelmed by their eco-systems, and can but only just adjust inactively to variances in market conditions insofar as the transactions change their vision or their circumstances. The small size of venture can only so much as impact their surroundings or their 'milieu', or in any event aggravate exchange.

There is plausibility of an alternate strategy, one which is not guided by costs and which is considerably more suitable for the SMEs than to the large companies. Attention might be focused around providing service as opposed to cost. Heads of SMEs, when questioned about their strengths, frequently name their 'product quality' as the number one on their list. This term is ambiguous and the truth is that 'product quality' is only notional. The 'product' is in fact a function of user experience and levels of satisfaction derived; and this could normally happen by inclusion of an element of 'service' to the product.

### **1.2 Recession and its Impact on SMEs**

Recession is contraction of a business cycle. It is an all pervasive slowdown in the economic activities adversely impacting the macro-economic indicators such as employment, investment, household spending, business profits, GDP, inflation and so on. The recent recession has adversely impacted the survival of many SMEs around the world. Asia being home to low-technology products relied mostly on cheaper labour costs to bolster its export earning has been harder hit. This is because the bulk of the businesses are in the ancillary end of the value chain. Hence the larger players to whom they vend their goods can hedge by reduction in purchase. The current global recession has been witnessing a steep drop in exports from Asian economies including India. This has had a snowballing effect on employment as also in postponement of project both in the private and the public sectors of the economy, as they struggle to shore up their bottom lines.

The effect on the Small and Medium Businesses were:

1. Being already small, they are not in a position to downsize any more without risking smooth functioning of their operations

2. Being focused to one area of activity, any fluctuation affects them more directly
3. Being less capital oriented, their financial stability gets affected with slightest turbulence in their cash-flows.
4. Being dependent on suppliers credit, changes have a direct effect on their operations
5. SMEs particularly in the ancillary segment have to bear directly bear the brunt of factors affecting demand in their particular value chain.

The current recession being a credit crisis, SMEs as a whole have to face the challenges of funding and cash-flow. Given the uncertainties even banks are wary of lending smaller amounts as opposed to lending bigger sums to larger and more stable companies. Governments all over the world have responded through various support mechanism such as interest rate cuts, easier fund availability and increased spending to stimulate the economies to come out this recessionary phase. However, studies have shown that in developing or emerging economies many Micro Small and Medium Enterprises (MSMEs) do not survive or are just struggling subsisting and the role of financing is important (Hoque, 2004).

### **1.3 Purpose of Study**

There have been some academic discussions on relationship between business planning sophistication and performance of SMEs (Knight, 1993; Aram and Cowen, 1990; Hillidge, 1990). However, little attention has been paid to the control aspects of strategic planning and its impact on performance. It is common knowledge that effective control is often the pre-condition for achieving maximum results from a pre-determined plan of action in any organization. Even an excellent and flawless plan may not produce the desired results that may be on account of circumstances - external and internal – of the firm. Thus reviewing actual performance with what had been planned from time to time and making remedial corrections taking into account the factors causing deviation becomes important for achieving and maximizing results as per the plan (Koontz and Weihrich,1988). Studies have shown that whilst majority of SMEs do not have any kind of documented plan, the use of planning and its extensiveness increases with the size of the firm. (Berman, Gordon and Sussman,1997; Robinson and Pierce,1983).

Therefore, it is important to examine and understand what planning and control processes SMEs adopt and how they impact their performances. Findings of such nature could not only add to the academic knowledge base but can also be useful to owners and managers of SMEs. Whilst the impact of planning and control are implicit in contemporary academic discussions,

much of the understanding is based on speculation and opinion (Romano and Ratnatunga,1994; Gibb and Scott 1985). In particular, there had been scant investigation regarding the relationship between planning sophistication and performance. Also the relationship between planning and control with performance needs to be explored (Wijewardena, De Joysa, Fonseka, & Perera, 2004).

### **1.3.1 Significance of this study**

In the available literature on SME sector relevant to India their hardly seems to be a structured study on what they can do to win and how can they help themselves. However, there are quite a lot of studies done on their plight and what are the corrections the policy makers, funding agencies and large corporate sector do to support or much worse protect the SME sector. This sometimes may not serve the best interest of this segment and may really lead them to become ineffective and inefficient in the face of the impending competition.

In India, the small-scale industrial (SSI) sector – a large segment of the SME Sector - has acquired a prominent place in the socio-economic development of the country during the past 60 years. The prominent contribution of SMEs in the national economy has been possible due to the consistent and sustained policy support from the Government including policy of reservation, investment ceiling for the SME sector and priority lending. The economic reforms started in 1991 in India. It provided the opportunity to SMEs to grow big. However, the formation of WTO in 1995 has posed a major challenge to the SMEs in India. There have been some sweeping changes which have taken place in the SME sector in the last few years. The hitherto protection of the SSI sector by way of reservations and quantitative restrictions have been removed. More than 160 items which were earlier reserved for the SSI sector have been de-reserved.

The period between 1991 and 2000 exhibited growth amongst SSI much above national industrial growth. However, this does give much reason for satisfaction; rather there are concerns that require urgent action from all stakeholders particularly the SMEs. This is because, though the Indian SMEs are yet to feel the heat of competition from the developed countries, they are already beginning to face the heat from neighbouring South Asian country and more particularly China, where productivity levels are much higher by as much as 60-100% (Dudhe, 2012). The competitiveness is possible only if there is a technology up-gradation and adoption of new technologies. There is a need to introduce new tools and

equipments for production, changes in manufacturing process, improvement in the quality of products and quality assurance, introduction of new designs and diversification, use of new raw materials and usage of modern management and IT tools. There could, however, be other factors besides technology which have impacted the growth of the SMEs.

There have been varied views which have been formed about the growth of the SME sector post liberalisation and the features which have acted as contributors or inhibitors for the growth. The vulnerable areas as experienced by the SMEs have been cited as low capital base, difficulties in accessing technology, credit constraint, low access to business services, constraint of quality of human resources, low market awareness, low lobbying capacity, Inspector-raj and infrastructural constraints. The factors which have been identified as aiding the growth of SSIs are advancement in generic technology of computers and telecommunications, rise in electronic commerce, multilateral trading rules under agreements of World Trading Organization (WTO), mergers and acquisitions, liberalisation of services/ infrastructure and 'sourcing out' of activities to outside firms(AIMA).

The latest report of surveys jointly done by global consulting firm and US based magazine Foreign Policy has reported that despite booming economy and India being amongst the fastest growing economies of the World and being one of the most attractive investment destinations, ranks second from the bottom as a Globalized Economy of the 72 nations surveyed (PTI, 2007). Since nearly 95% of the industrialization in India is represented by SMEs, the responsibility of meeting the challenge of globalization must, in essence, necessarily rest with them. So important has been the SME sector that Government of India cutting across party line had promulgated the MSME Act 2006. It also formed a separate Ministry of Micro, Small and Medium Enterprises, which operates through a Development Commissioner.

The scope of the present proposal is to identify the growth trend of the SMEs and map out the reasons for the growth or decline as the case may be. The study also seeks to prioritize the strategic factors and actions which have helped the growth and those which have hampered the growth. It also ascertains whether there has been a difference in the growth pattern and factors helping and inhibiting growth with respect to the type of industry - manufacturing or service or the size of the company. The training needs felt by the SME sector and the outlook for the sector has been enumerated.

The proposal provides an assessment of the SME sector at large - and SMEs in the automotive sector in particular - in terms of their current problems and means of overcoming those as suggested by the SMEs.

The findings can be of much significance to:

1. The policy makers and institutional mechanism which exist for the sector
2. Financial and Lending Bodies
3. Industry Associations and Trade Bodies
4. SME Clusters
5. Individual SMEs

The idea is to probe and evolve a generic route maps or business model using strategic and business planning tools for SMEs, using the research done through SMEs/SME clusters in the automotive sector for use to anyone choosing to be an entrepreneur or is already a SME in India and by that token in most of the developing and transiting economies across the world.

### **1.3.2 Implications of this study**

Needless to say, the main emphasis of this study is to understand and device strategies and their implementation and control in all functional areas of business as they dovetail into reaching out to the customers. For, the belief is “Marketing is Business”! The implications of the findings of this study - directly and/or vicariously - would urge all the stakeholders to play a role to contribute significantly in development of strategic thinking and “help yourself” mindset amongst the SMEs and thus empowering them to take on contest from domestic and global completion.

### **1.4 Objectives of Study**

Essentially, all that is strategic must in effect serve the customer and the society within which a firm exists. That means we need to look at business strategy as a whole; and how it dovetails into transfer of the products/services produced by the SMEs to the customer/consumer.

The objectives of this research work, therefore, are to probe and discover:

1. How and why some SMEs/SME Clusters are succeeding even as the business environment is rapidly changing and becoming more competitive than ever before? This

becomes even more pertinent with the velocity of WTO lead globalization affecting just about every aspect of business and life.

2. What is it that has been done right and is sustainable? Do the same paradigms hold in this era of “Global Trade and Commerce”
3. What could be done to salvage sick or becoming sick SMEs/SME Clusters and thus free the huge investments locked-in to become productive and contribute to the Indian Economic Success.
4. Given that over 90% of the SMEs in the country are family run, where often they do not have all the necessary education and training to actually visualize and implement strategic and tactical actions, we need to probe how could SMEs/SME clusters professionalize their approach to rejuvenate and calibrate their own destinies in a fast globalizing economy scenario?

In short, the objective is to probe and possibly discover “Winning” and Win-Win stances SMEs could take through business planning and strategic marketing actions.

### **1.5 Structure of this thesis**

Chapter 1 provides an overview about SMEs. This chapter also focuses on the challenges SMEs are facing in India. It also gives an insight into objectives of the research work.

#### Chapter 2

As in all research, it was necessary to first explore the literature available on the subject. This has been enunciated in Chapter 2 of this study, entitled ‘Review of literature’.

#### Chapter 3:

The methodologies that this research chose to employ are enshrined in Chapter 3 entitled ‘Research Methodology’. This chapter highlights the details of questionnaire, the research methods employed to achieve the objectives.

#### Chapter 4

Subsequently, the finding of the survey was discussed in detail in Chapter 4, entitled ‘Data Appropriation and Analysis.’

#### Chapter 5

The managerial implications of the findings are discussed in Chapter 5, entitled ‘Conclusion, Limitations and Further Study’. The hope and belief is that this study besides adding to the knowledge base, would be useful not only to the planners and authorities but more particularly to owner-managers of SMEs/SSSBs.



## **CHAPTER – II: REVIEW OF LITERATURE AND IDENTIFICATION OF RESEARCH GAPS**

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Ever since ‘division of labour’ became the norm of doing business, it has spawned myriads of small enterprises serving the society in a manner that is a win-win for all concerned. Entrepreneurs have pre-sensed societal needs and have sought to serve these in a manner that is beneficial for them whilst contributing to the well-being of the society. As a result we have a variety of small manufacturers and service firms. Each caters to a specific need using a set of tools and equipment to deliver a service or a product.

The industrial revolution came in the early 18<sup>th</sup> century. This encouraged mass production as the way to do business resulting in many ‘small enterprises’ to become ‘large’. However, even as this is happening in a continuum, Small and Medium Enterprises (SMEs) continue to dominate the economies of most countries, including India. Many customers want SMEs to become more specialized (Blackburn, Carey and Tanewski, 2010; Berry, Sweeting and Goto, 2006). With changing business landscape including LPG (liberalization, privatization and globalization), SME have to manage their thin resources optimally.

### **2.1. Background of SMEs in India**

The industrial development of India dates back to the British period. During that period, there were only a few large industries and they existed mainly to serve the British industries. Majority merely supplied raw material or intermediary products. Post independence, the political leaders in their wisdom opted for a planned economy as the route to modernizing the country.

In 1951, the leaders of independent India decided to follow a planned economic growth with each plan period being of five years. The policies that were followed by the Planning Commission of the Government of India and the federal states had been underscoring the fact that the role of Small and Medium Enterprises (SMEs) is critical for the socio-economic well being of the country. For about four decades beginning 1951, SMEs enjoyed a variety of protection and preferences. However, post 1991, the directions changed, India being a signatory to the World Trade Organization (WTO). Since then India has been liberalizing its economy to align itself to the global regimen. This has meant gradual but certain withdrawal

of sops being given to SMEs, who it is hoped have now come off age to match global competition.

As around the world, so too in India, the SMEs have mirrored the socio-politico-economic milieu of the nation. The Planning Commission in its five year plans has always been emphasizing the judicious use of foreign exchange, employment intensive businesses, and distribution of economic gains and equitability across the country and as widely as possible, discouraging monopolistic practices and finally encouraging businesses with potential to either conserve or earn valuable foreign exchange, even as India links itself to the global economic environment.

The Indian SMEs, by all standards, have largely met the stated objectives of the Government and accounted for themselves quite satisfactorily. They have:

- Been responsible for nearly 40% of the national output
- Contributed to the tune of about 45% of direct and vicarious exports
- Exhibited they need much lower capital outlays
- Often developed indigenous technologies and been innovative in their businesses
- Displayed flexibility required in the uncertain business environments
- Contributed substantially to import substitution, without drawing much on imports
- Been competitive both in the domestic and the export markets
- Been the second largest employer, after the agriculture sector in the country.

However, it also needs to be understood that SMEs contend with:

- Low capital base resulting in financial roadblocks
- Lack of organizational structure resulting in concentration of functional responsibilities in one or two persons
- Lower and limited exposure to global business environment
- Economic fragility to match up to the impending WTO regime
- Limited or non-existent contribution for Research and Development (R&D) activities, often limiting innovations
- Lack of professionalism leading to knee-jerk reactive approach to business competitiveness.

Despite these limitations SMEs have withstood the yoke of globalization fairly stoutly in every major economic sector in the country, such as Automotive, Agricultural Inputs, Food Processing, Chemicals & Pharmaceuticals, Electro-medical equipment, Textiles and Garments, Meat products, Sports goods, etc. (Pandey, 2013 ). It may be prudent to say that the Indian SMEs in the face of liberalization and globalization in the WTO regime are in transitional phase. Indian and global economic downturn coupled with increasing competition from low cost cross border economies, particularly China has only heightened the predicament in which the Indian SME sector must survive. Hence, SMEs with solid technological base, global outlook to business, flexibility and competitiveness are more likely to withstand the onslaught contributing to the national economy. In short the SMEs who are able to plan their business and have a clearly delineated marketing strategy may have better chances of successes.

## **2.2. Issues in Policy Formation**

It is widely accepted that SMEs have a crucial role in development of national economies and industrial base. Small businesses, in developed countries, play crucial role of introducing newer and more technically advanced and innovative products and services as changing market trends demand (Pavitt, Robson and Townsend,1987; Acs and Audretsch, 1990). Existing literature on traditional organization also indicated that new entrepreneurial ventures ensure and heighten competitiveness, helping markets function smoothly by catering to more demanding customer trends. Further, small firms tend to be more flexible in the production scheduling and planning (You,1995). In the developing countries, most entrepreneurs are not “true entrepreneurs” because they hardly bring to the markets innovations in terms of products/service of system of doing business (Santarelli and Vivarelli, 2007). In fact most enter business for baser objectives such as optimism in a particular business leading to greater profits, having a more relaxed life with a more tested business model and sometimes as an alternative to unemployment. In fact most such entrants are not as productive as can be desired. The idea of new firms entering the market actually results in heterogeneous groups of enterprises essential for development and growth of economy.

Micro and small firms, in the developing countries, exist for reasons quite different from those in the developed nations. They tend to offer individuals a source of income and livelihood. In most cases these firms come up as the last option when an individual has

exhausted all avenues of securing a job (Beck, Demirgüç-Kunt and Levine, 2005). In India, as in other emerging economies, it is oft heard that better educated people tend to quickly change over from self-employment to pursuing a professional career opportunities working for others vis-à-vis persons with poorer educational backgrounds (Nafziger and Terrel, 1996). Hence, workers in such organizations tend to be poorly paid or often maybe unpaid, them being members of the family. The productivity both in terms of labour and return on capital is fairly low and the tasks are usually highly labour intensive (Little, 1987). Hence 'formal funding institutions' are of little utility to such businesses. In other words, 'the entrepreneur must be his own banker' (Leff,1979). Such businesses tend to lean on informal sources of funds for financing their growth (Kozan, Oksoy and Ozsoy, 2006; Allen, et al. 2006)

This means small firms entering the markets tend to remain small given the formidable barriers they confront. So it is more usual to find large firms entering the markets than smaller firms growing large (Van Biesebroeck,2005). Indeed scholars have often lamented about the 'missing middle', which is normally a result of small firms growing to the next size (Tybout, 2000; Sleuwaegen and Goedhuys, 2002). These SMEs continue to remain small for a variety of reasons that include financial barriers, logistical expenses, infrastructural limitations, poor management resources and on occasions the desire to remain small to avoid the hassles of regulatory and statutory requirements or to avoid taxes.

Small firm, in developing and emerging economies, do not always conform to the most efficient scales of production (Little, 1987). However, they allow for people to remain independent and make a decent enough living. Female lead SMEs are a typical case in point; them being less ambitious about growth and expansion than the male entrepreneurs (Singh,Reynolds and Muhammad, 2001;Hisrich and Ozturk, 1999). Females seem more interested in adequately providing for their family than in growing their business (McPherson, 1996; Mead and Liedholm, 1998), perhaps because of more conservative values and societal attitudes towards women (El-Namaki, 1988).

The role small businesses have played in alleviating poverty and providing gainful employment to millions despite the obstacles and constraints they face has induced the Governments of emerging and developing nations, including India, to take a protective stance towards SMEs. In India, for instance, during the period from independence in 1947 to liberalization in 1991, Governments have – both at federal and state level – reserved certain

sectors exclusively for the Small Scale Industry (SSI) sector. In fact even after opening up of the economy to global players, India continues to give preferential treatment to the SMEs and in some labour intensive segments SMEs continue to enjoy reservation. Some of this may even be controversial and cause of some dispute in the WTO regimen.

The jury is still out on the role SMEs can play in economic development of countries like India. Some scholars believe that they could be the “prime movers” that could ignite the development (Leff, 1979). Some others opine that SMEs could be a more efficient way to allocate national resources (You, 1995). However, there are significant number of studies that are not so optimistic about the contribution SMEs could make in the economic development of an emerging economy such as India, given their inefficient productivity resulting from outdated tools and equipment. The policy makers in India have been exceptional in the extent and range of policies to directly support them being more romantic than driven by economic considerations in their approach to planning the economy vis-à-vis SMEs (Little, 1987).

Even as this debate about what SMEs contribute or not contribute to the economies such as India, theoretically it may be prudent to segregate them on the basis of their performance. Intuitively, it can be argued SMEs with higher productivity is likely to grow much faster when compared to such firms that come into existence because the owners have taken to business for want of employment opportunities, survival being the main motivator in such cases. Rogerson (1996) tried to distinguish “survivalist” from economically ambitious firms. (Autio, 2008) on the other hand has type-cast firms as ones being of “high aspiration” and others being driven by “low aspiration”. These classifications mainly are indicative and based on SMEs performances.

The theoretical interest in the role of SMEs and their growth in the developing countries such as India serve as a guide for this study. The aim, therefore, is to look for and present evidences in this direction and thus add to existing knowledge base. Whilst leaning on secondary databases, the study particularly looks SMEs engaged in the automotive and light engineering sector, where changing world order, also impacting India, could quickly drive a firm to obsolescence or lead them to be terminally “sick”, which could be such a irretrievable drain on limited national resources.

### **2.3 Review Mechanisms and Corrective Action Processes**

In the developing or emerging economies, SMEs contribute bulk of industrial output, accounting significantly to Gross Domestic Product (GDP) and Gross National Product (GNP). India has over 3.8 million SMEs and they account for almost half of national industrial output and earn nearly 45% of the export revenues for the country (Venkataramany and Fox, 2009). Next to agriculture, this sector is the largest employers and an effective means of more balanced regional development. Thyagarajan (1998) opined that almost half of private sector employment is given by SMEs in the country and in the manufacturing sector SMEs account for 30-40% value addition. The range of products in the small scale sector is diverse being more than 800 products, which range from consumer goods to capital good and even intermediate products (MSME, 2014). The SME sector comprises a huge share of the industrial enterprise, accounting for over 80% of the national industrial sector, thus forming the bulwark of Indian industrial story. Despite this, they continue to struggle and suffer suboptimal productivity and are usually under the sword of technological obsolescence. This contributes to wastages and often results in industrial sickness.

Large Firms, in emerging economies such as India, have resources to identify appropriate technologies and their sources and are able to evaluate competing technologies that can meet their requirements. Unfortunately, such is not the case with the SME segment in the same industry, despite the fact that technological upgrades may be long overdue. Thus, they often come to depend on technological cooperation with larger firms – national or international or with R&D institutions, which sometimes affects their ingenuity and innovativeness.

With the onset of WTO, nations are integrating to a global market regime. SMEs need special attention to enable them to respond to the impending challenges of globalization. In this context, SMEs deserve enabling ways to be able to access latest technologies and other advances. This means a human-centric approach with a tacit understanding that knowledge, which is a child of human brain alone, can garner the required ingenuity and innovativeness. If this argument is sustainable then the policy planners in the country must focus on increasing the human capabilities derived from process of transparent communication, cooperation and establishment of linkages in the entire value chain. SMEs will need to open themselves up to specialist and outside experts. It would encourage free flow of information within their own set-ups. Thus some of the questions being dealt with in this research are:

1. How the SMEs are bracing to meet the ensuing challenges?
2. Is there clustering and cooperation to meet the impending international competition both in India and abroad?
3. What marketing strategies could be adopted to not only survive but grow?

Indian SMEs have often, despite their limitations exhibited their dynamism. Being flexible and innovative, many of them, particularly in the automotive and light engineering sectors have started to focus on improvement in quality and methods of production besides absorption of newer management techniques for a sustainable operation. Indeed quite a few readily absorb the latest advances in technology and even global partnerships. It has been concluded through previous studies on the SME sector that Indian SMEs should remain competitive in the era of globalisation. These studies have suggested that competitiveness is possible only if there is a technology up-gradation and adoption of new technologies. There is a need to introduce new tools and equipment for production, changes in manufacturing process, improvement in the quality of products and quality assurance, introduction of new designs and diversification, use of new raw materials and usage of modern management and IT tools (Garg and Goyal, 2012). There could, however, be other factors besides technology which have impacted the growth of the SMEs.

With the advent of more and more global Original Equipment Manufacturers (OEMs) entering India at different price points quality inputs and quality management practices have become mission critical for the SMEs as they primary depend on being vendors to such large enterprises (Prashar and Jaisal, 2008). Further, with technology now becoming an incredible leveller for the small players, e-readiness in area is fast becoming a norm which the SMEs could do well to quickly adapt. Studies prove that human resistance to change and information security are not very significant factors to adapt to this change but commitment of the firm's management, technology and infrastructure support are the key issues (Ramayah, Yam and Sulaiman, 2005).

There is an old adage – “Small is beautiful”. For the Indian economy, in the context of SMEs, it is much more than just beautiful. SMEs can be efficient and adaptable, whilst adding value to the socio-politico-economic life of the nation. As the nation marches toward integration with the global regime, the small and medium enterprises will have to play their role in the development of the nation. Their pivotal role thus will possibly require greater attention. The

dilemmas currently the SMEs face stems from their limitations in accessing latest technologies and maintaining the crucial competitive advantages. The reasons for these barriers being often advanced are (Bartlett and Bukvic, 2001):

- Financial constraints which often results in poor or no R&D efforts
- Inability to read and meet the changing trends
- Low risk appetite
- Unavailability of properly/adequately trained personnel
- Emphasis on production and not on cost of production
- Poor/Low management skills
- Wariness to garner expert help or technological information
- Being away from/reluctance to access technological centers

In order to address the above issues and to allow for faster and more meaningful access to latest technologies for SMEs to become internationally competitive, it becomes crucial to encourage an environment that is conducive. This means:

1. Development and formation of relevant and supportive national and state level policies
2. Technological capacity building
3. Easier and convenient flow of knowledge and access to technology databases
4. Inculcating appropriate business planning and marketing skills directly or through experts and consultants (Blackburn, Carey and Tanewski, 2010).

An enabling policy structure is a pre-requisite for creating the required environment. The Government of India as it opens and deregulates the industrial sector and opens itself to foreign investment and import of technology has rapidly been taking significant steps to support SMEs. Indeed, it has post-liberalization opened fresher challenges whilst offering to SMEs immense opportunities. The focus is to encourage SMEs to think and facilitate growth to meet the global challenge by becoming more efficient and viable units. Thyagarajan (1998) suggested that to do this Government through its various agencies may orient their policies:

1. Set-up clusters/industrial areas/technology parks that encourage sourcing and absorption of newer and cutting edge technologies.
2. Organizing information dissemination programs leveraging local bodies and other professional organizations.

3. Deputing experts to help and support SMEs in absorbing and implementing newer technologies and systems.
4. Human skilling, training and retraining programs to match the new developments.
5. Promote strategic alliances with centers of excellence such as R&D Institutions, Universities and other technologically oriented organizations at regional, national or even international levels.
6. Setting up appropriate business development centers that can help SMEs understand and develop appropriate marketing and other relevant strategies to face the global onslaught.

Some baby steps have been taken by government agencies. For example, as Central Research Institute (CLRI), Chennai has been successful in introducing microprocessor controlled wet tannery operations which helps in cleaner processing, consistent quality and meeting the international norms. Similarly, CLRI was able to successfully sensitize the footwear and the garment Industry in using Computer Aided Design (CAD) that it is now hackneyed in the relevant industries raising levels of production turnarounds and enhancing export capabilities. Similarly, National Institute of Science Technology and Development (NISTAD) introduced a software package called Modernization of Artistic Design for Handloom Units (MADHU) which was developed in collaboration with Indian Institute of Technology (IIT), Kharagpur. NISTAD had set-up one training centre at Bankura, West Bengal to help upgrade technological skills of local artisans and craftsmen. This is an example of how man and machine could work together to bring out products with greater flexibility and with appropriate market orientation as also advocated by (Brandt and Cernetic, 1999).

Under the aegis of Council of Scientific and Industrial Research (CSIR), Government of India has established several centers across the country, to supplement and complement the technological needs of small businesses. One notable example is the establishment of Mechanical Engineering Research and Development Organization (MERADO) in 1965 at Ludhiana (MERADO Brochure, 1999). It nurtures the vibrant industrial clusters in and around Ludhiana such as knitwear, agro and industrial machine tools, sewing machines and bicycles industries contributing substantially towards design, development and standardization in these sectors. The technologies developed at MERADO, Ludhiana are now being used nationwide. These efforts notwithstanding, in the present business environment, a lot more cooperation and inter-action would be required between SMEs and technology support institutions, as also between SMEs themselves, insofar as technology transfer and

assimilation is concerned. Further, technology support institution may need to develop modules that enhance human capabilities and skills.

Such supports and encouragements to upgrade technology and management skills are also required in other segments of SMEs. The Government has been making quite a few positive efforts to nurture this sector. The National Small Industries Corporation (NSIC), a Government of India enterprise has introduced several pioneering schemes to nurture the small scale sector. These include preferential purchase by Government, introduction of hire purchase, supporting development of prototypes and imparting technical training. Acting as a catalyst, these schemes lead to creation of new enterprises, spawning of new manufacturing technologies and espousing addition to first generation entrepreneurial population. Successes of NSIC has led to a number of financial institutions joining the bandwagon to aid this sector, which in turn has been quite helpful in building the Indian economy. In conjunction with CSIR, Asia and Pacific Center for Transfer of Technology (APCTT) and United Nation's Economic and Social Commission for Asia and Pacific (UN- ESCAP), workshops were organized across different centers in the country to identify and the facilitate transfer of technologies to help SMEs in their march to modernization (Bischoff, 1998). These workshops delved into the nature and type of supports required by the SMEs vis-à-vis their capabilities besides the assistance that could be sought in terms of promotions and finances.

In India, as in most emerging economies, SMEs tend to build their technical capabilities by a process of "learn as you do". This is an important fulcrum for incremental learning and has the potential for innovation and change to become more productive. It is acknowledged that engineers on the shop floor can play a pivotal role in helping workmen acquire newer skills that can lead to generation of new ideas. A learning organization is at the center of SME growth. And in such organizations, everyone contributes his/her knowledge to solve complex problems (Honecker, Gund and Sell, 1999). The fact that there could be strong communication linkages between management, shop-floor engineers and workers leading to free flow of information resulting in innovation are apparent in the electronic firms in India (Bowonder and Miyake, 1988; Kharbanda and Jain, 1997). Studies have time and again shown that "learn as you do" and encouraging entrepreneurial attitudes have substantially buttressed the human and technology resource in an enterprise.

Dynamic and vibrant SMEs sector is critical for their long term competitive survival and contribution to the national economy. This requires a focus on a systematic knowledge accumulation of knowledge and its application to be productive rather than merely on their production system. They must develop a system to generate, access and disseminating knowledge bases more openly than what is the current practice. This calls for establishment of National Information Services. It is also essential for SMEs to become more open and transparent and set-up efficient networks. In most developing countries, information is not in the public domain, making accessing them a more strenuous and time consuming and sometimes unaffordable and expensive. There is also a tendency amongst the SMEs to remain closed and selfish about knowledge sharing. This approach is myopic and hurts their ability to remain competitive in the long term.

In order to encourage research, Government of India has set-up the National Research and Development Corporation (NRDC) to serve as a link between research organizations and SMEs. It acquires, evaluates and transfers all kinds of relevant technologies generated through a variety of national research centers and laboratories for commercial exploitation. It also provides a comprehensive patent search service and has some international databases to carry out search. The Ministry of Science and Technology of Government of India has set-up National Information System for Science and Technology (NISSAT). This scheme supports academic institutions and industry in furthering research and they can be approached by SMEs for assistance particularly to acquiring information on the latest development in specific sectors.

Society for Research and Initiatives for Sustainable Technologies and Institutions (SRISTI) – a voluntary organization in India that has received national and international recognition for its research work on ‘people’s innovations’. This is a store house of knowledge, particularly focusing on innovations from local farmers and artisans spread over 72 countries. Thus, its knowledge network assembled by pooling innovative technical solutions from around the world is a very useful source of information for SMEs in resolving their technological issues.

There are about 2500 R&D Institutes in India of which nearly half are owned by either the central or the state Governments (Battelle India, 2013). The remaining are in-house research and development organizations within the private sector. The combined spend of all the R&D

establishments in India are over INR seven billion per year involving over 45,000 scientists and technologists (Battelle India, 2013). However, the small scale sector is bereft of the benefits of all this research for a variety of reasons and is dependent on Government for accessing information. Government on its part does encourage investment by SMEs into R&D to leverage local technologies. Also insufficient fund availability with them serves as a major roadblock. So what SMEs could do is establish partnerships with other firms, academia and/or recognized R&D establishments and approach this with transparency and open mind for long term benefits.

Over the past decade, emphasis in the concept of technology transfer has gradually shifted towards a new set of strategies which can be described as ‘creative partnerships’ or ‘strategic alliances’ to form learning organizations. This underlines the idea that forms of technological cooperation are no longer ‘one-way’, but involve a longer-term mutual benefit beyond short-term financial success.

The world of business has, as time passes, been moving from mere technology transfer to forging a new set of strategy, i.e. entering into a “strategic alliance” as means to creating a learning organization. This underscores a give and take relationship where both organizations open themselves up to the other and learn from each other for long term mutual benefit rather than short term financial gains.

SMEs in India are normally closed and secretive and must now adapt themselves to this strategy to become successful learning organizations. “Learning as you do” in this fast pace business eco-system is simply not enough (Cooley, 1997). The world is changing and the new norm is to ‘learn by interaction’. And this forms the foundation for identifying, acquiring and implementing latest developments. The only way it can happen is when there is more transparency and cooperation amongst firms through strategic alliance or other such kinds of inter-linkages. Clusters present a viable option for encouraging inter-action and upgrading (Knorringa and Mayer-Stamer, 1998). Hence, what is necessary for such alliances is free sharing of knowledge and absolute cooperation regardless of support from the government. Some of these forms that are visible in the business world include (Handzic, 2006).

- Long term multi-project partnership, sharing production capabilities, research knowledge and marketing outfits in one country or even across several nations. The idea is to meet the pre-set strategic aims.
- Flexibility in networking resulting in formation of consortium of R&D departments particularly at the developmental stages. Partnerships like these also involve imparting technical education culled from various research works, skilling and re-skilling the existing workforce besides emphasizing innovation and sustainability.

A look at Industrial areas/Technology parks/Clusters seem to throw up some fresh insights about the how SMEs can enhance access to new technology and knowledge. Being industry specific and geographically concentrated clustering of similar SMEs seems to be common in developing and emerging economies. This even improves the chances of success as SMEs can learn not just by doing but also by interaction. In India, there are some good examples of such clustering where several small businesses are involved in similar industry. Locks manufacturers in Aligarh, leather footwear in Kanpur and Agra, handlooms in Panipat, diamond cutting and polishing in Surat and auto and light engineering at Pune are a few notable examples.

Punjab as a whole serves as a perfect example of SMEs clustering and how the SMEs have flourished. For example, woolen garments, bicycle and bicycle parts, sewing machines parts, machine tools in Ludhiana, sports good, bathroom fittings, printing and printing goods in Jalandhar, foundries in Batala and so on. It is notable that these clusters account for substantial market share in their respective industry. For instance, Ludhiana accounts for over 90% of all the woolen wear produced in the country. Similarly, Tirupur in Tamil Nadu, accounts for 85% of the knitwear and has been a substantial earner of foreign exchange for the country. The unique aspect about Tirupur clustering is that it is well organized. It appears as if it were a network of several work stations coming together. The entire township functions as one large industrial organization.

Researchers have opined that characteristics of successful industrial clustering are inter-firm cooperation, 'co-optition' i.e. cooperation blended with competition, local value system, flexibility, incremental innovativeness, geographical closeness, sectoral specialization, availability of a pool of skilled labour and finally existence of a large number of small firms

in a particular sector. This must result in willingness of all the firms to work together in resolving possible clash of interests, encourage the spirit of enterprise and abilities, promotion of social compromise, societal support and so on. The capacity of SMEs cluster to learn from each other and accommodate each other helps improve the cluster's overall performance (Best, 1990). Broadly these characters seem inherent in the more successful industrial clusters in India. These clusters clearly demonstrate formation of informal network which are like bee hives sharing knowledge and sometimes even the benefits entailing application of such knowledge, linking the actors in the cluster- both formally and informally - contributing to growth of informal and formal science or "tacit knowledge". The atmosphere spawning innovativeness and entrepreneurship is the key to success of clusters. This becomes a subject of further investigation and study.

Fund availability on terms that are affordable and not too bureaucratic seems to be another issue plaguing the SMEs sector hindering their ability to afford modernization. The financial systems in the country need to support SMEs in this regard. Or perhaps there is a need for innovative approach for funding small enterprises in their start-up stages. Financial Institutions such as SBI (State Bank of India), Industrial Development Bank of India (IDBI), Industrial Credit Corporation of India (ICICI) and several banks through their venture capital arms do try to address this issue and provide support for modernization and technological upgradation. Gupta (1996) observed that a number of small enterprises are supported by non-profit organizations such as SRISTI through their venture capital arm, helping them become more innovative. The success of the Tirupur cluster can be attributed to the state intervention in supplying short-term credit facilitating production value-chains (Chari, 2000). Angel Funding, Crowd Funding and Venture Funding could be some of the ways to help this sector. And, there appears to be an urgent need to make such forms of funding friendlier to SMEs than what they are today, particularly at ideating and start-up stages of the enterprise to encourage local technological upgradation and innovative idea generation.

Creation of a business environment that encourages adoption and adaptation of advances in technology and resource efficiency supportive infrastructure is necessary. In countries like India what is needed is a single agency capable of dealing with a variety of issues and hurdles facing SMEs in their routine discharge of activities. Whilst there are myriads of organizations and financial institutions supporting modernization and utilization of local R&D, the pathways to accessing them are often circuitous and complicated. Hence, there is a need for

“single window” system to help SMEs unbundle the complications of entering and doing business, as also the exit.

In short, effective modernization to make SMEs globally competitive must address:

- Creation of a conducive policy framework
- Knowledge acquisition, dissemination and demonstration
- Building strong and supportive networks
- Agility in offering funding support, particularly at start-up stages
- Institutional support in dealing with regulatory and statutory requirements

There have been several examples of successes in clustering models in India, South Korea, Japan, many countries in Europe and China. Collaboration between the clusters would facilitate innovations and help SMEs become more competitive.

#### **2.4 Process of Business Planning**

The openings up of Indian economy in 1991 resulting in liberalization and globalization had created newer paradigms. These turbulent times coupled with economic slowdown have led to many losing their employment in India as is happening all over the globe. The silver lining to this is creation of newer business opportunities both within the country and abroad. However, in India most people lack international networks to exploit such opportunities. Near zero socio-economic safety net has further complicated the issue of unemployment. As such many are now being forced in business simply to secure their livelihood.

This can be an opportunity for the country, if only it can nurture and encourage such entrepreneurial ventures, which in turn could create further employment opportunities. Indeed such risks could go a long way in strengthening the Indian economy. For lack of re-skilling and re-training, alternative employment opportunities are diminishing. Growing urbanization has led to millions disconnect with agriculture even for subsistence. The unemployed taking to entrepreneurial ventures is not true entrepreneurs in the Schumpeterian definition. Often the approach is to copy a successful business model rather than innovate and come up with something new. Such entrepreneurs tend to lack the appetite for taking risk and are generally quite conservative in their investment decisions. They need to be accommodated. But then, there are men and women who have come up with innovative ideas that can contribute to the

socio-economic development of India. They are willing to work hard and take risks but require a conducive socio-economic fillip from government especially at the start-up stages. Indeed the policy planners must themselves become risk friendly to exploit opportunities surfacing from this economic churn of liberalization and economic resurgence.

Numerous research initiatives have been taken by the World Bank to determine the hurdles facing SMEs. A study in Tanzania, based on interviewing 200 small manufacturing firms between the periods of 1993-95 under the Regional Programme for Enterprise Development (RPED) concluded the following(Adeleke, Ogundele, & Oyenuga, 2008):

- Lack of credit or funding support
- Poor business service support resulting in complication to enter and do business
- Lack of infrastructure
- Competition from across the border
- Expensive and uneven utilities including power etc.

Another concern becoming more and more pressing is compliance to a variety of issues of sustainable environment and its social costs. Not only are legislations and their implementation important but public expectation of self monitoring by the industry is now becoming a more crucial element in doing business globally (Batra, 2013). In addition to this corruption was another major disabler. These (Choi and Thum, 1999; Collier and Jan, 1999; Gray and Kaufmann, 1998; Johnson et al, 1998; Bardhan, 1997;Leff , 1964) studies actually investigated the obstacles to growth and development of the entrepreneurial processes. Most of this also seems relevant in the Indian context.

Small businesses in major parts of India need not be based on advanced technological or management research. There is a lot of relevance in what Marris has to say for African countryside:

“In African countryside, an innovation may not seem, at the outset, remarkable – a wholesale business, a restaurant at the cross-road, a bus service, a saw mill. But to achieve these, the owner must have seen what others had missed – an unsatisfied demand, a way of raising money, a source of skilled labour, and put them together” (Marris, 1968)

At the core of this study is the special importance accorded to the context of initiation, development and innovations in the SMEs sector, with special focus on automotive and light engineering industry.

#### **2.4.1 The process of Small-Scale Business Entrepreneurship**

The process of setting up a SME is a creative one, consisting of three major steps in a sequence (Lathaa, Madhavaiah and Murthya, 2008):

1. Reinforcement of attitude and commitments to working hard, thinking out of box and taking risks.
2. Ideating and indentifying available opportunities and finally zeroing down to the one, which can be best served given the available resources and the market.
3. And finally steering through the obstacles as the business moves forward.

This process is similar to what has been enunciated by scholars such as (Bhave,1994; Binks and Vale,1990).

Attitudes reinforcement → Opportunities Identification → Steering through obstacles

##### **2.4.1.1 Strengthening of Attitudes**

Scholars such as McClelland and Hagen have propounded theories to understand the ‘entrepreneurial spirit’ concluding it is important for the SME owner to have a set of attitude and mental strength (McClelland, 1971). In their view achievement is a state of mind and it could be different for different people, cultures and societies that conditions entrepreneurial mindset amongst people, firms and even nations. This need for individual excellence or success after facing the challenges, according to McClelland, is what contributes to a firm’s success and to the combined competitive success of a nation.

McClelland thus hypothesized the relationship and tried to test this empirically as under:

n-achievement → e entrepreneurship → e economic growth

And he concluded: “The study shows that n-achievement fits people for entrepreneurial jobs and achievement-oriented ideology is absolutely essential to economic development (McClelland, 1971).” His advice to socio-politico-economic policy planners for promoting

entrepreneurship and small business for overall economic growth is clearly through raising an achievement-oriented mindset and ideologies:

“First of all, ... parents must be encouraged to set high standards for their children. Secondly, ... increasing the rights of women, both legally and socially, so that they can begin to weaken the effect of paternal authoritarianism...”(McClelland, 1971)

McClelland is optimistic that the possibilities of raising the level of n-achievement in a country can be brought about quickly:

“Business and government in underdeveloped and developing countries can immediately promote economic development by fostering achievement oriented ways of thinking.... Training courses ... can provide an individual with the means that will allow him to change his own motivation if he wants to do so.”(McClelland, 1971)

The thesis, from McClelland, outlining his optimism and advocacy for developing strategies which encourage n-achievement continues to gain popular subscription, despite some severe criticism of his assumptions and empirical testing (Lewis, 1991) and (Scott, 1984).

The role of migrants in building a successful SME cannot be ignored when studying the attitudes and spirit necessary for business enterprises, particularly when they are at fledgling stages of their life cycle. Jew in the west, Indians in Africa and the Chinese in South East Asia have exhibited strong motivation to succeed more because they were alienated from more lucrative job opportunities in their host countries driving them to strive for achievement and success (Mackie, 1992). The cultural unity and solidarity existing amongst these migrants has been an important factor in build a dynamic attitude contributing to their struggle in establishing themselves in their host countries (Kilby, 1983). Indeed, the family and kinship support and culture of loyalty and supportiveness become key factors in business success for these migrants (Glade, 1983), which actually tends bring about a sense of pride and self-esteem to the individual and the migrant community and is as important ingredient for the economic development of host nations (Kilby, 1983; Wu, 1983). These communities' reconciliation to breaking away from a status quo facilitates search for more opportunities that covert into new business opportunities and change as native residents continue to remain more socially bound by their customary work culture(Wu, 1983). Immigrants, and their descendants, besides being hardworking and thrifty have the tendency to be more self-reliant and hardy. Their risk taking abilities, given their circumstances also tends to be much higher than the local residents (Mackie, 1992). Mackie further observed that the indigenous people

are not sufficiently motivated to commercial pursuits and aspire more for prestige. This can be explained from social stratification of the local social system, lacking in seafaring nature, general satisfaction in their lot fueling their aspirations to rise within their societal slots.

Potential entrepreneurs who create SMEs are actually driven by an atavistic will to power and are present in any society or ethnicity, however homogenous (Schumpeter, 1934; Kilby, 1971). However, researches seem to suggest local culture has a great influence on the attitudinal bent of mind and activities necessary for success particularly for small business. (Schumpeter,1934) further indicated that there are issues of communication and trusts between enthusiastic entrepreneurs or small businesses and the “hedonistic society” around them. This in reality forms the basis of innovators’ cultural environment. This creative-destructive role of entrepreneurial SMEs often provokes negative responses from the ‘powers-that-be’ hampering SMEs abilities to garner resources, particularly funding support. Availability of resources, particularly finances is a crucial pre-requisite (Santarelli and Pesciarelli,1990) in unwinding the potentials of SMEs. Credit or funds, if it is made available help makes person more energetic, irrespective of his social co-ordinates enabling creativity and vigor. In other words, access to bank or formal funding in many ways socially legitimizes the endeavour of the SMEs as if the society were giving a tacit nod to their “creative destructions” or “disruptions”. Various studies and researches have been skeptical about applicability of psychological theories on entrepreneurial attitudes and upbringing. There is little doubt that small businesses and enterprises are affected by the cultural environment (Zafirovski,1999)

#### ***2.4.1.2 Picking Opportunities***

Individual strength and motivation coupled with some form of social acceptance for the endeavour encourage small businesses to craft an innovative concoction of knowledge, capital and technology, workforce with appropriate skill sets, markets and so on to engineer a change so critical to advancement of an economic society.

Theories explaining both supply side and demand side from SMEs eyes have been advanced by Leibenstein (1966). Building on his own concept of ‘x-efficiency’ he developed the theory of entrepreneur, which essentially contributed to filling the gap in understand what makes SMEs tick (Leibenstein, 1966 ;Leibenstein, 1968). Leibenstein elucidated that to start with,

there has to be availability of some knowledge and techniques that could be used for production. So the opportunity to fill a gap could emanate from such possibilities that may be associated with higher yield or productivity. As for the demand side, it is the opportunity in terms of size and structure that we can afford or exploit. In supply side two aspects are notable. First, the motivational factors driving the SME. These are personality traits of the entrepreneur/owner, most of which have been postulated by McClelland and Hagen. Second important consideration is the market structure and competition in the territory target by the SME. Leibenstein terms supply side factors as internal motivation state of a firm (Leibenstein, 1966). The level of activity, thus, is dependent on the right mix of 'opportunity set' and intra-firm, as also the inter-firm, state of motivation. Other factors determining business, particularly start ups could be possible access to necessary inputs such as technology, skilled labour, capital and a sizeable market.

Glade suggested that the 'opportunity set', or 'opportunity structure' consisted of demand structure and market opportunities, market structure and competition, access to capital and credits, availability of information, skills and technology, local natural resource endowment, physical and institutional infrastructure, human resources, supply of labour and wage level (Glade, 1963). Glade also makes a distinction between the perception and the objective existence of opportunities and resources. These again point towards the value of taking an actor approach in entrepreneurial studies. Another researcher, (Kirzner, 1979) underlined the importance of the entrepreneurs own perception of their business environment. He used the term 'opportunity recognition', and claimed that the most important part of business innovation is the entrepreneurs alertness to opportunities in their environments (Kirzner, 1979).

The "Opportunity Set" or the Structure of Opportunity has the following element (Glade, 1963):

- Demand structure and marketing opportunities
- Market structure and competition
- Ease of getting funds
- Availability of appropriate human resources at competitive wage structure

The importance of SMEs’ perception of their business environment cannot be ignored. This in fact is what scholars call “Opportunity Recognition” and it often plays an important role in business innovation being a result of alertness to emerging opportunities or changing trends (Kirzner, 1979).

Labour Supply	Wage Levels	Access to Funds	Information Availability & Relevant Knowledge
Opportunities	<b>Opportunity Factors</b>		Level of Firm's competence
Demand/Market Structure			
Availability of Natural Resources in the Area		Physical Infrastructure	Institutional Infrastructure
<b>&amp;</b>			
Achievement Orientation	Autonomous Disposition	Capacity to Handle Surprises	Openness and Curiosity
Personal Habits and Traits	<b>Motivation Factors</b>		Competitiveness in Business
Capacity for Hard work		Social Acceptance	

**Table 2.1: Factors contributing to entrepreneurial striving amongst the SMEs**

(Source: Author Analysis based on various sources)

The determinants of success of entrepreneurial striving amongst SMEs are summarized in Table 1. Whilst the opportunity factors delve on those elements that help in identification of opportunity, the motivational factors are those that help build attitude and mental strength for launching activities and initiatives that could result in business success.

#### **2.4.1.3 Navigating through Obstacles**

After identifying and developing an ‘opportunity mix’ of factors firms need to navigate their businesses through a set of statutory and regulatory bureaucratic hurdles and challenges posed by direct and indirect competition. Peter F. Drucker’s book viz. Innovation and Entrepreneurship, delves on this dynamics that continuously channelizes the process of adjustment and responses to emerging opportunities in the society. It mentions that “The

entrepreneur always searches for change, responds to it, and exploits it as an opportunity” (Drucker, 1986). Traditional managerial styles as the SMEs are used to need modification to reorient the organization to meet and beat the oncoming challenges. And this is a proactive approach to exploiting opportunities for growth and success.

Changes due to competitive actions in the market, technological improvements available, changing trends and demand patterns, upheavals in the labour supply are some of the challenges through which a SME must guide itself with an entrepreneurial zest to steer the firm in the direction of success. The ground realities particularly in the SMEs seem to be quite to the contrary. Particularly in the Indian context they seem to be too engrossed in their day-to-day activities of facing challenges in the market. This usually exhausts their spirit, sometimes, to even for fight for survival and nearly always for growth (Hirsch & Peters, 1998), which if it happens is only by chance.

In most developing countries excessive controls exercised by the government regulations and statutes are a hindrance to the establishment and growth of small businesses. These range from licensing, to permits for imports or exports to regulation of foreign exchange and so on. In India, the numerous conditions imposed by the Government that needs to be met even before starting a business often serves to de-motivate (Sabbarwal, 1994). Sabbarwal noted that it takes a strenuous efforts and expenses to move papers through government channels and often becomes a dampener. Government offices and the officers therein are generally apathetic and indifferent rather than be the ‘partners in progress’.

In the present Indian business context where liberalization policies have been working for a while, it may be said that lack of navigational aid, especially in the form of giving access to information and ability of the SME entrepreneur to process the same, is a more significant growth constraint to small-scale entrepreneurs than the bureaucratic maze.

But, with liberalization sweeping the Indian business environment, SMEs must be more agile in accessing relevant business knowledge and they need to develop abilities to sift the information received and manage their businesses. This seems to be more important than the bureaucratic hurdles in SMEs march to globalization. For the role played by the Government in opening up of the economy to global vagaries can be debatable. Not many subscribe to idea that market forces can bring out the ideal solutions. This is further emphasized when we

see that a whole lot of SMEs do not yet have the required competitive skills for planning and marketing to match up to global competition. Hence, quite a few believe Governmental and Non-governmental organization do have a role to play in nurturing these businesses. However, there is a strong case that the SMEs could gain much more if they learn to stand on their own feet and this can be best achieved by them getting into the mode of scientific business planning and strategizing how they approach the markets, even if this requires them to garner outside support.

The structural reforms resulting from liberalization of economic and business related policies in India have indeed led to rising production levels and entry of many more new businesses in formal and informal sectors of the economy. However, in this race the emphasis has been on escalating competition and sharpening the market forces leading to “getting the right pricing rather than getting the right product” (Ndegwa, 1997). A decision to encourage a set of producers who are profitable can endanger the economy when product or service is over-produced and therefore, under-priced. There is a need to encourage strategically innovative SMEs who have an entrepreneurial approach to business. The me-too type of business can only be of use in terms of self-employment alone and will not be able to contribute to the competitiveness required for globalizing.

There is a strong case to encourage indigenous SMEs to become entrepreneurial in the true Schumpeterian sense for being globally competitive. Both theoretical discussion and empirical evidence tend to suggest breaking from the traditional way of thinking and doing business and encouraging motivated and energetic innovators. This not only requires infusion of capital but also the relevant information and the all important business skills (Kristiansen, 2001).

The tradition of trust based on kinship, community or blood relations needs to be replaced by a more formalized system rising above parochialism (Toroka and Wenga, 1997; Hyden, 1987). The range and the scale of SME operations needs broad-banding as the starting point for growth in productivity. This means developing a system of funding entrepreneurial efforts and developing amongst the SMEs the required marketing savvy. The SMEs must, borne out of trust, speedily move forward relatively unafraid of risks of failure. So, whilst creating a formalized system in law that reinforces trust is the entire responsibility of the Government and the policy makers, therein, other aspects require coordinated efforts between government

and non-government organizations in supporting the SMEs. But above all this the SMEs themselves must be nimble learners and most constantly re-arm themselves to face the rigours of the impending WTO regimen.

### **2.5 Marketing Strategies and Practices – A SMEs Perspective in the global context**

The operating concepts and tenets of marketing are no different for business irrespective of size. However, all tools, theories and practices in the SMEs may not be as valid. This is so because SMEs in Indian context essentially are family owned and run by owners/entrepreneurs who tend to dominate this function. They are guided by their own hunches in feudal ways. This affects the decision making processes including the marketing related decisions. After all, “Marketing is business” – more so in resource strapped world of SMEs struggling to keep the cash flow positive.

### **2.6 Marketing - Life Cycle Stage of SMEs**

In start-up all business activities are centered on building a good product and acquiring customers (Churchill and Lewis, 1983). The marketing efforts at this stage are primarily reactive in terms of responses as the firm learns from the market environment and customer behavior (Carson, 1985). Next phase is when SMEs start testing and tinkering with their marketing actions such as participating in exhibitions, developing brochures more creatively and so on. And finally, as SME gains experience of the market they tend to develop their own marketing practices and norms of reaching out to the market. At this stage there is a marked reluctance to be flexible and accommodating changes, unless there is some dramatic change in the marketing eco-system, such as entering a new market or introducing a new offering (Carson and Cromie, 1989). So as the SMEs move up the life-cycle, SMEs tend to move from an uncontrolled set of activities to a highly controlled marketing system. Guided by prudence of experience, SMEs exhibit a tendency to stick to ‘tried and tested’ methods than to look at newer options (Carson and Gilmore, 2000).

### **2.7 Importance of Marketing Practice for SMEs in this WTO regime**

The marketing function can be considered the bulwark of SMEs’ survival and growth. The competitive environment in which SMEs are required to operate in the global regime for survival and success gets linked to how they able to reach out to a customer base. Marketing

practice and the business environment get inter-linked for formulation of strategy. Strategy is defined as “sequencing of objectives, goals and policies in order to set forth a plan for realizing those enunciated such that it clearly defines what business a firm is into or may be getting into”(Adeleke, Ogundele and Oyenuga, 2008).

Small businesses in developing economies tend to sell their products direct to the customer in their immediate vicinity essentially because they are small and would rather clear their offering to customers they can handle and are in close proximity (Owualah, 2004). Being small, mostly family owned SMEs tend to source most of their raw material locally, craft their marketing strategies to cater to local needs. This is further underlined with them being comfortable of working in relatively known competitive battlefield which is more basically structured. Their closeness to resources and their customer base could provide opportunities for attaining superior marketing practice. Besides majority of small businesses are trading in nature – either wholesale or retail. Given their myopic vision studies note that they do not give any importance to branding their endeavour even by way of a corporate identity logo, considered an important marketing tool, whilst formulating their marketing strategies (Ogundele and Gbadamosi, 2006).

Marketing initiatives are adopted by some SMEs to push sales by trying to achieve a differentiation in their offering from the rest (Ogundele et al, 2013). However, process improvement is far more reliable a differentiator (Ogundele and Gbadamosi, 2006). Innovations in product, processes and marketing arrangements are actually initiative to gain the advantages of differentiation to combat the threat from competition (Ogundele et al ,2013).

## **2.8 Conformity to industry norms and implications with reference to WTO regimen**

SMEs have a marked tendency to stick to the traditional industry practice primarily because there is a feeling that they are too small to buck the established practices (Fuller, 1994). Any industry or market tends to develop a set of customs and practice and SMEs tend to believe working outside or the edges could be too risky for them and would not make them acceptable in the business eco-system (Becker, 1982). In other words all business activities and particularly marketing seem to follow a set pattern and customary. So, SMEs have little

or no control and continue to follow the prevalent business practices which are quite hierarchal and pre-defined (Williamson, 1975 ;Camerer and Vepsalanien, 1988).

So to run ahead of the pack, an SME would need to think innovatively in most aspects of its business and must find ways to circumvent set norms and be “disruptive” in ways of reaching out to customers. However, most SMEs are wary of disrupting the existing order or may do so in small incremental manner. Thus marketing for SMEs will be dominated by two major pre-conditions. One the Life Cycle Stage at which the SME is at a particular moment and the industry norm established through years of practice.

SMEs must rise above these and look at marketing practices which could make them more relevant to their context. So what must they do and what could they learn from their own models of innovative actions? This would be one of the objectives of this study.

## **2.9 Gaps in Literature**

From the available literature, there is hardly any relevant study on SMEs which seeks to suggest what the SMEs can do to win and how can they help themselves in the face of increasingly competitive and globalised business environment. However, the literature is rife with studies which speak of the plight of SMEs and what corrections other stake holders must/could make to support the SMEs. Often, this may not be in the best interest of the SMEs. Quoting and adapting from the bible, “teaching the SMEs how to fish will make them survive much longer than giving them fish for a meal”.

## **CHAPTER – III :RESEARCH METHODOLOGY**

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### **3.1 Introduction**

In order to arrive at a set of questions to be asked from SMEs owners, first a secondary research was done derived out of the literature survey. It was noted that a good foundation could be laid, if the research centered on the five strategic forces that affect businesses and their strategic options (Porter, 1980). The secondary research was done through reading and scanning articles in newspapers, periodicals and journals. Generally, most literature available on Indian SME's was about how they need to be supported and what needs to be done for their survival.

Scant, if any, literature was available as to what the SMEs in India are doing to help themselves in the changing times in the backdrop of the WTO (World Trade Organization) regime. And that is the primary focus of this study. Accordingly, a set of questionnaire was devised to see what SMEs are doing to get ahead and what needs to be emulated by their peers.

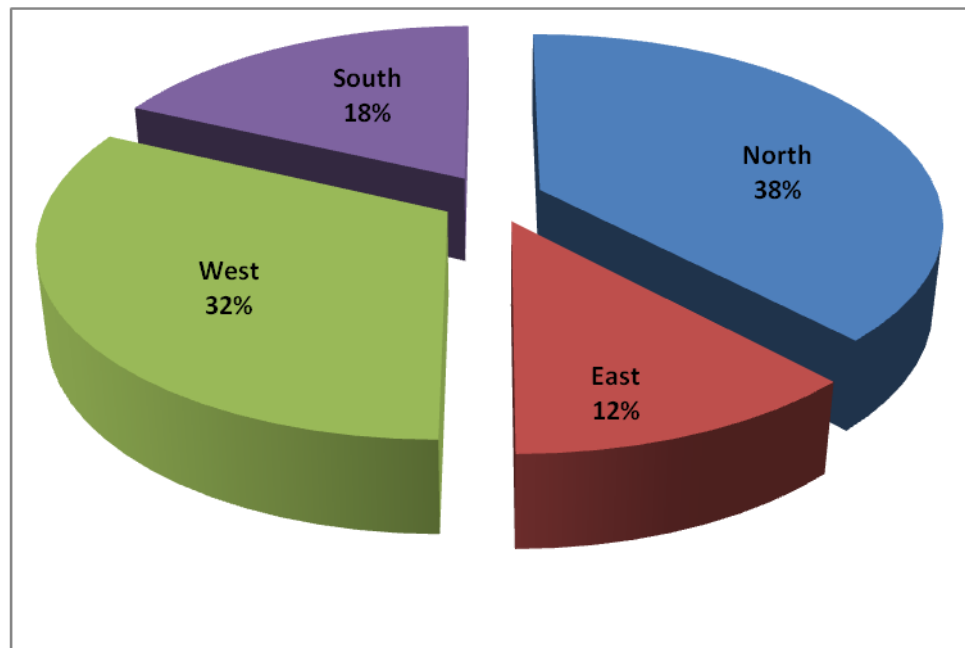
### **3.2 Exploratory Research**

The questionnaire was developed by finalizing items by getting valuable inputs from earlier research work and adding expertise of experts from industry and academia. The data was gathered from across the country particularly from the automotive and light engineering sector. Of the total 517 SMEs surveyed, the dispersion of respondents was North (38%), East (12%), West (32%) and South (18%). This loosely corresponds to the spread of SMEs in the automotive and light engineering sector across the country, currently.

Whilst considering the sample target sector, it was felt that the automotive industry ideally represents the SME sector for the following reason:

1. The automotive sector consists of large and small players and hence understanding what SMEs can and cannot do can be clearly understood by benchmarking
2. With the advent of global OEMs dropping their anchor, it was interesting to see how the Indian SMEs face the challenges. Particularly, when they have a tendency to bring their own vendors from their home regions
3. There are significant cases of industrial sickness and industrial growth stories as well.

4. And finally because this sector has a very balanced mix of manufacturing organizations and service firms.



**Fig 3.1: Dispersion of Respondents**

### 3.3 Framing of Hypotheses

As India is advancing to be amongst league of economically successful nations, SMEs are major player to contribute in this prosperity. However, this could only happen if SMEs can plan, implement and control their businesses (Wang, Walker and Redmond, 2007; Alphan, Yilmaz and Kaya, 2007). Hence, the hypotheses of this research thesis are as follows:

1. Given correct strategic planning and its proper implementation SMEs can, not only, come out of the red but also thrive and contribute very effectively. (This is certainly not meant to be critique on what was right and what was wrong. It is more to add to the knowledge base about how to thrive, sustain and grow in the changing environment that business must now face ever too often).

***Hypothesis I: SMEs Marketing Strategies resulting from appropriate business planning is rudimentary.***

2. There are commonalities in a set of success factors that lead to success and SMEs need to be sensitized about these factors at every level. In other words, actions can be initiated to shore up the floundering ones and to unleash the resources locked up in many a

sick/dormant SMEs and in so doing contribute to a resurgent India as she aligns herself to global pressures and competition from across the border.

***Hypothesis II: SMEs do not have the required business skills to anticipate and match it to the fast changing business environment & market needs.***

3. Based on this it is possible to develop generic business models and hopefully tools that SMEs can use at various stages of their life cycle.

***Hypothesis III: Despite examples of benchmarking available to them – often times even within their own peer organizations, networks etc., the SMEs are not amenable to making strategic changes that affect the market abilities.***

### **3.4 Questionnaire Design**

Whilst SMEs operate in almost all industries, their role and scope of relevance may vary from sector to sector and as from one country to another. Given the proliferation SMEs represent majority of enterprises in almost all countries globally. Irrespective of size, all organizations have some kind of strengths and face some obstacles. And so, their smallness can empower them certain competitiveness. Also various field studies have shown that SMEs have their own unique strengths and weaknesses.

Collectively, the role of SMEs is quite significant in every national economy – developed, emerging or developing. Their value addition to economy of any nation could be seen from different viewpoints. Many earlier researchers have emphasized the quantitative implications of SMEs. Hashim (1999) has pointed out the various strengths and weaknesses of SMEs (Table 3.1 and Table 3.2).

**Table 3.1: Strengths of SMEs  
(Hashim, 1999)**

1. Economic value addition
2. Provision of employment
3. Regional wealth creation
4. Regional Investment and fiscal reserve creation
5. Skills development
6. Revitalizes competition
7. Supplements endeavours of large firms

8. Stimulates innovation and flexibility
9. A test-bed from which can large firms grow
10. A seed of development of entrepreneurship and newer endeavours

The weaknesses of SMEs can be summarized as follows:

**Table 3.2: Weaknesses of SMEs (Hashim, 1999)**

1. Paucity of capital and difficult credit availabilities
2. Constraints of skilled workers
3. Scarcity of raw materials
4. Dearth of infrastructure
5. Poor managerial and technical skills
6. Poor knowledge of Marketing and constraints thereon
7. Lower awareness of new technologies and their uses

These strengths and weaknesses make it obvious that SMEs need to strategize to survive and to meet with their need for growth. For perpetuation of a strong SME sector in the Indian economy it is becoming urgent to take a strategic approach. Thus, a crucial step for proper and successful management of SMEs would be identify and comprehending and then developing a strategic frame of reference.

Earlier literature indicates that given their limited resources, it becomes more critical that for achieving success SMEs would need to keenly manage the key strategic factors relevant to them. In other words, SMEs must be in consonance with their changing environment to achieve a fair degree of success. They must be able to strike a balance between the requirements of the environment and the SME's capabilities as also between SME needs and that which is avail in the environment. The literature is rife with a variety of strategic factors which impact the effectiveness of SMEs. They include the harmonization of firm's entrepreneurial character, its organizational relevance in the current economic scene and the external eco-system in which it operates (Dollinger, 1999; Zimmerer and Scarborough, 1998; Tracy, 1992; Kao, 1989).

### **3.5 What Is Meant by Success for SMEs?**

Even as we view and review the aforesaid mentioned factors – entrepreneurial characteristics, the contextual relevance and the eco-system around the firm for their contribution to the well-being of an SME, some thoughts must be given to what does success mean to an SME and what ways can this be evaluated. Studies have shown variances based on differing objectives of the firm and indeed even the country. Popular, as literature available suggests, financial profit and/or growth are the most common metrics of success.

There is a popular subscription the organizational profits means that the firm is doing things right. Hence, it becomes the primary measure of success (Nash, 1984). In the developed western economies performance of a firm is mostly measured by the profits it earns year after year (Doyle, 1994). Margin of profit, return on investment, earnings per share, return on sales and such financial indices are common measures. However, amongst Indian SMEs, the preference to measure success is based on growth in sales, growth in turnover, gross profit and net profit, earnings before interest, taxes, depreciation and amortization (EBIDTA) and so on.

Revenue growth, growth in entrepreneurial profitability, growth in various financial ratio indicators could also be good pointers to organizational success (Bracker and Pearson, 1986). Studies further suggest that revenue growths, growth of intrinsic value of the organization and rise in compensation packages are also good to measure performance metrics of a small organization (Bracker, 1988).

As stated, the purpose of this study is to propose a strategic model that could help SMEs succeed. In so doing the study looks at issues from a strategy building point of view. Academicians and practitioners whole heartedly believe that success of firm is a direct result of making good and meaningful strategic decisions.

Organizational success, by implication, is heightened when entrepreneurial characteristics, relevance of the firm and the external eco-system are in harmony with one another. In other words a SME is at its effective best when all these elements are in perfect sync with each other. Fundament then, to this assumption is that success of an SME cannot be studied from a one viewpoint as in just entrepreneurial character or organizational relevance. On the contrary this has to be done in a more aggregated manner. Indeed, success for SMEs is in

essence inter-twinning of all the three elements that make up the strategy. These elements are discussed in the sections below.

### ***3.5.1 Entrepreneurial Characteristics***

Usually, SMEs are created by entrepreneurs, charged with solving problems and making decision in their ventures. These entrepreneurs possess certain traits that have an influence on the creation of the organization and its management. Hence, an understanding of these entrepreneurial traits incumbent on the SMEs is a crucial element of study. (Fafuente and Salas, 1989). This is in line with various studies which have found the SMEs in the same industry differ in style of management, sophistication, organizational development and finally the performance (Carson, 1991; Birley and Westhead, 1990; Khan and Manopichetwattana, 1989; Bracker and Pearson, 1986).

Experts and academicians have identified a few of these traits of the entrepreneur. The characteristics that normally lead to success of an entrepreneur include being pro-active, result oriented and being committed to others in the organization. Such traits lead to three fundamental elements in their approach to business:

1. Elucidating business and strategic objectives of their business
2. Formulation of action plan to achieve those objectives
3. Implementation of the plan and periodic reviews

Indeed this calls for a certain degree of flair for undertaking entrepreneurial venture and a set of skills to take on the required responsibilities to carry out the tasks (Greenly, 1989; Drucker, Management, 1987; Miles and Snow, 1978; Mintzberg, 1973).

#### **3.5.1.1 Personality Characteristics**

The aforesaid traits define the characteristics of an entrepreneur who is at the helm and is the one who usually provides the required resources. These traits of a successful entrepreneur are summarized in Table 3.3 (Dollinger, 1999; Zimmerer and Scarborough, 1998). However, most experts believe that entrepreneurs do not always have the exactly same traits. And it is well understood there is no typical set of traits that can presage an entrepreneur and if those will guarantee success. Hence, a study of multitude of characteristics specific to the type of industry, socio-economic circumstances and so on could to be the central to evaluate entrepreneurs.

### 3.5.1.2 Sociological Factors

Sociological environment can often lead an individual to become an entrepreneur. The factors that comprise social environment are highlighted in Table 3.3. These may trigger growth of entrepreneurship. An individual, for example, could enter business if he finds that it is desirable and he can pursue them with his resources.

The social environment consisting of individual's culture, family background, peer pressures and mentors have distinct effect on shaping his/her judgment of desirability. This is because an entrepreneur must feel secure about feasibility in terms emotional, financial and physical support and also in terms of proofs of concepts, appropriate mentoring and partnering. Parents and family attitude to entrepreneurship, relevant networks and industry contacts, thus, are good influencers that lead to a SMEs success.

### 3.5.1.3 Demographic Factors

Demographics that include the age, sex, gender, educational background and family status also influence the nature of the SMEs and its future. Changes in these factors, for example youthful population, educational levels and racial/communal make-up of the society also may encourage/discourage propensity for entrepreneurship to set-up business.

S.No.	Personality Traits	Sociological Traits	Demographics
1	Need for achievement	Perspicacity of desirability	Age
2	Locus of control	Awareness of feasibility	Gender
3	Propensity for taking risk	Good partners and mentors	Education
4	Desire for responsibility	Entrepreneurial outlook of the family	Race
5	High level of energy	Availability of relevant contacts and networks	Marital Status
6	Future orientation		
7	Commitment to work		
8	Resilience		
9	Stamina to assimilate vagueness		

10	Diligence		
11	Know-how and expertise		
12	Maturity		
13	Organizational ability		
14	Repute		

**Table 3.3: Entrepreneurial Characteristics**  
(Dollinger, 1999; Zimmerer and Scarborough, 1998)

#### 3.5.1.4 Organizational Relevance

The immediate setting in which a SME operates makes for its relevance. Organizational strategy, competitive advantage of the organization, its structural make-up, the technologies employed and culture of the eco-system are elements that contribute to the success a SME can achieve. These elements can either facilitate or limit the effectiveness and could be used to forecast how a firm would evolve and metamorphose. Table 3.4. maps these elements.

**Table 3.4: Factors relating to organizational relevance**  
(Rue and Holland, 1989)

1	Strategic actions to pre-empt external stimulus
2	Abilities to create and afford distinct advantages
3	Organizational structure
4	Technologies being employed and planned
5	Cultural composition of the organization
6	Nature and traits of the firm
7	Strategy formulation and implementation processes

Scholars and practitioners alike do believe that strategy planning is crucial to success of an organization – big or small. Normally, this is the roadmap that owner-manager may use to meet their organizational objectives (Rue and Holland, 1989). Further, an organization usually is able to even crystallize their objective as they strategize.

It follows then that if a firm’s strategies match external eco-system, a definite competitive advantage is established and can be established (which is based on firm’s abilities to create and sustain a distinctive advantage), then it tends to perform well and meet its objectives

(Gigliarano, 1987). From the available literature, strategy can be of various types and classification such as corporate strategy, functional strategy, marketing strategy, competitive strategy and so on.

### **3.5.1.5 Distinctiveness**

An organization's ability to create and sustain distinctiveness, also known as 'core competencies, is an important factor in developing competitive advantages. Such competencies may be tangible or intangible or a mix of both such as being financially nimble, having a pool of highly skilled manpower, use of highly advanced technology, close customer relations or being highly respected amongst its stakeholders and so on (Craig and Grant, 1993).

There is much agreement in the literature that for a firm to be successful, it must have some core competencies to sustain its competitive advantage. Such capabilities in at least some aspects of its business be it marketing, production, innovativeness and so on could be helpful in building and sustaining competitive advantages resulting in superior performances.

### **3.5.1.6 Organizational Structure**

The importance of relationship organizational structure and performance has been underscored time and again in literature. Organizational structure should be viewed as the framework of policies, procedures, rules and regulations, job profiling and finally the organizational charts (Flippo and Monsinger, 1978). It is well accepted that SMEs who have dynamically structured organization tend to perform better under adverse circumstance and those having a "mechanistic" organization structure are best when the business conditions are more genial and conducive (Covin and Slevin, 1989).

Indeed small firms have better survived where they have dynamically structured and restructured their organizations in sync with the prevailing business climate (Merz and Sauber, 1995). In fact the study by Merz and Sauber (1995) successfully argues that small businesses who adapt their organization structure to the requirements of the business environments experienced sustained growth both in terms of sales and employment.

### **3.5.1.7 Technology**

Technology would, in the context of SMEs, mean how a business converts inputs (to include material as also information) into outputs (product and/or service). Scholars have proposed and emphasized that effective use of technology could be an important competitive advantage for any business (Marone, 1989; Fry, 1982; Kantrow, 1980; Woodward, 1965). There is a positive relationship between strategic practices, deployment of technology and performance in SMEs (Schroeder, Congden and Gopinath, 1995). And it was therefore, being strongly argued that where SMEs failed to assimilate newer technologies and/or align their strategies to newer technological advance, they often experienced dilution of their competitive advantages that could affect performance (Schroeder, Congden and Gopinath, 1995).

### **3.5.1.8 Organizational Culture**

Culture within an organization defines the way in which things are done in the organization and is, thus, a key element for success of an organization. It encompasses the ideologies and thought processes in a firm as linked to the organizational goals. The manifestation of this can be seen as how do individuals, owners/managers or groups in the organization inter-act and behave in the context of organization's goals and objectives. Organization's culture impacts corporate belief system or values, work environment and the ways in which managers control, direct activities and implement changes.

### **3.5.1.9 Characteristics of a firm**

The circumstances or the characteristics of firm are seldom studied from the organizational perspective, though they seem to significantly impact the very nature of the SMEs. Given the diversity of SMEs the relationship between these characteristics and success vary. Table 3.5 maps these elements for they could impact the performance.

**Table 3.5: Firm's Characteristics  
(Aragon-Sanchez and Snachez-Marin, 2005)**

<b>S.No.</b>	<b>Characteristic</b>
1	Span of operations
2	How long is the firm in business
3	Ownership structure
4	Constitution of the firm

5	Products range made & sold
6	Industry Segment in which the firm operates
7	Location of the firm
8	Size of the firm

### 3.5.1.9 The external eco-system

The effect of eco-system external to the organization is crucial in ascertaining the success or failure of SMEs. External eco-system consists of all that is outside the organization and can affect the organization. For example, the economic trends can limit possibilities for a SME as also it can proffer new opportunities. However, the economic trends by themselves do not determine what is SME does or what it is all about. So the SMEs need to identify such forces relevant to their circumstances and then align themselves in order to be successful (Drucker, 1987)

Generally speaking, the external eco-system of a SME may have two aspects. First is the general business environment around it. Second is the task eco-system that a firm must face. The general business environment entails all those economic elements that surround the business and could impact the business such as recession or economic upturns. Task eco-system involves specific organizations that may affect the business such as competitors and links in the value chain.

**Table 3.6: External Environment**  
(Griffin,1987)

S. No.	General Environment	Task Environment
1	State of economy	Competition
2	Technologies in use	Buyers
3	Socio-Cultural issues	Vendors
4	Politico-legal issues	Regulators/Government
5	International Issues	Unionization in the organization
6		Holding and subsidiaries

The task eco-system is normally the basis for day to day decision making process for SME owner-manager. However, this is often based on degree of diversity and degree of congruity of issues. The degree of diversity is the extent to which the eco-system is stable or changing. And degree of congruity is the degree of complexity or simplicity of the eco-system.

### **3.5.1.10 General environment**

The general environment comprises of five elements as mapped in Table 3.6. They are the state of economy, technologies being used, socio-cultural issues, politico-legal issues and international issues. These enmesh in ways that could have significant influence on the health of SMEs. Each of these elements has factors, provisions and phenomena that can potentially affect SMEs in ways that are significant and peculiar.

#### ***3.5.1.10.1 The economy***

The state of economy is usually a result of the economic system prevailing in the country. Hence the resulting conditions within which SMEs are expected to operate have a substantial effect on the actions the owner-managers can take or not take. Changes in monetary policies, fiscal policies, inflationary trends, rates of interest, unemployment trends and even the rules of competition have their influence on the effort and cost of doing business.

#### ***3.5.1.10.2 The technologies used***

The introduction of internet and information technologies, the laser, integrated circuits, and photocopiers and so on has made the world of business much faster and therefore more competitive. Hence the pace of technological advances and their adoption can have a measureable impact on the performance of SMEs. For it to outflank competition and survive a SMEs must not only be able to keep pace with technologies relevant to it but must also be able to assimilate the same. In other words, owner-managers have little choice but to pay attention to technological aspects in their business and they must keep themselves up to speed about development if only to make informed decision especially whilst making investment decision in upgrading their operations and/or manufacturing.

#### ***3.5.1.10.3 The socio-cultural issues***

Socio-cultural issues customs and traditions, social niceties, prevalent mindsets, value-systems that typify a society in which the SMEs operate. They are important from the point that they exert influence over the types of products, services and code of conduct expected from an organization. In essence these are the basis of demand and capacities.

#### ***3.5.1.10.4 The politico-legal issue***

The politico-legal issues rely on the political system within which a SME operates. For an SME, these are important because:

- I. They exert certain legal bindings on SME and must of force be adhered to.
- II. SMEs have to develop their policies in line with these bindings, whether it is for or against the needs of their business
- III. A stable politico-legal environment goes an long way in helping SMEs in their long term planning processes.

#### ***3.5.1.10.5 The international issues***

It may appear that for most SMEs business is strictly localized and cushioned from global influences but that is far from reality. Globalization affects all and sundry in a variety of ways. The recessionary that began in the USA and in the European Union in 2008-2009 has had a huge impact on the SMEs in general and on the auto-parts manufacturing SMEs. SMEs do have to face issues related to economic cooperation between countries, presence and absence of international trade barriers, trade relationship amongst countries and so on, to survive and compete even in their home markets in these modern times. A global outlook, thus, is very important factor in success of a SME.

#### ***3.5.1.11 Task eco-system***

Besides the general business environment, the task eco-system has a profound effect on SMEs' success. As pointed in (Table 3.6) above, the task eco-system has six elements to be considered:

##### ***3.5.1.11.1 The competition***

Competition for SMEs may be defined as all those other organizations that it must contend with in a marketplace for a variety of resources and assets namely the customer's attentions and funds, procurement of inputs, technologies being used, financial inputs and even the required manpower. This means SMEs should pay keen attention to the competitive scenarios and must be able to evaluate and strategize competitive moves affecting them well in time. Indeed such er studies done in perpetuity could help SME to analyze the strength and weakness of competing organizations and what opportunities and threats are available to them.

#### ***3.5.1.11.2 The buyers***

Buyers of an SME are perhaps the most important element of the task eco-system as they ensure renewal of the organization with their money to buy the products/services produced by the firm. And it is for this attention from the buy and his purse that the SME must compete with other organization to ensure success. Thus, it becomes imperative that the SMEs must develop intimate knowledge and relationship with its existing and potential buyers and understand their buying habits, likes and dislikes as well as their buying power etc. to structure themselves accordingly.

#### ***3.5.1.11.3 The vendors***

Limited by resources, especially financially, dealing with vendors for supply of inputs is critical to success of an SME. It is always more prudent to maintain a very good working relationship with all the suppliers but SMEs must find ways to avoid dependence by creating a network of vendors for all their requirements to enable smooth functioning of their organizations.

#### ***3.5.1.11.4 The regulators.***

The role of pressure or interest groups and government bodies define the limits of SMEs businesses and has a definite influence on the manner in which they can plan their business activities. These organizations, also called the regulators, play an important role in protect the society within which the business must operate. Some departments created by government such as the labour department, pollution control boards, consumer protection cells, public health department, occupational safety cells, food and drugs agencies etc. are empowered with powers to establish manufacturing and quality standards , levy fines and/or depending on the seriousness negligence is too high then even shut the facility. On the other hand there are also agencies that are there to assist the SMEs in conducting their businesses. These again may be created by the government or may be a non-profit organizations or associations. Their role is to understand the hurdle facing an industry segment and advocate their cause and facilitate smoother functioning. Awareness and understanding of these regulators is a must to ensure trouble-free operation of an SMEs translating into success.

#### ***3.5.1.11.5 The unions***

Provisions in the Labour and Industrial Acts in most nations recognize a body that may be formed by association of the workforce in a trade or industry. These organizations are popularly known as Unions or Guilds. Unions are there to protect the interest of the workers (who are their members) against any exploitative actions of the owner-managers to ensure a

sense of fair play. Normally SMEs are not faced with unionized labour-force, they must have a good understanding of this if only to pre-empt any hurdle in smooth and fair operations.

#### ***3.5.1.11.6 The holding and subsidiary organizations***

Often not talked in the Indian business scene yet, unless we talk of large enterprises, globalization brings with it phenomenon like mergers, demergers, acquisitions, diversification. This is very important for SMEs to understand as many could find themselves, in times to come, associated with other organizations as the economy matures.

### **3.6 Basis of questionnaire design**

Understanding of the import of strategic planning could be pivotal for SMEs to be effective and successful. They should develop skills to examine and audit their activities to identify strategic deficiencies and having done so make the necessary course correction to achieve success.

The key intention of this study is to sensitize SMEs and apprise them that they must look at strategic planning as the fulcrum of their survival and eventual success. It seems within reason to argue that SMEs who work to a strategic plan to match up to external eco-system will tend to bear sweeter fruits of success than those who would rather “sail with the wind”.

In the hope that SMEs must and can adopt a strategic approach, a questionnaire was framed to identify the strategic structure that may bolster their efforts in ensuring success. The basis of drawing up the questions was to measure how SMEs particularly in the Automotive and Light Engineering Industry in India approach their businesses.

### **3.7 Strategy planning process and performance**

Business planning and marketing strategy has now received a renewed impetus from both academicians and practitioners of business as the business scenario is changing at a velocity hitherto unknown as the new World Trade Organization (WTO) regime kicks in and becoming competitive in this context becomes a differentiator. The extent of planning process done by SMEs and their impact on their performance is needed to be further explored. Thus the importance of planning process and how SMEs get from point ‘A’ to point ‘B’ and eventual success is important but dynamic. The importance, thus, of strategic

posturing often explains the planning activity reflecting various management styles ranging from conservative to entrepreneurial. Further, it is often observed that entrepreneurial style is adopted by functional specialists as opposed to a conservative style followed by SMEs with technical or financial background (Pandey and Nandkeolyar, 2007). What is emerging that even as strategy planning is becoming important for business – large and small – marketing strategy as how a business reaches out to its target customer is becoming vital for SMEs even as the markets open and get de-notified in the new WTO order. And, this is becoming more urgent than ever before if the SMEs have to qualify as being successful (Nandkeolyar, Pandey and Kumar, 2012).

With the advent of globalization aided by technology, the landscape of business is changing. Small and Medium Businesses (SMBs) with limited resources must have strategies in place not only to withstand the onslaught of outsiders but also their local competition. This study looks at different functions of business and how the SMBs perceive and strategize particularly in the government-intended thrust sector of automotive and light engineering sector. Whilst the SMBs in these two sectors emphasize in the order of priority firm management, marketing and human resources, there is poor cognizance of innovation and R&D- both in terms of product and process- resulting in low “global outlook”. The SMBs, therefore, will need to go back to the strategy “drawing board” to measure up to the global realities (Nandkeolyar, Pandey, Kumar and Kiran, 2014). Hence, this study could serve as the basis for SMBs to step up their strategic capabilities to face and best the impending business scenario.

Whilst there are firms having clear strategic intent either as low cost provider or differentiator, this study looks at the fate of firms that choose to “flow with the wind” and may appear to be doing well but are actually sitting on a time-bomb. With the passage of time these firm become irrelevant due to technology obsolescence, disruptive innovation in the market and/or competitive pricing. Application of marketing concepts as strategic choice to pre-empt competition, it is being argued, could be the way forward particularly where basic offerings are same or similar and available (Nandkeolyar et al, 2014)

### **3.8 Research Gaps and Objectives**

The primary reason for existence of any successful business is that it must serve the customer and society in which the firm operates. SMEs occupy a very important place in the economic success of any nation – developed, emerging or developing. In India the understanding of SME sector is scant and whatever does exist is by way of what other stakeholders can do to help/support SMEs. There are hardly, if any, studies of what SMEs can and must do to help themselves to remain afloat and successful by taking advantage of the external and internal environments within which they exist.

Therefore, there is need for a more holistic view of marketing strategy and business planning processes and implementation amongst SMEs in a continuum and see how all this could meld to serve the customer/consumer as a measure of their possible success or failure. The objectives of this research work, hence, are to inquire:

1. How and why are some SMEs succeeding even as the business environment is rapidly changing and becoming more competitive than ever before? This becomes even more pertinent with the velocity of WTO led globalization affecting just about every aspect of business and life.
2. What is it that has been done right and is sustainable? Do the same paradigms hold in this era of “global trade and commerce”?
3. What could be done to salvage sick or about to becoming sick SMEs and thus free the huge investments locked-in to become productive and contribute to the Indian economic success?
4. Given that over 90% of the SMEs in the country are family run, where often they do not have all the necessary education and training to actually visualize and implement strategic and tactical actions, there is need to probe how could SMEs professionalize their approach to rejuvenate and calibrate their own destinies in a fast globalizing economy scenario.

### **3.9 Sampling Plan**

As discussed earlier in this chapter and given the homogeneity of the SMEs in this sector i.e. automotive and light engineering segment, a representative percentage was found to be suitable for our study, as often times the SMEs are given to being ancillary to larger OEMs or industries. The idea was to capture the essence of their approach to business and what works for them and what does not. Accordingly, for the study to be authentic the distinguished members of the Review Board advised and it was felt that the study would have to be done

for at least 350 valid respondents. Accordingly, the survey was conducted across the country to get 517 valid respondents. Table 7 represents the entire plan and execution of the sample.

**Table 3.7: Survey Respondents**

<i>Region</i>	<i>Respondents</i>			
	<i>Total Contacts</i>		<i>Valid Contacts</i>	
	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>
<b><i>North</i></b>	252	39	196	38
<b><i>East</i></b>	69	12	59	12
<b><i>West</i></b>	223	34	167	32
<b><i>South</i></b>	110	17	95	18
<b><i>Total</i></b>	654	100	517	100

### **3.9.1 Pilot Survey**

The initial Questionnaire was tested for errors and review on 52 respondents at Mohali, Punjab, India, which is a known Automotive & Light Industrial Belt. Initially, the experience was as follows:

1. Some of the Questions needed to be reformulated for easier comprehension by the respondents
2. Respondents took between 25 to 30 minutes to fill the questionnaire.
3. It was found that meeting in respondent's free time slot was more productive. This sometimes meant waiting for the respondent to be free despite having got an appointment.
4. Sending mailers would not help. It had to be the interview method as many were not very adept with the Language and we needed to translate for their unaided responses.

### **3.9.2 Modification of Questionnaire**

From the experiences gained in surveying respondents in Mohali, it was found that the research Hypotheses were indeed worthy of research and was even the need of the hour. The questionnaire was simplified for language to make it more comprehensible for the respondents thereby encouraging unaided responses to the extent possible.

Based on the experiences at the pilot stage the final questionnaire was formulated with minor amendments as enclosed (Exhibit 1).

### **3.9.3 Final Survey**

The final survey was spread over a period of 18 month across the country mainly looking at the SMEs in the automotive and light engineering sector. Sample Size covered for the purposes of this study was 517. Details provided in table 3.7.

The Method was:

1. Personal Administration of the questionnaire (mainly)
2. Telephonic interviews

The data gathered were analyzed on the basis of responses received. The use of statistical software packages like SPSS, AMOS and Minitab were used.

### **3.9.4 Difficulties Faced**

Considering the given segment, the key challenge was to extract information on the mandated questionnaire without sounding too intrusive in the business affairs of the surveyed respondents (SME business owners/ executives). As was found, in the pilot run that the target group of survey respondents was fairly conservative and cautious in sharing information for various reasons. Hence, to avoid sounding too intrusive in the business affairs of the respondents the questionnaires was built into a casual conversation approach and avoid asking any leading questions to be able to extract unbiased opinions. Repeatedly reassurance were given to the respondents that this survey was for academic purposes only and they were assured of absolute confidentiality of information to allay their fear that this data may end up with wherever they do not want them to. This finally helped in collecting data from 517 respondent firms and collates the data to achieve the objectives of the research.

## CHAPTER – IV: DATA APPROPRIATION AND ANALYSIS

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### 4.1 About Data

The data was collected by either going and personally interviewing the respondents or doing the same on phone. After administering 654 questionnaires to the target respondents, 517 duly filled questionnaires complete in all aspects were taken for analysis. It is important to understand the sector being studied. Section 4.1.1 covers details of auto component sector.

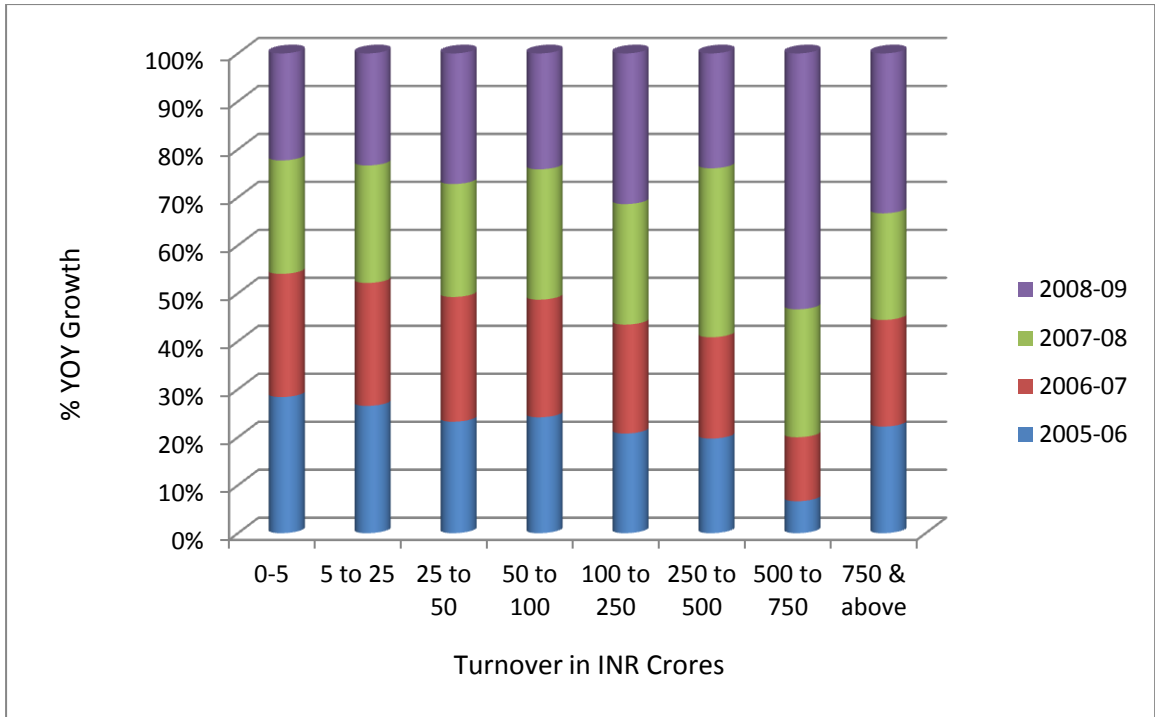
#### 4.1.1 Sector Overview

The Indian auto component industry is one of India's sunrise industries with tremendous growth prospects. From a low-key supplier providing components to the domestic market alone, the industry has emerged as one of the key auto components centers in Asia and is today seen as a significant player in the global automotive supply chain. India is now a supplier of a range of high-value and critical automobile components to global auto makers, such as General Motors, Toyota, Ford and Volkswagen, amongst others.

As per an Automotive Component Manufacturers Association of India (ACMA) report, the turnover of the auto component industry was estimated at over US\$ 113 billion by 2020 (Automotive Component Manufacturers Association, 2013). The industry's turnover is likely to touch US\$ 40 billion by 2015-16. The potential compounded annual growth rate (CAGR) of the auto component industry is estimated to be 11 per cent in the period 2008-15. The automotive sector is expected to contribute 10 per cent of the country's GDP by 2016. The SME sector is being termed as the backbone of the Indian economy (Dudhe, 2012). SMEs encourage entrepreneurial development and dispersal of the industries throughout the length and breadth of the country. It also generates a lot of employment opportunities and the capital cost per employee is minimal.

#### 4.1.2 An Overview of the Companies Surveyed

Data were received from set of 517 SME in this survey. The respondents were either owners or senior functionaries of the firm. The companies varied from a turnover size of INR 0.24 Crores to approx. INR 950 Crores. The following chart depicts these sample companies with respect to their turnover and %YOY growth rate from 2005 – 2009 (Fig 4.1).



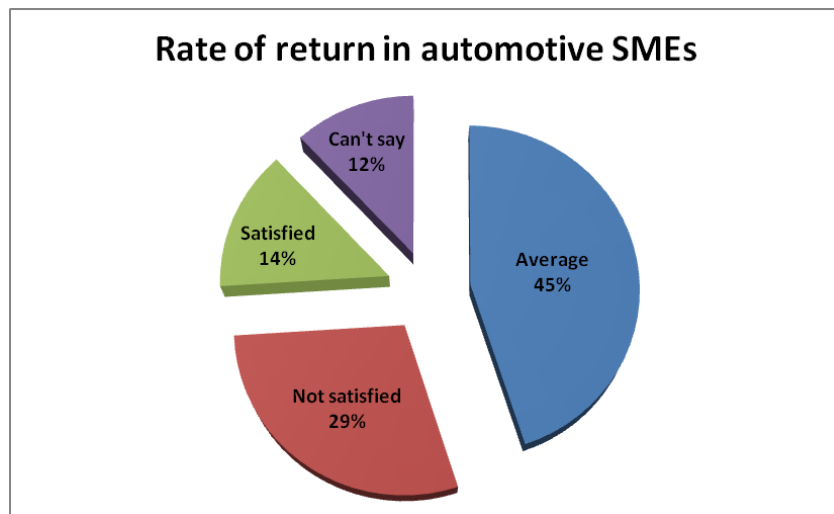
**Figure 4.1: Year-on-Year Growth Percentage**

## 4.2 Preliminary Response Analysis based of Survey Questions

### 4.2.1 Hypothesis 1: SMEs marketing strategies resulting from appropriate business planning is rudimentary

#### 4. 2.1.1 Rate of return on investment (ROI) in the automotive SMEs

A 45% of the sample surveyed felt that the ROI in their industry was average. However, about 29% felt that the ROI was below par and 14% were satisfied with their returns. And, about 12% were not sure about the ROI figures (Figure 4.2).



**Figure 4.2: Rate of return in automotive SMEs**

#### 4.2.1.2 Regulatory and statutory norms

A whopping 57% felt that the regulatory and statutory norms were very stifling and tardy. About 15% felt it was average vis-à-vis other industry. Whilst 4% were satisfied that there existed appropriate regulatory and statutory norms and 22% had no opinion as represented in Fig 4.3 below:

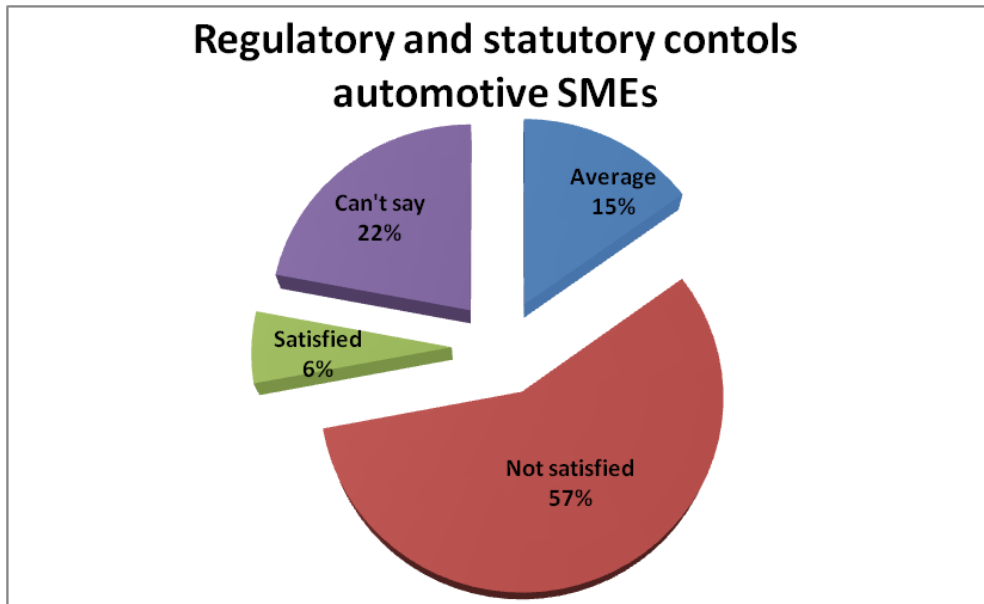


Figure 4.3: Regulatory and statutory controls

#### 4.2.1.3 Economic Trends for SMEs in the automotive sector

15% of the respondents felt that the economic environment was benignly competitive and neutral. 27% felt it was hostile and fiercely competitive when 11% felt there were favorable winds of change. But a whopping 47% were unsure or had no knowledge (Figure 4.4).

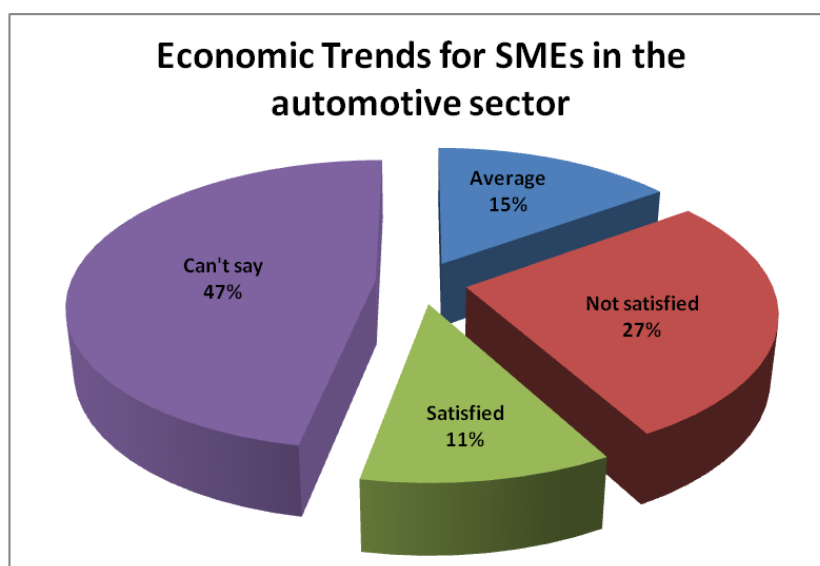


Fig. 4.4: Economic Trends for SMEs

#### 4.2.1.4 Impact of Socio-cultural trends

A shocking 59% of the respondents were unaware of how socio-cultural trends are affecting them, even if vicariously. About 14% felt it averagely affected them and were trying to probe what they could do about them. As opposed to this, about 15% felt the pace of change happening could throw them out as they may not have the required resources to keep up; whilst 12% were well prepared to take on the changes happening and welcomed it (Figure 4.5).

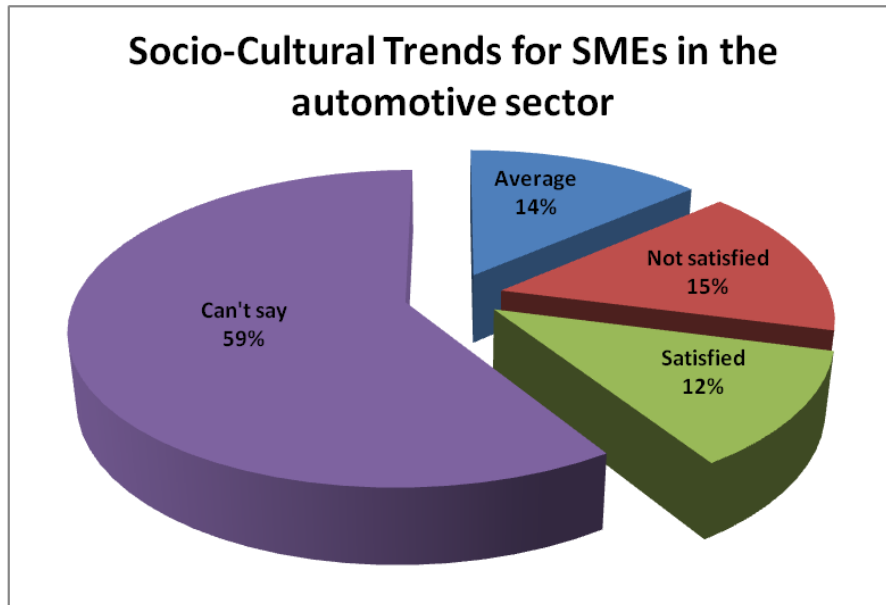
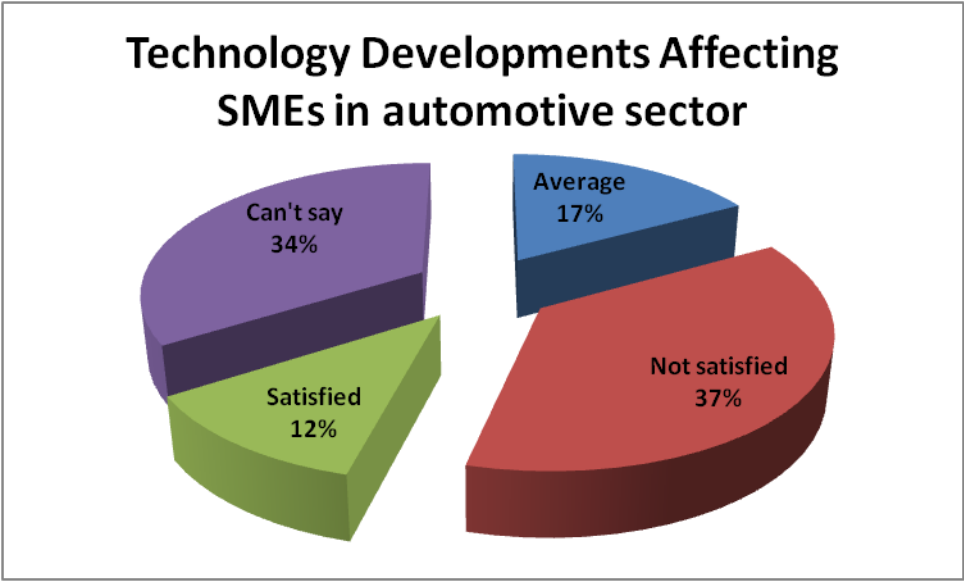


Fig. 4.5: Socio-Cultural Trends

#### 4.2.1.5 Technological development in automotive sector affecting SMEs

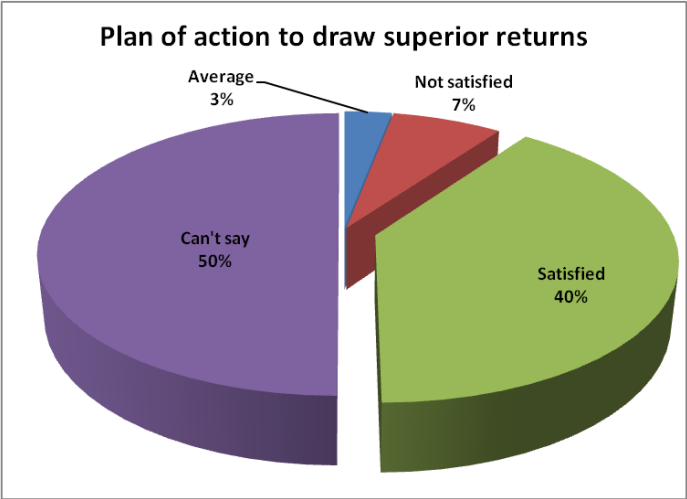
Interestingly 37% of the respondents were wary of the technological changes affecting them and 34% were not even aware of what was happening. Against this, only 17% were aware and thought they could make course correction and just 12% were actually satisfied with their preparedness (Figure 4.6).



**Fig. 4.6: Technology Developments affecting Automotive SMEs**

**4.2.1.6 Plan of action to draw superior return on investment**

Half the respondents did not seem to have any plan for improving their ROI and about 40% claimed that they had a plan and were satisfied with their pace. It may also be significant to note that only 3% felt that they had a fuzzy idea and 7% felt that they had unsatisfactory or undoable plans due to resource constraints (Figure 4.7).

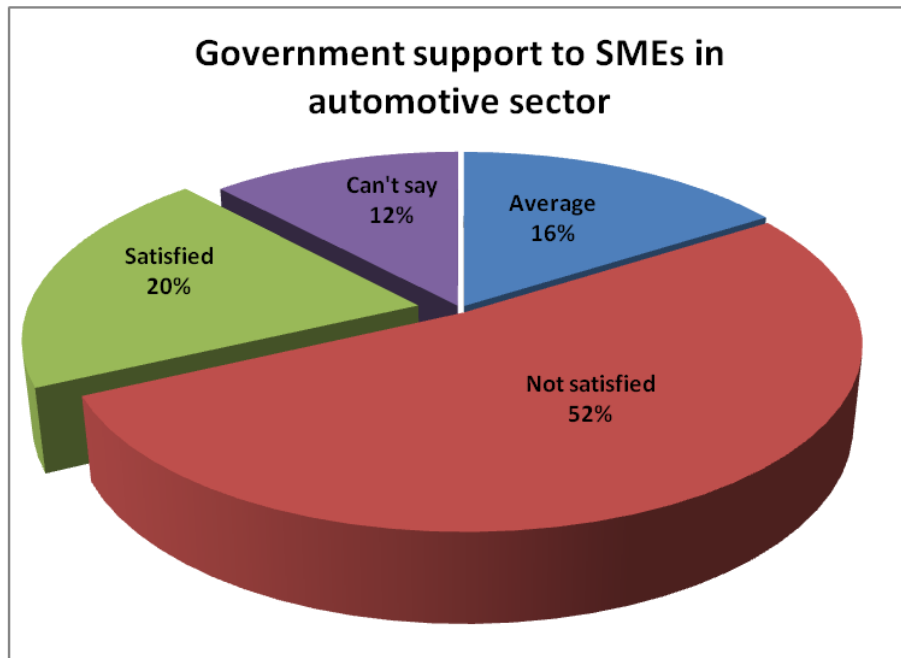


**Fig. 4.7: Plan of action to draw superior returns**

**4.2.1.7 Support from Government**

The industry continue to depend on the government to bail them out as evidenced by a huge 52% not satisfied with the quantum of support available to them. And the larger ones, which were about 20% being able to take advantage of various support schemes and mechanisms were satisfied. About 16%, mainly technically qualified but short of resources felt that

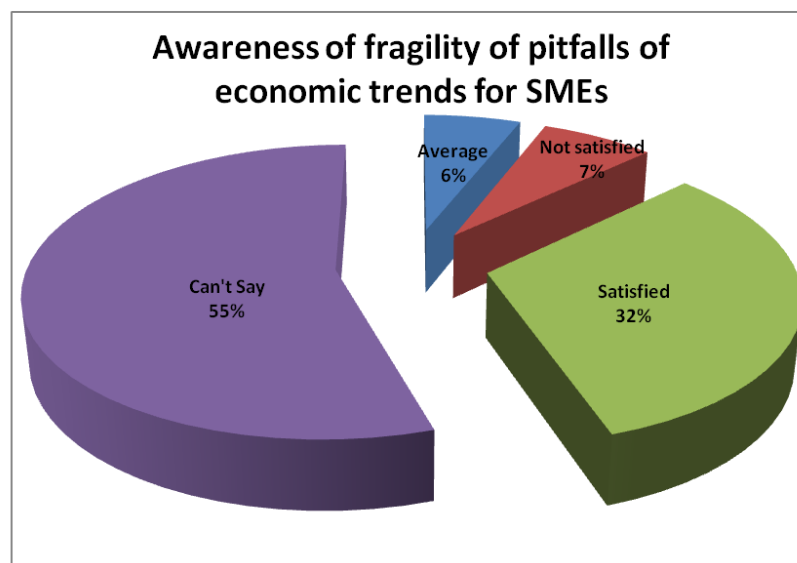
government support was there but at a level quite average. And then there were 12% who were unsure. This is represented in Fig. 4.8 below:



**Fig. 4.8: Government Support**

#### ***4.1.2.8 Awareness of economic trends affecting SMEs in the automotive sector***

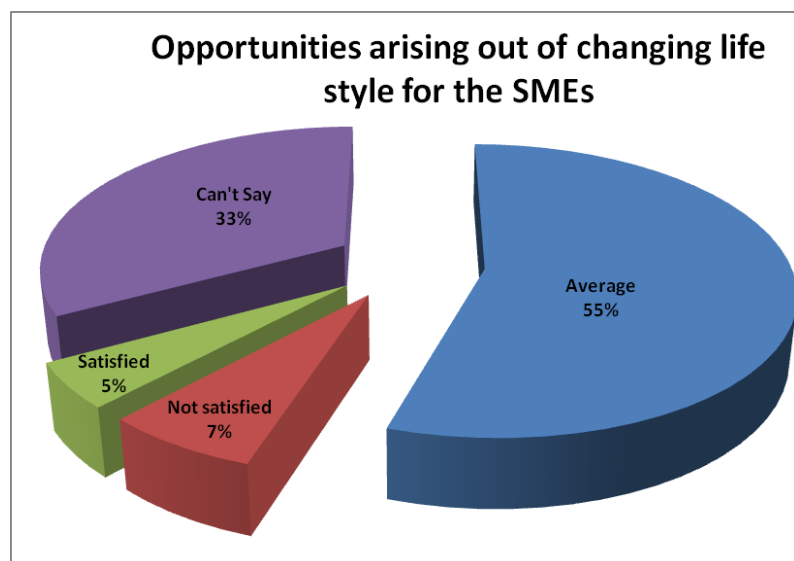
55% of the respondents seemed to be too involved with their day-to-day affairs to be aware of the pitfalls of the economic trends affecting their businesses but 32% felt that they had adequate knowledge of their economic environment to anticipate the pitfalls. 6% felt that they knew the economic trends but were not sure how it would play out, whilst 7% felt there were not having information and that was cause for dissatisfaction. This is represented in Fig. 4.9:



**Fig 4.9: Awareness about fragility of pitfalls**

#### **4.1.2.9 Knowledge of changing lifestyle and opportunities for SMEs:**

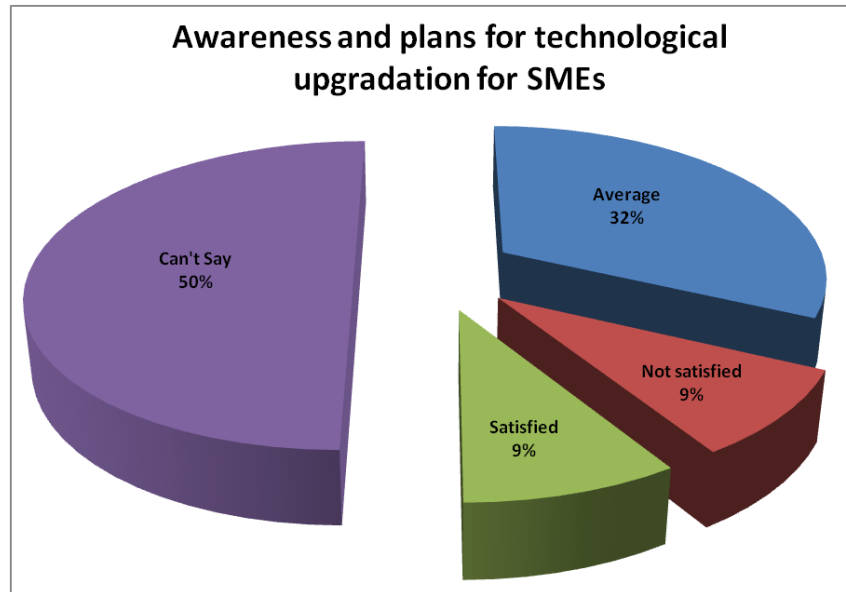
55% felt that they understood the changing lifestyle shifting towards consumerism but were not sure how they could exploit it the resultant opportunity, a significant 33% were ignorant of the effect of such changes having any effect on their business. On the other hand, 5% knew what this could mean for them and were changing their approach accordingly but there were 7% who knew it all, but were constrained by resources to leverage these changing trends (Figure 4.10).



**Fig 4.10: Opportunities due to changing lifestyle**

#### **4.1.2.10 Awareness and plans for technological upgradation for SMEs**

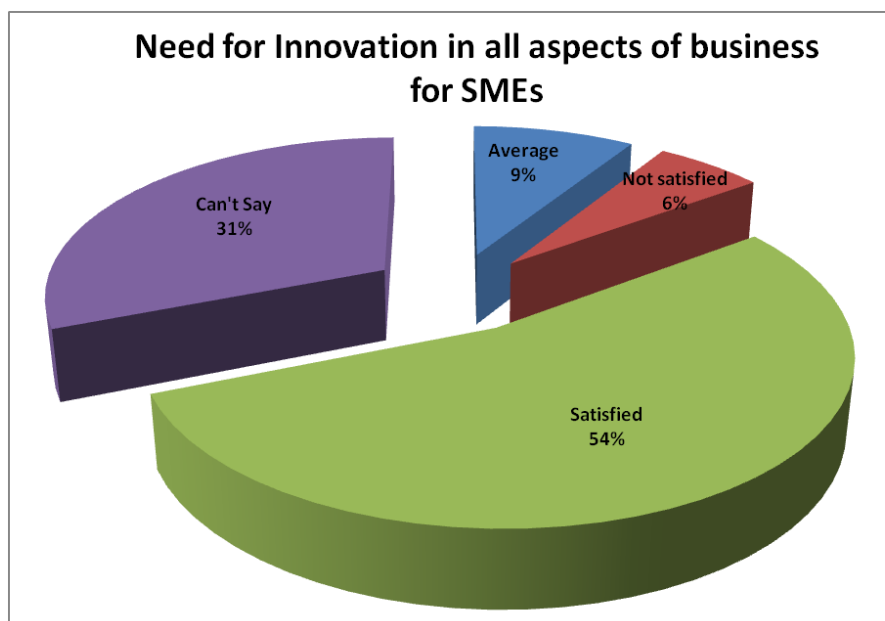
50% of the respondents preferred not to opine about their plans, driven by their desire to shroud their intent. Another 32% were aware and were in the process of rethinking their plans. 9% were aware and had clear plans to upgrade and an equal number were aware but constraints of their resources were not able to plan anything. This is shown in Fig. 4.11 below:



**Fig. 4.11: Awareness and Plans for Technological Upgradation**

**4.1.2.11 Need for Innovation in all aspects of business for SMEs**

More than half (54%) agreed that their key to survival and success is in innovating in every aspect of their business. However, there were a disappointing 31%, who were ignorant of such a need opining that this may be applicable for the mother units for whom they are the feeders. 9% felt that innovation is their mantra and they do so off and on to stay above water. 6% per cent were not satisfied their attempts at innovation mainly because of resource crunch (Figure 4.12).



**Fig. 4.12: Need for Innovation**

#### 4.1.2.12 Competition amongst SMEs

Every respondent was aware of competition in their industry. A mind boggling 70% felt it was too intense and was from local as well as overseas players reducing their share of the pie. However, 22% found competition manageable and were satisfied with the current level of competition in the market, but 8% felt intensity of competition was seasonal and had to be keenly followed (Figure 4.13).

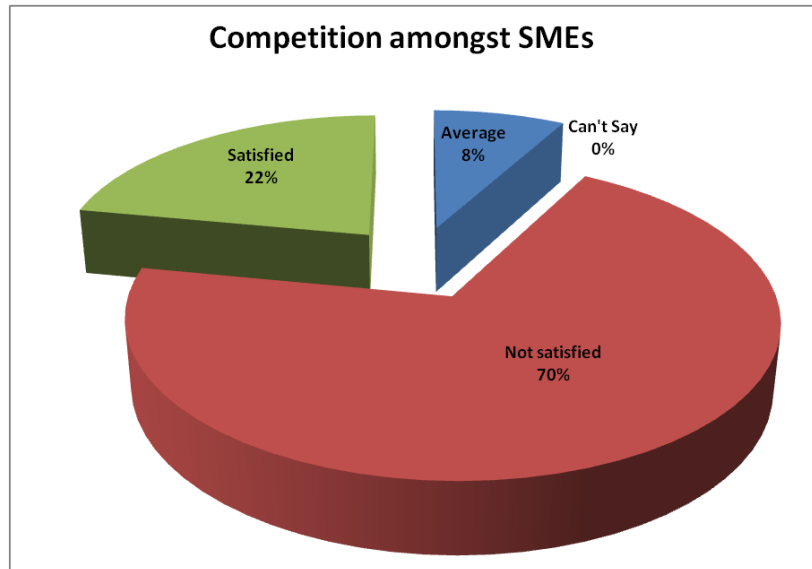
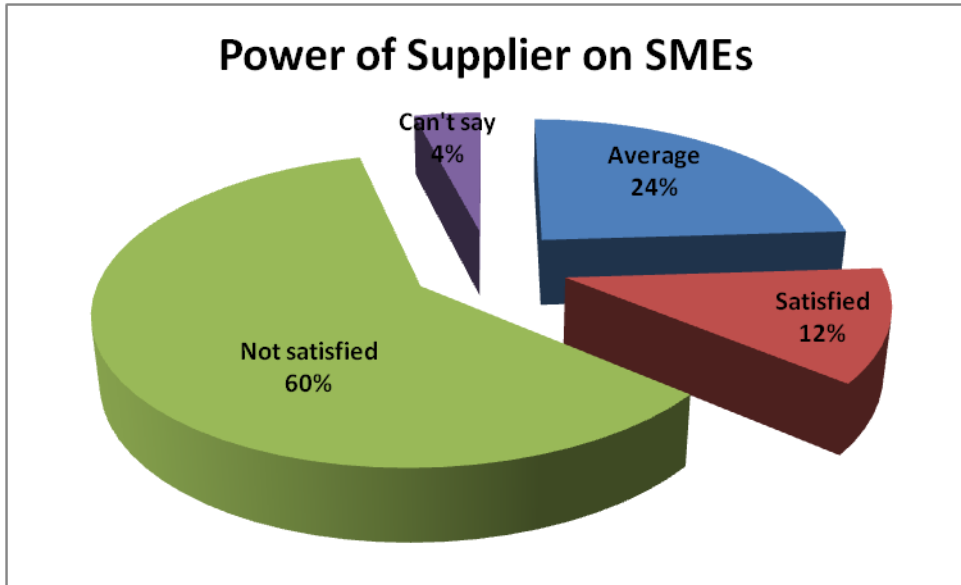


Fig. 4.13: Competition amongst SMEs

#### 4.1.2.13 Power of the Supplier

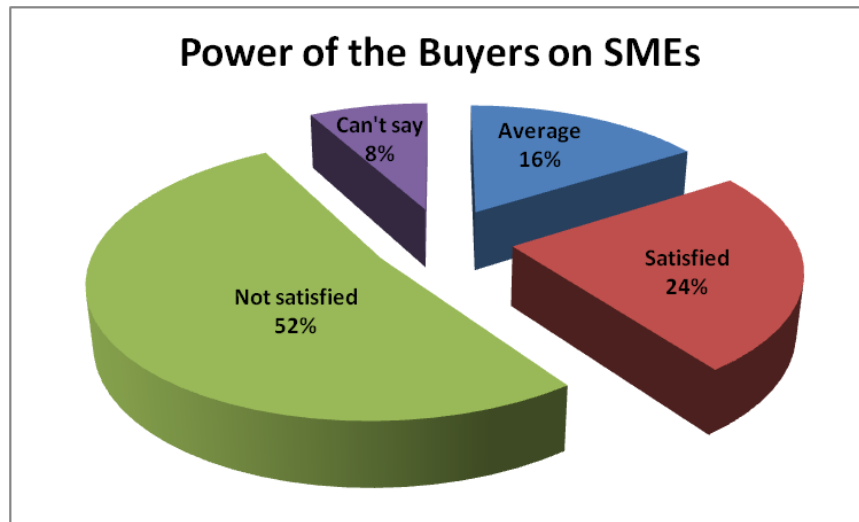
Suppliers' terms and conditions for doing business were quite stringent. It was felt by 60% of the respondents whilst 24% felt it was acceptable. 12% thought it was fair and remaining was unsure (Figure 4.14).



**Fig. 4.14: Power of Supplier**

**4.1.2.14 Power of the Buyers**

Buyers were large and put significant pressure on the SMEs. This was reflected by 52% of the respondent, however 24% felt otherwise. 16% felt that there was but manageable pressure exerted by the buyers and 8% were not able to clearly state their position. This is represented in Fig. 4.15 below:

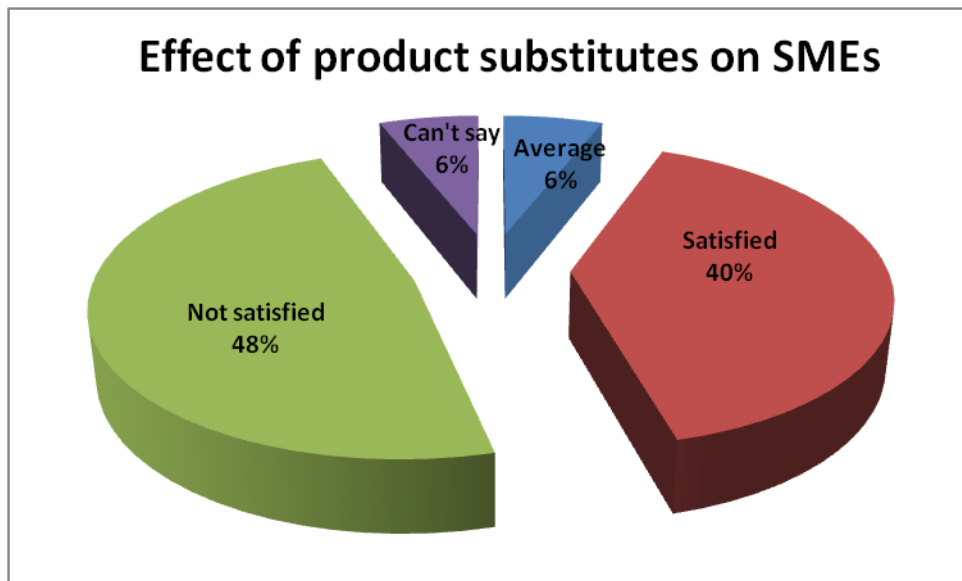


**Fig. 4.15: Power of Buyers**

**4.1.2.15 Effect of product substitutes on SMEs**

The pace of innovation and discoveries of new materials leading to product substitution in the automotive industry over the past two decades has left at least 48% of the respondents gasping. However, 40% felt that they were under no particular threat at all. About 6% were at

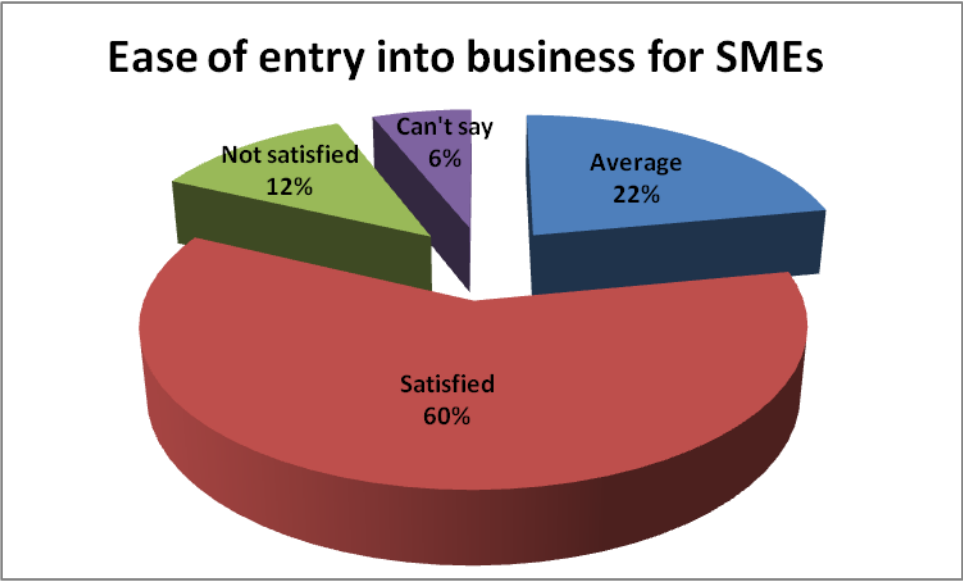
wait and watch kind of situation; and another 6% couldn't say if product substitution was any threat to them (Figure 4.16).



**Fig. 4.16: Effect of Product Substitutes**

***4.1.2.17 Ease of entry into the business***

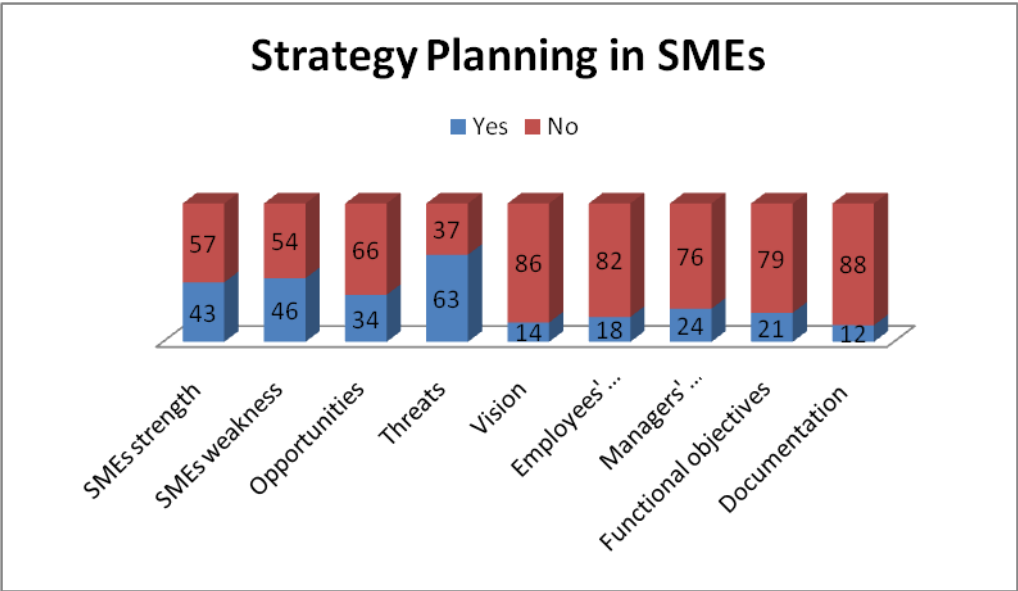
The automotive world seemed to be a conglomeration of a complex set-up and had its own kind of protection from new entrants. This was reflected by a whopping 60% of the respondents who were smug about the fact that myriads of constraints of resources, the rigmarole of red tape and so on keeps them cocooned. However, there were about 22% who felt that if a new entrant is strong enough, entry is possible and there were 12% who felt that entry was relatively easy and could impact them easily. 6% were not sure. This is represented in Fig. 4.18 below:



**Fig. 4.17: Ease of Entry into Business**

**4.1.2.18 Strategy Planning amongst SMEs**

Figure 4.19 below shows that the planning and strategizing process is far from wanting and if at all, it is quite rudimentary. Most were not aware or dimly aware that they need to structure their business and involve their managers and employees to function as a composite unit. And the planning and vision, if it existed, it was in the owner-manager’s head.

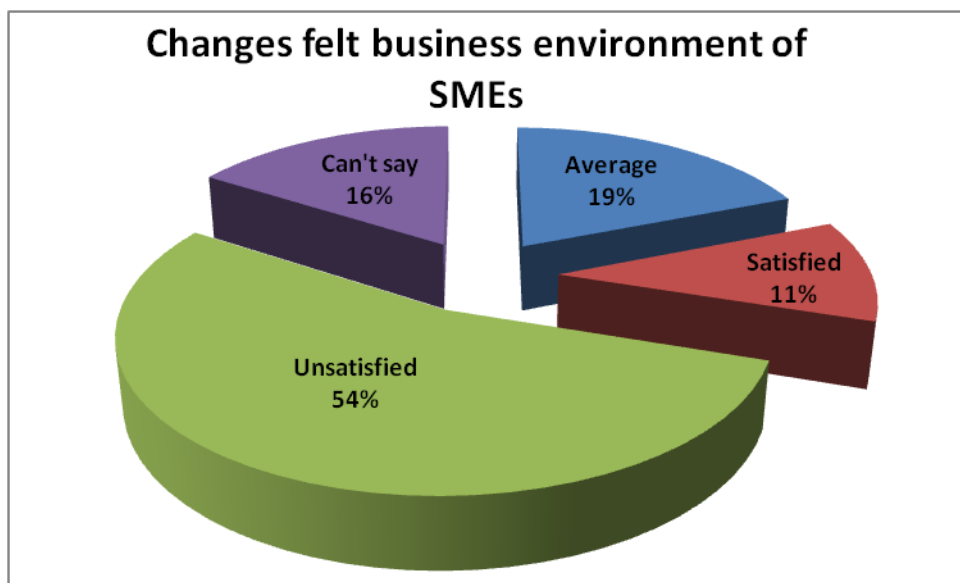


**Fig. 4.18: Strategy Planning**

## 4.2.2 Hypothesis 2: SMEs do not have the required business skills to anticipate and match it to the fast changing business environment and market needs.

### 4.2.2.1 Business environment changed in past 5 years

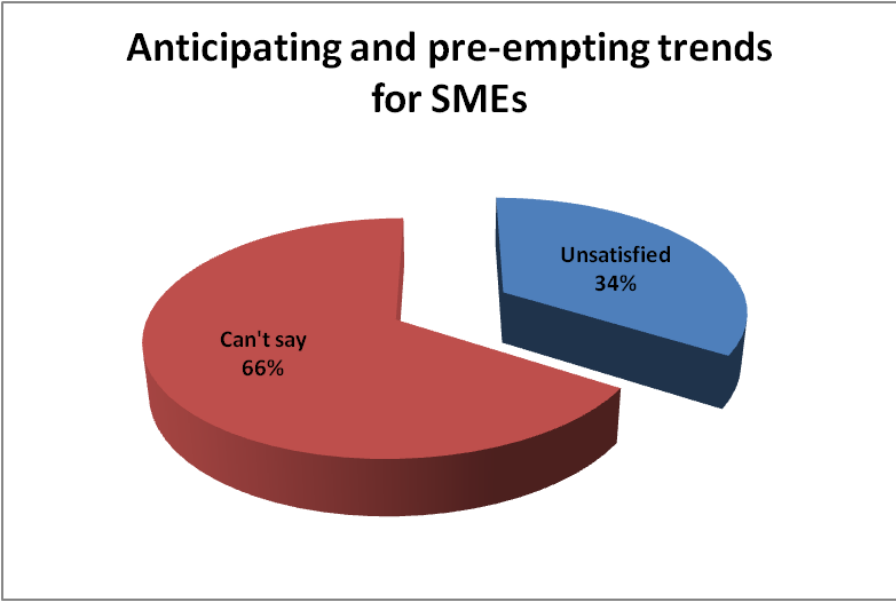
Over half the respondents (54%) felt the changes have happened and had made situation much more difficult and competitive for them. About 19% also felt that times have changed but they can still fight for their survival. Whilst 11% felt they have been able to change with the times, there were a significant 16% who could not say what has changed and what it means to them (Figure 4.19).



**Fig. 4.19: Changes felt in Business Environment**

### 4.2.2.2 Tracking trends and taking pre-emptive steps

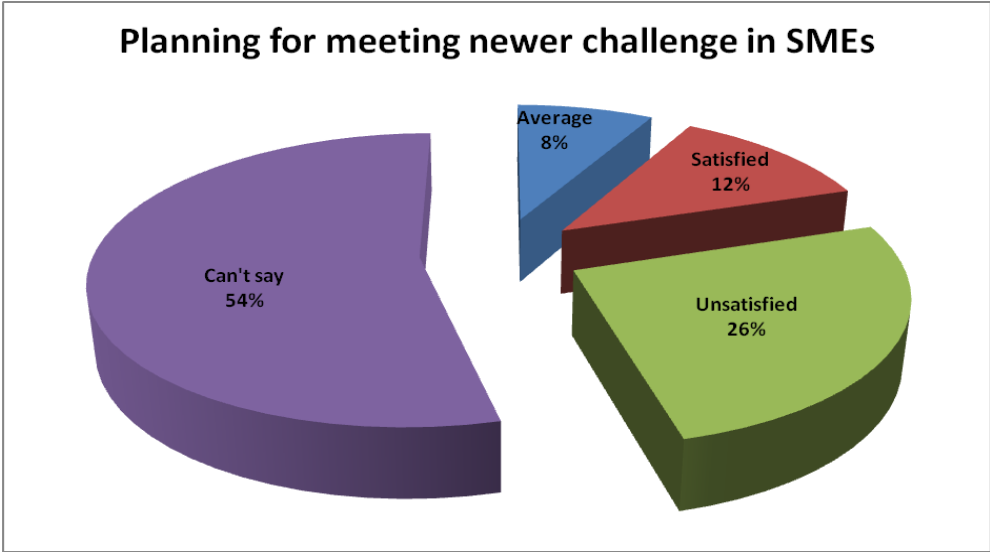
Though this was an area of opportunity for SMEs but was caught in the grinds of daily routine. A shocking 66% said that they were not into such analysis and left it to the mother units and to the Almighty. However, there were 34% who felt that more often than not the trends became clear only when it was too late for them to take any pre-emptive steps (Figure 4.20).



**Fig. 4.20: Anticipating and Pre-empting Trends**

**4.2.2.3 Planning to meet fresh challenges**

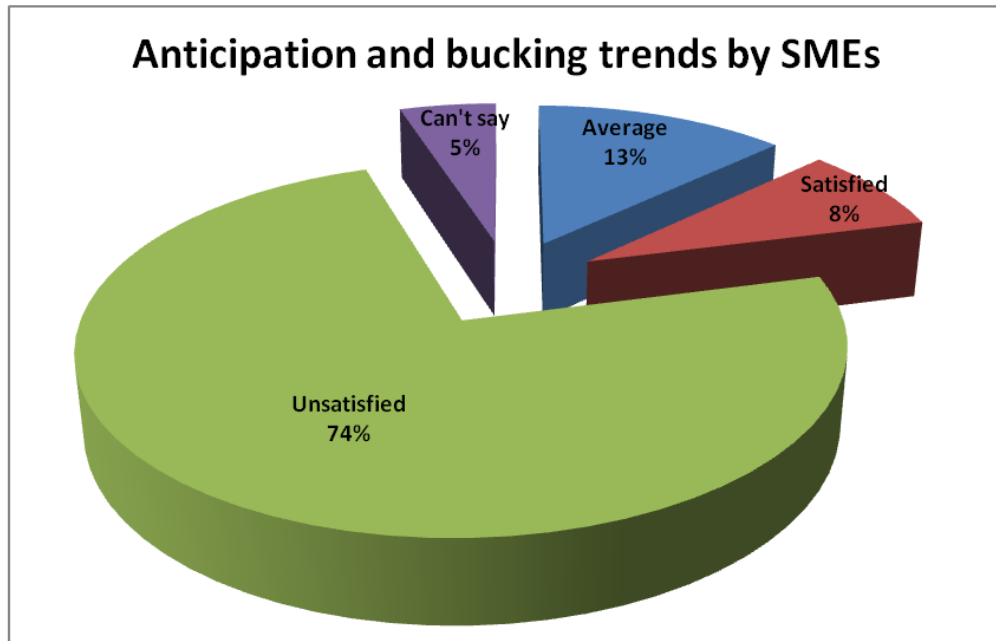
In these uncertain times off recession and intense competition it was surprising to note that 54% were not even aware that they needed to plan their future; leaving it for large organization. About 26% felt that such an exercise was a waste as they need to face “here and now” to survive. But, 12% did go through a planning process and felt that they were better prepared to take on the challenges, whilst another 8% felt they plan but were unsure of meeting challenges given their resource crunch (Figure 4.21).



**Fig. 4.21: Planning for meeting Newer Challenges**

#### 4.2.2.4 Ability to anticipate and buck the trends

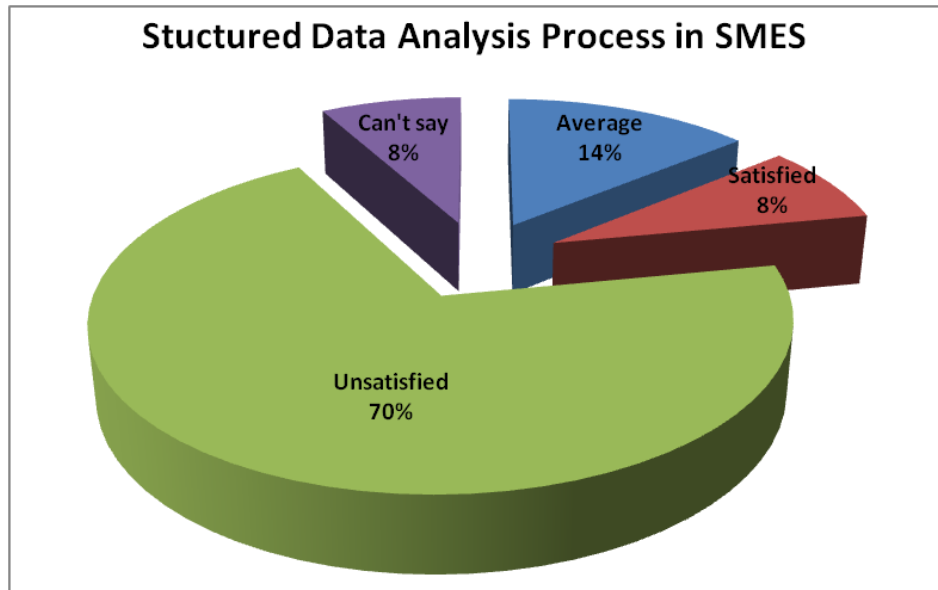
As high as 74% of the respondents felt, that they were not able to anticipate impending trends leave alone buck them and were often caught napping. This was mainly due to lack of proper business planning processes. 13% thought they could see the trends but were often constrained by their resources and time to do much about it. However there were 8% who engaged in planning and felt that they indeed could innovate and stay ahead of the trends. There were also a small 5% who were unsure (Figure 4.22).



**Fig. 4.22: Anticipation and Bucking Trends**

#### 4.2.2.5 Structured processes for analyzing data gathered

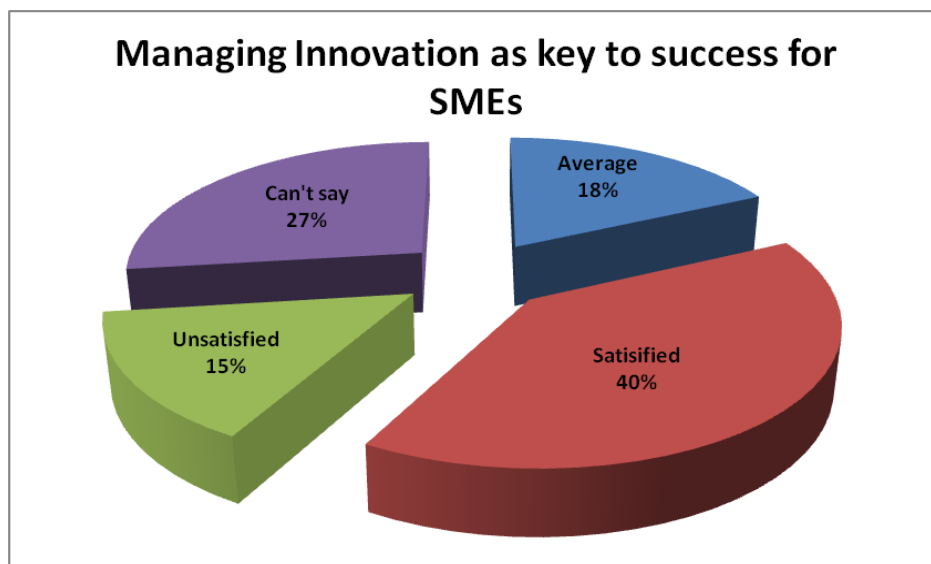
Majority of SME respondents (70%) felt that they had neither such sophistications nor the time. 14% engaged in data analysis but more for technical matters than for business planning and 8% used structured planning processes. There were another 8% who were unsure and said that even if they did, it was in their head (Figure 4.23).



**Fig. 4.23: Structured Data Analysis Process**

**4.2.2.6 Business innovation and its management as key to successes**

40% of the respondents seemed to agree and were trying to be innovative in their own ways. They were managing such development in a variety of the aspects of business and they felt this was the key to sustaining success. Another 18% felt the same but not as intensely. There were 15% who voiced that resources, time and other constraints were major hurdles for them to be satisfied about managing innovation of any kind, though they acknowledged that this was the way forward. However, there was a disappointing 27% who were not sure about innovating or managing such a thing (Figure 4.24).



**Fig. 4.24: Managing Innovation as Key to Success**

#### 4.2.2.7 Formal change management process

A majority of 56% respondents were unable to say whether they have a formal process. Most felt their innovativeness was in their head and did not require any formal process. Whilst 18% did have a formal process in place and were satisfied with what they were doing, there were another 11% who had processes in place but were not able to develop action plans always for a variety of reasons such as lack of expertise, time or resources. A further 18% were frustrated about setting up processes and review mechanism, mainly because they could not find time and expertise at the right price (Figure 4.25).

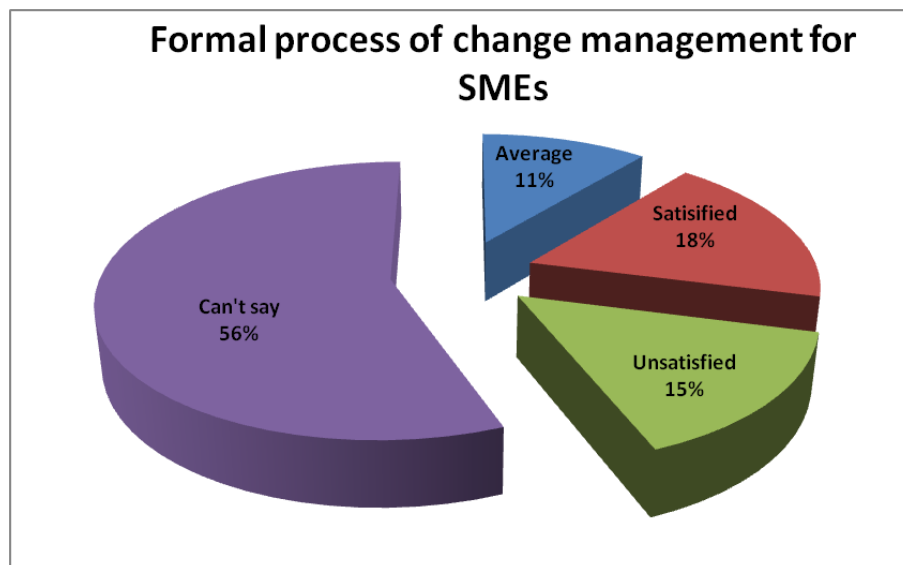
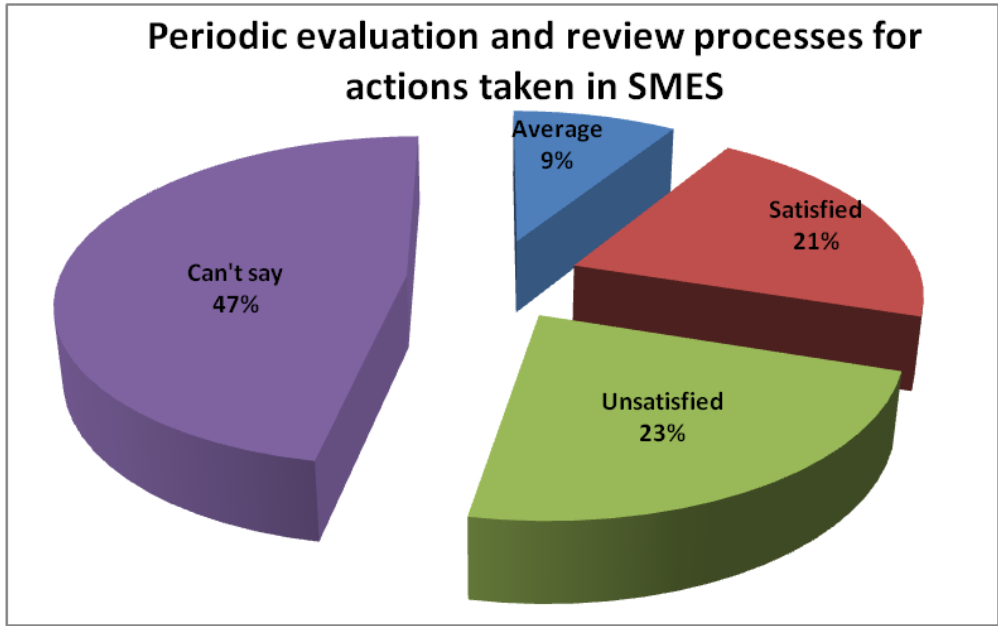


Fig. 4.25: Formal Process of Change Management

#### 4.2.2.8 Periodic evaluation and review process

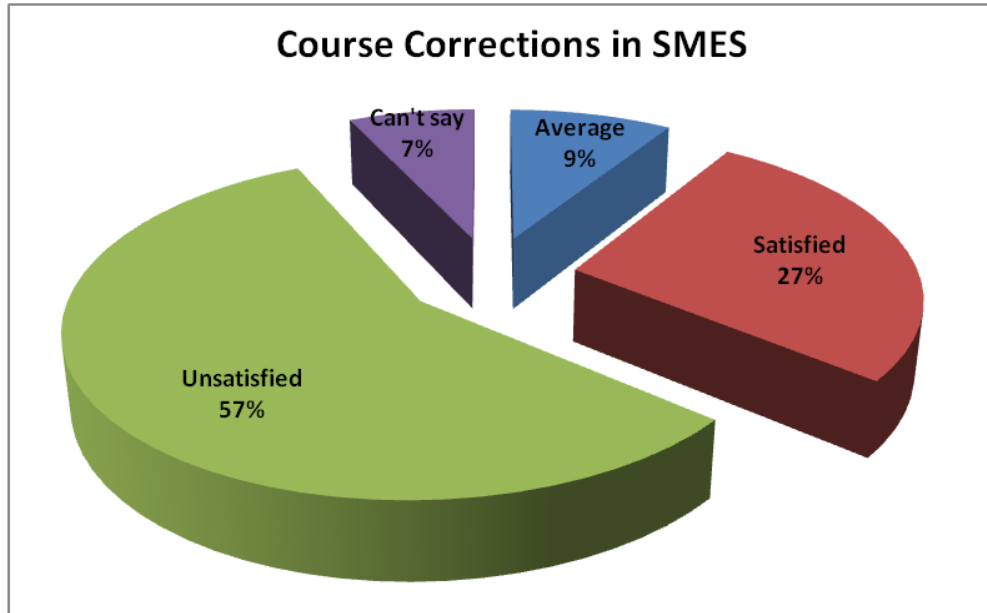
47% of the respondents did not have any evaluation and review process. They were really guided by their owner-managers perceptions. Whilst 21% regularly engaged in evaluating and reviewing their actions, there were 23% who felt that they do not practice it as a regular process and engaged only when some emergencies arose and another 9% felt that they did this off and on (Figure 4.26).



**Fig. 4.26: Periodic Evaluation and Review Process**

**4.2.2.9 Frequent requirement of mid-course corrections**

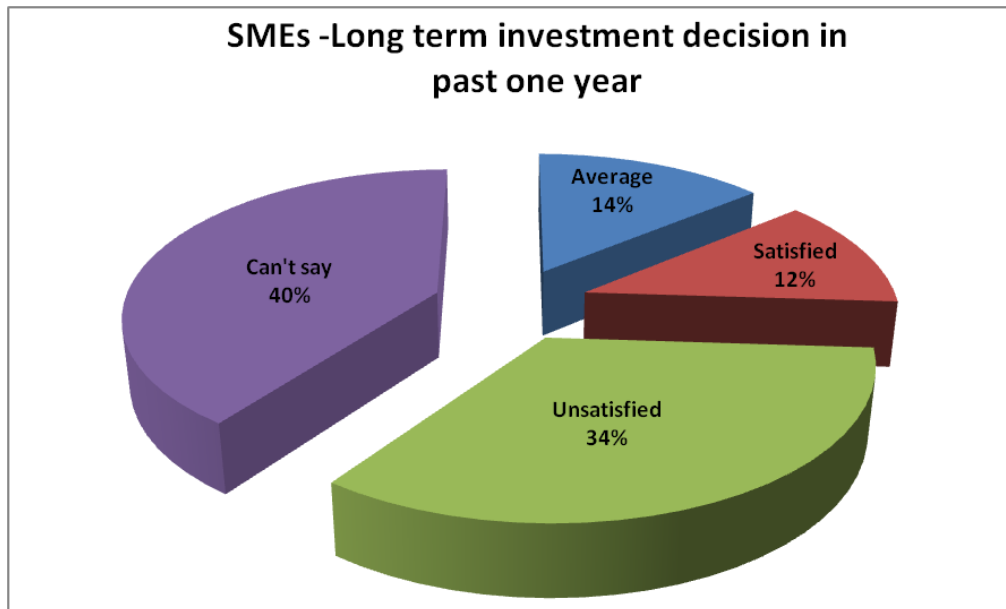
A whopping 57% felt frustrated because of the frequent need to change their action plans as against 27% who felt that they could keep to their plans. About 9% felt that the corrections required were manageable but 7% seemed unaware of this issue as far as their business was concerned. This is shown in Fig. 4.27 below:



**Figure 4.27: Course Corrections**

#### 4.2.2.10 Long term Investments made in past one year

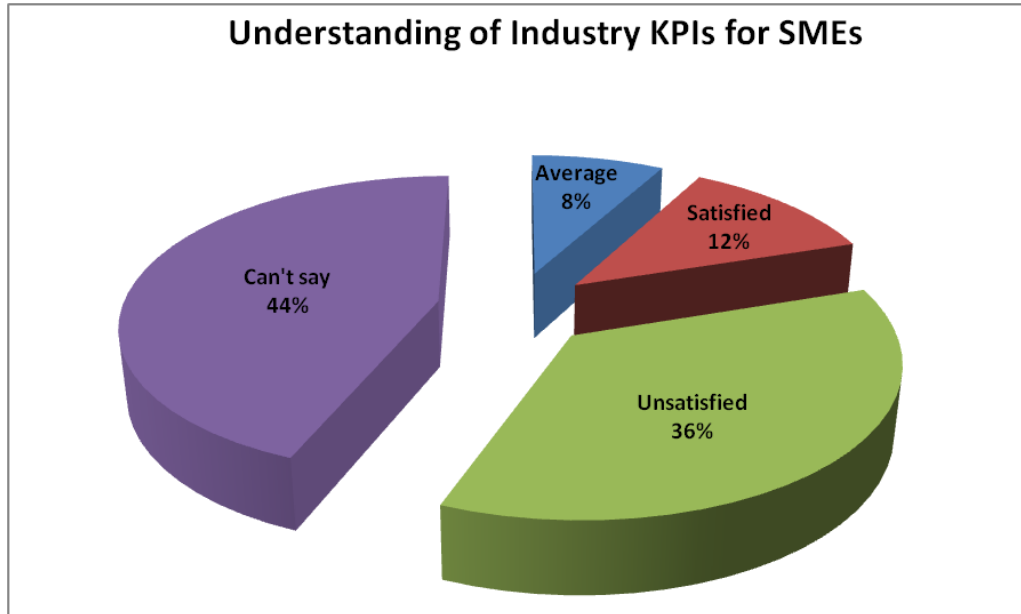
Mainly because of their sticking to their traditional ways, 40% didn't plan any investment. 34% were unsatisfied with their investment levels primarily because of uncertainties caused by ongoing recession. 14% were partly satisfied and just 12% were bold enough to take their investment decisions to their logical end. Fig. 4.28 below represents the responses:



**Fig. 4.28: Long term Investment Decision**

#### 4.2.2.11 Understanding of Key Performance Indicators (KPIs) of the industry

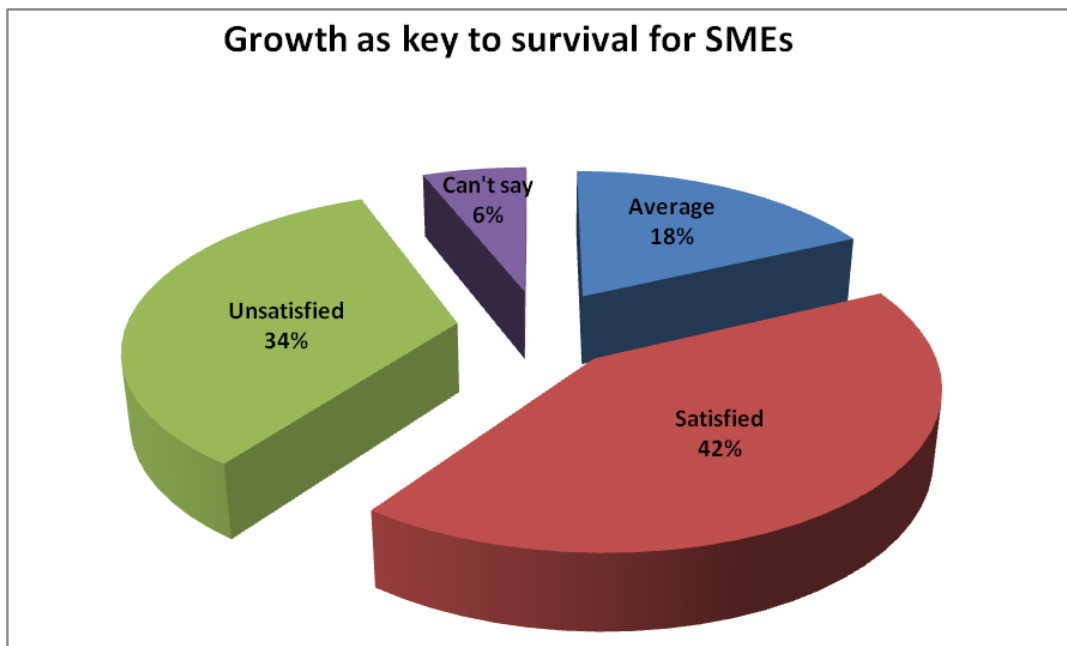
A sizeable 44% were ignorant of such indicators to benchmark themselves. Another 36% were aware of such pointers but were not willing to use it citing this to be the responsibility of their 'mother unit' or buyers. 8% did use some of these but felt that due to lack of expertise they could not do much about it except be aware. 12% used KPIs to benchmark and standardize themselves and felt they could benefit from it (Figure 4.29).



**Fig 4.29: Understanding of Industry KPIs**

**4.2.2.12 Is growth key to SME survival**

42% felt that growth is what could keep them going and is a measure of success. Another 34% agreed that growth is important but were not happy with their pace of growth. 18% were ambivalent about growth being a survival tool and there were 6% who were not able to say anything. These last two categories seemed to belong to the traditional school way of trading on bigger canvas. Fig. 4.30 represents this:



**Fig. 4.30: Growth as Key to Survival**

#### 4.2.2.13 Quality vs. Price

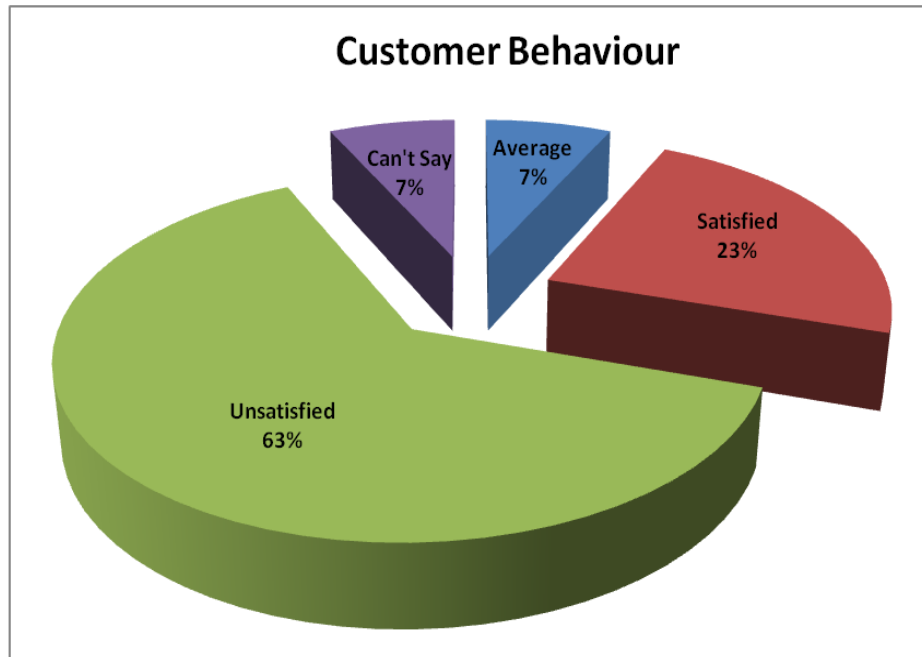
The respondents seemed to be aware about international and local competition intensifying and market becoming more discerning. Hence most felt that they need to concentrate on quality improvement before asking for a price. 69% were satisfied that this strategy would work for them. As against that 20% felt that though quality was very important, the customer was not willing to pay equitable price. 4% knew that quality was important however they were not sure if they could obtain the right price. There were 7% respondents who could not say which was more important (Figure 4.31).



Fig. 4.31: Quality versus Price

#### 4.2.2.14 Customer Power

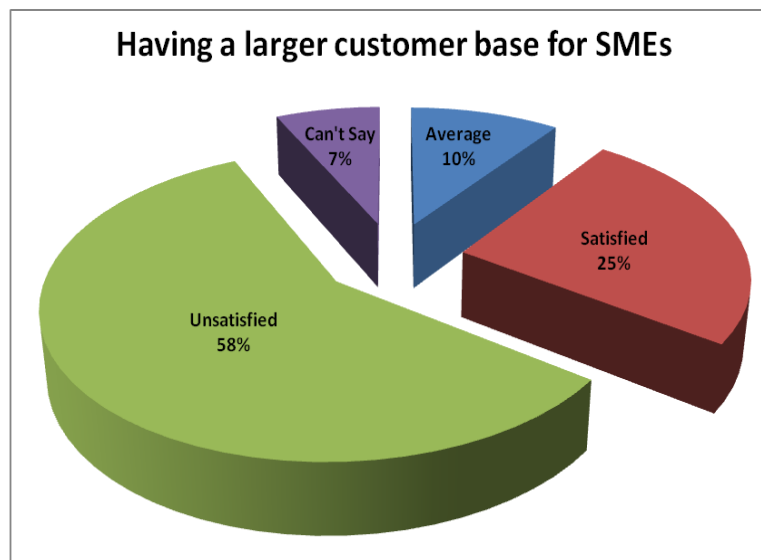
A huge 63% of respondents found their customers being very large are often too demanding and difficult leaving them unsatisfied with their business transactions. However, 23% thought their customers were demanding but fair as they needed to compete in the marketplace themselves and had to be very exacting. 7% found the situation moderate and another 7% always did business with their customers as always and hence could not say (Figure 4.32).



**Fig. 4.32: Customer Behavior**

**4.2.2.15 Expansion of customer base for survival**

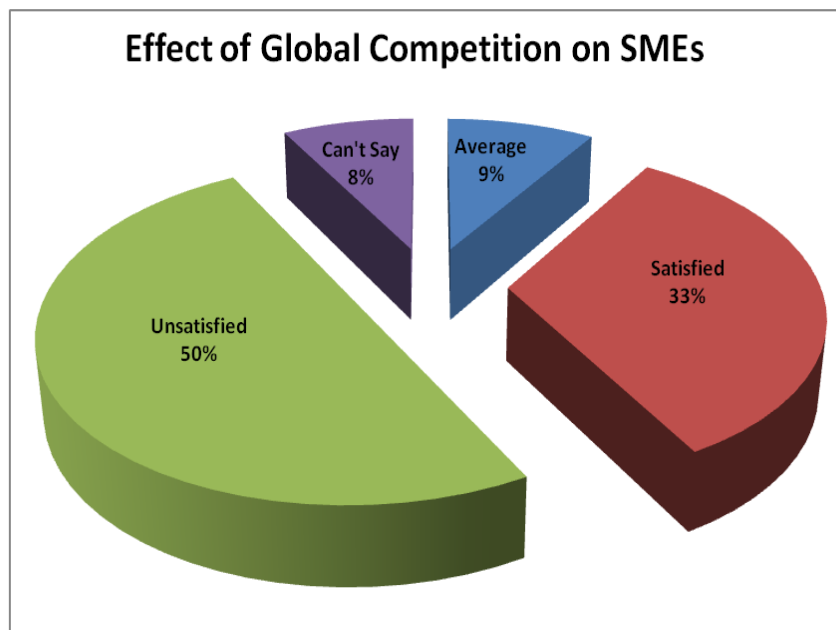
58% of the respondents believed that they could do much better if they could expand their customer base but were loathe to put in the required effort, often because they lacked the resources or expertise or both. 25% were happy with the way they are able to expand their customer list and believe that this is one of the important factors contributing to their staying afloat. 10% also were expanding their customer base but were not very sure about this being the key to survival and thought it was just a natural process. 7% had smaller operation and hence could not say if expanding their list of customer could help (Figure 4.33).



**Fig. 4.33: Larger Customer Base**

#### 4.2.2.16 Impact of global competition

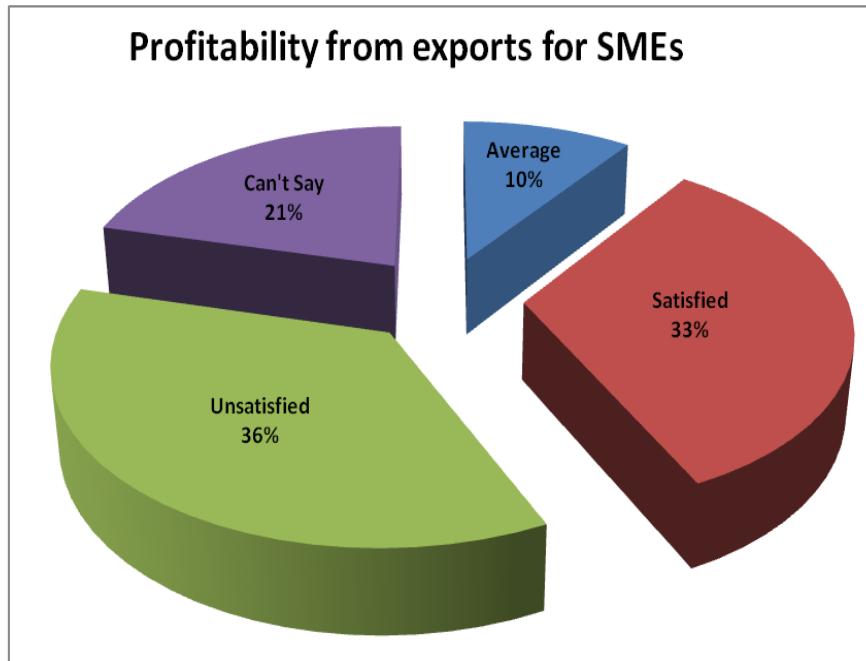
Half the respondent (50%) felt that global competition could impact adversely, with them having used to the protected business environment and being suddenly left out in the open. A third (33%) felt global competition was welcome and could help them improve and they were prepared to face it with their high quality offerings. 9% were aware that international competition was at their doorsteps and they would be relying on their ability to innovate to face it. And, 8% were ignorant of the impact any global competition or the impact it could have on them (Figure 4.34).



**Fig. 4.34: Effect of Global Competition**

#### 4.2.2.17 Importance of exports

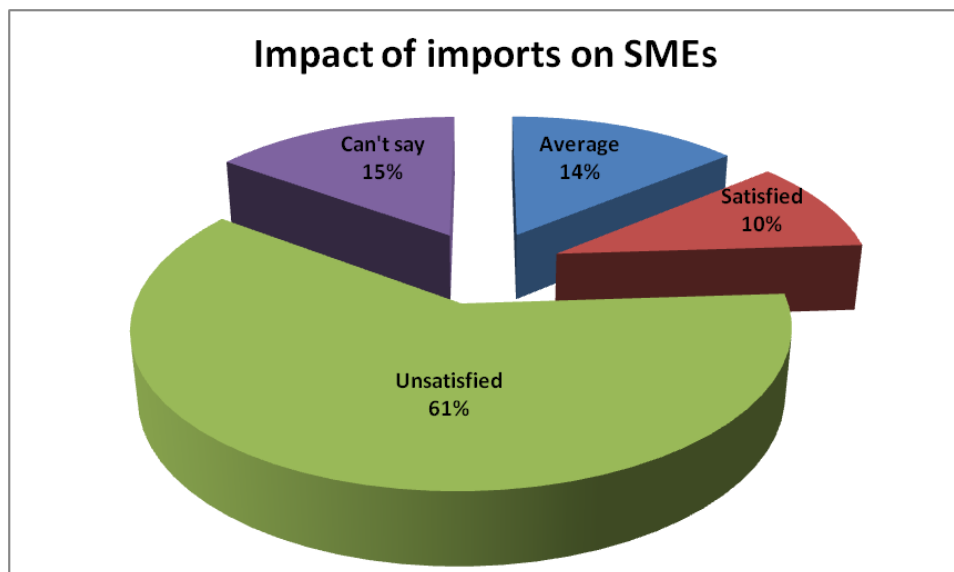
36% respondents were unsure of exploring exports as an option given the frequently changing market conditions in the markets they could target. They also opined that the norms in those countries were too stringent to conform; making exporting option unattractive or even loss making. 33%, however, were already exporting and thought during these troubled times exports were helping them keep afloat. There were also another 10% who felt that though export was an attractive option they did not have adequate knowledge, resources and/or expertise to do so. And there were yet another 21% who were not sure and/or did not want to get into the rigmarole of exporting (Figure 4.35).



**Fig. 4.35: Profitability from Exports**

**4.2.2.18 Imports affecting SMEs**

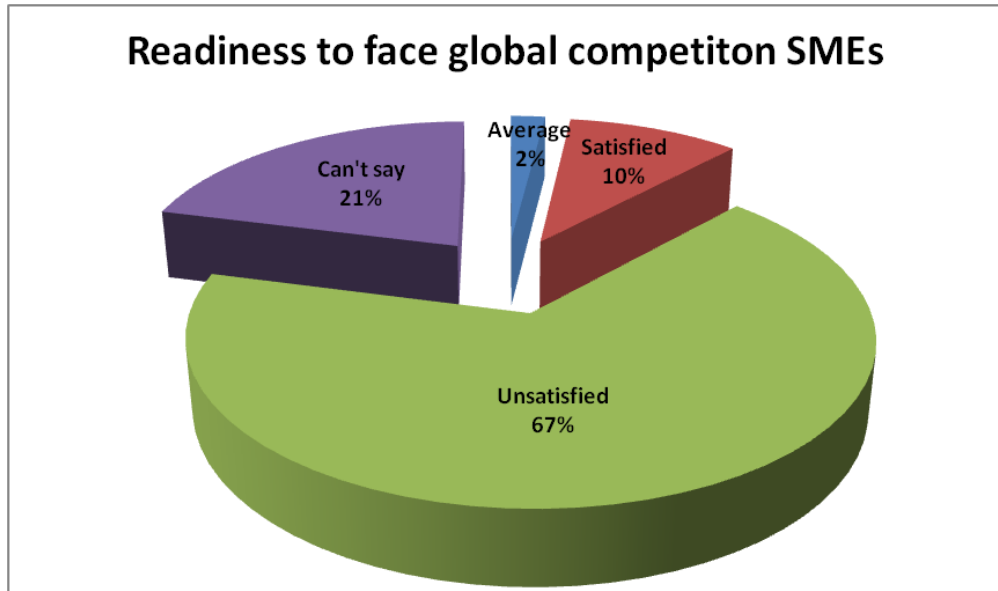
61% were unhappy about the effect of opening up the markets and freeing their customers/mother units to buy from international suppliers, particularly low cost nations like China. Only 10% were okay with the new regimen and welcomed it as an opportunity to improve. 14% had mixed feelings about opening of the markets and about equal number (15%) were uncertain and ignorant of what imports could do to them (Figure 4.36).



**Fig. 4.36: Impact of Imports**

#### ***4.2.2.19 Readiness to face global competition***

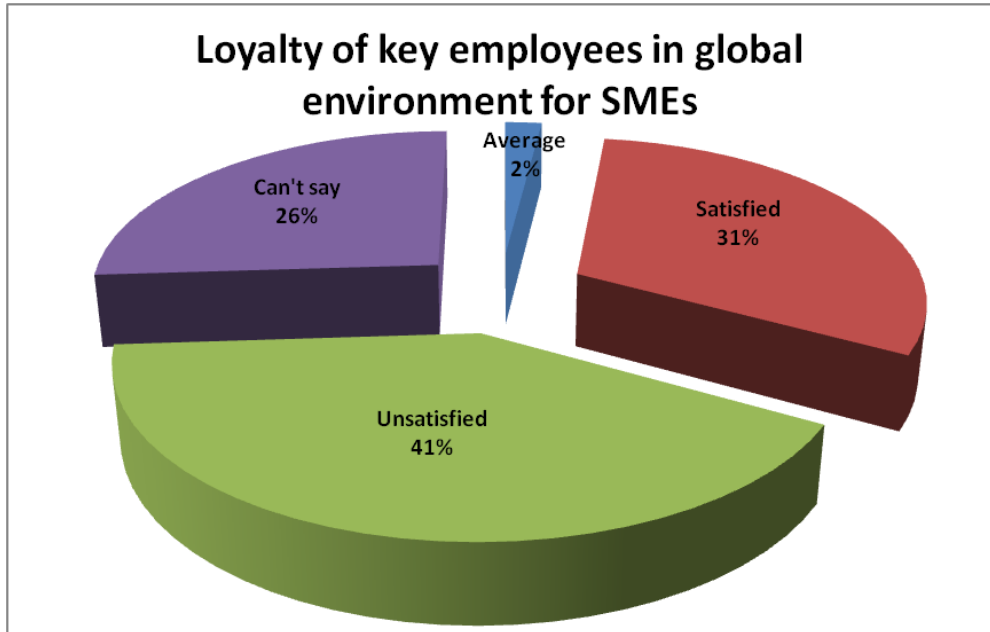
Astoundingly 71% were unsatisfied with their preparation or ability to face the impending global competition, perhaps lead by their inadequacy of knowledge, acumen, resources and skill. Only 10% exuded confidence that they can “taken on the world”. A mere 2% felt that they may just be able to stay afloat and a significant 21% could not say more because of their apathy for anticipating change (Figure 4.37).



**Fig. 4.37: Readiness to face Global Competition**

#### ***4.2.2.20 Employee loyalty in this global environment***

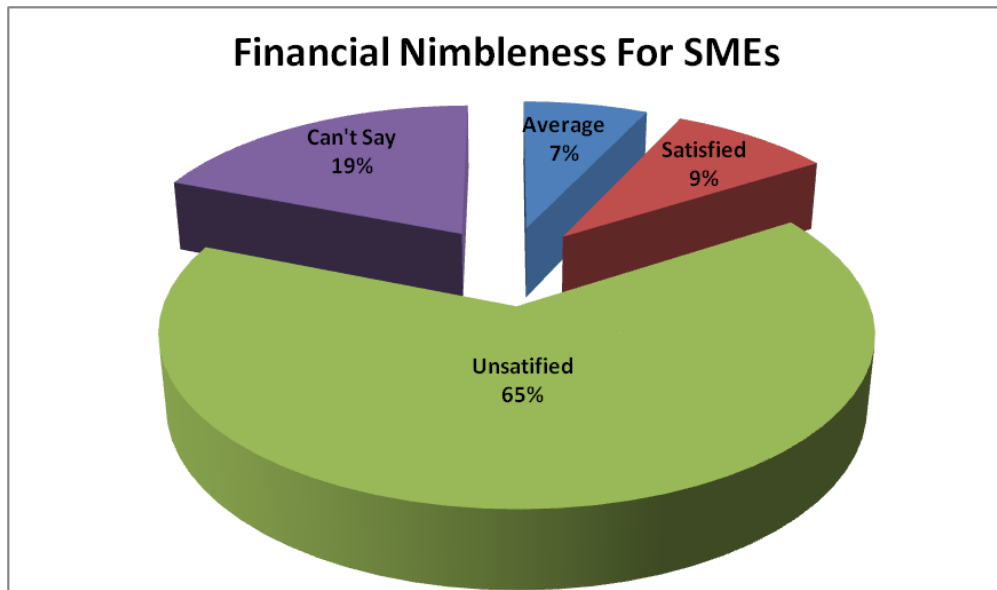
51% of the respondents were already experiencing or were constantly worried that their key employees who have been trained over the years will be poached by new entrants particularly the intruding foreign players. However, given very strong personal equations with the key employees, 31% were sure that they could weather the storm. Whilst just 2% felt it could go either way, a good 16% seemed callously ignorant (Figure 4.38).



**Fig. 4.38: Loyalty of Key Employees**

**4.2.2.21 Financial Nimbleness to withstand future challenges**

65% of the respondents felt that they do not have the financial acumen to meet the challenges that might present themselves in the future and theirs was a day-to-day existence. Whilst 7% were of the view that they could manage somehow, there were 9% who felt that they had provided for financial eventualities. But, there was a significant 19% who could not say or anticipate as to how they would grapple with the challenges that could present themselves. This is depicted in Fig. 4.39 below:

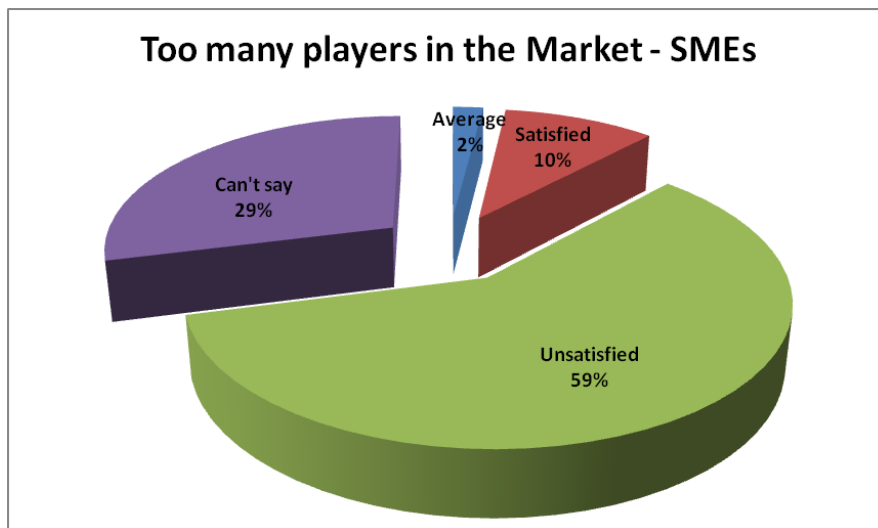


**Fig 4.39: Financial Nimbleness**

**4.2.3 Hypotheses 3: Despite examples of benchmarking available to them-often times even within their own peer organizations, networks etc. - the SMEs are not amenable to making strategic changes that affect the market abilities.**

**4.2.3.1 Too many players in the industry sector**

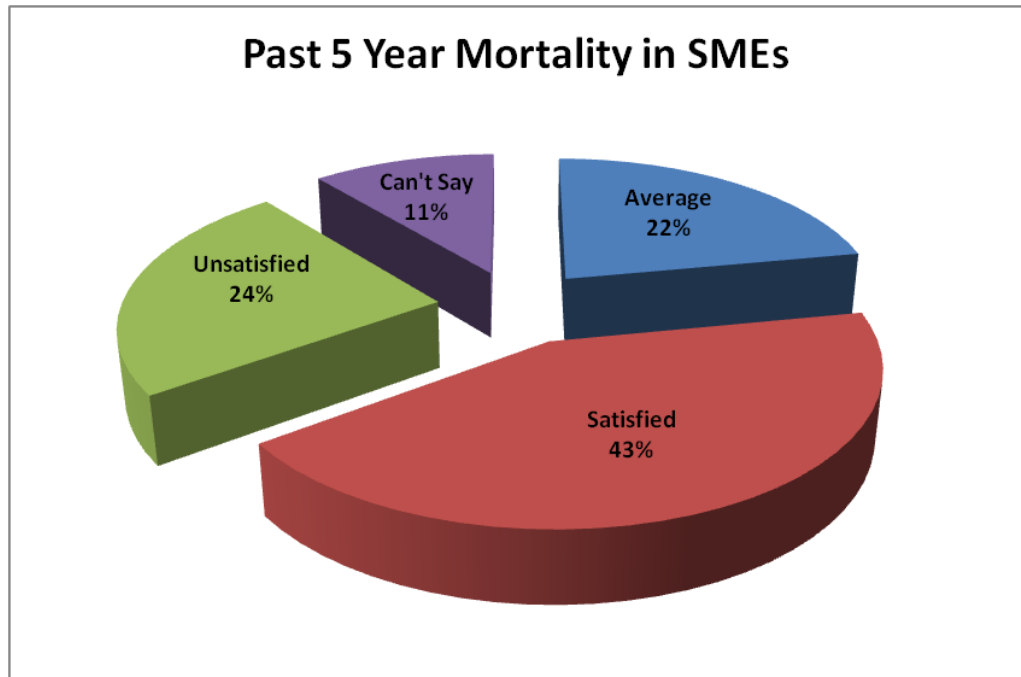
59% felt that there are too many players catering to the same market putting pressure on their profitability and financial well-being. Just 10% seemed to be satisfied and felt that the contest was healthy. Merely 2% had mixed feelings but interestingly 29% were not able to opine (Figure 4.40).



**Fig. 4.40: Too many players in the Market**

**4.2.3.2 Mortality in the SMEs**

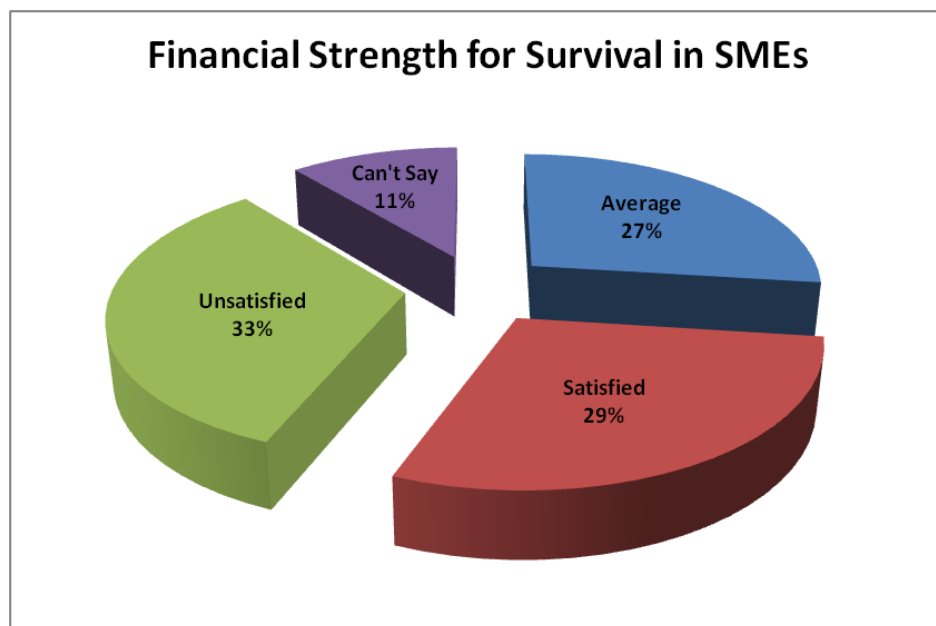
22% of the respondents felt that many players were either closed or were becoming sick and 24% felt that including for themselves, the pressures were such that they could become sick sooner than later. This was because they seemed not prepared for facing the challenges presenting them. However, 43% were very optimistic and looked forward to the future with enthusiasm and there were another 11% who were undecided. This seemed to be in-line with general growth of the Automotive Sector, where those who were flexible and amenable to change and quick were cannibalizing those that were not (Figure 4.41).



**Fig. 4.41: Past Five Year Mortality**

#### ***4.2.3.2 Role of financial strength in survival of SMEs***

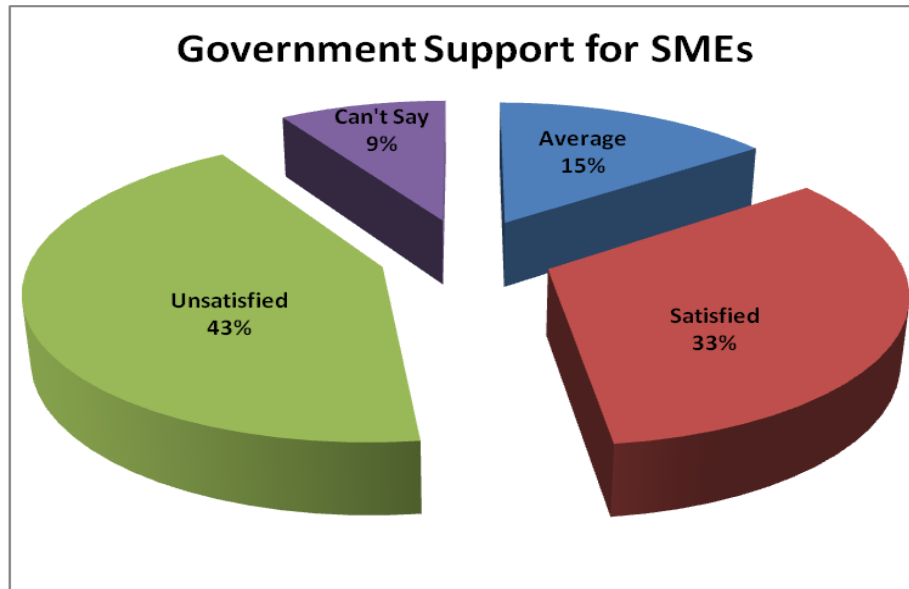
33% of the respondents felt that lack of adequate finances was normally the cause of failure in the case of SMEs, whilst 29% felt there were factors other than finance that cause failures. 27% felt that whilst finance was a reason, it was generally a mix of several factors that led to failures. And yet there were 11% who were not sure (Figure 4.42).



**Fig. 4.42: Financial Strength for Survival**

#### 4.2.3.4 Government support for SMEs

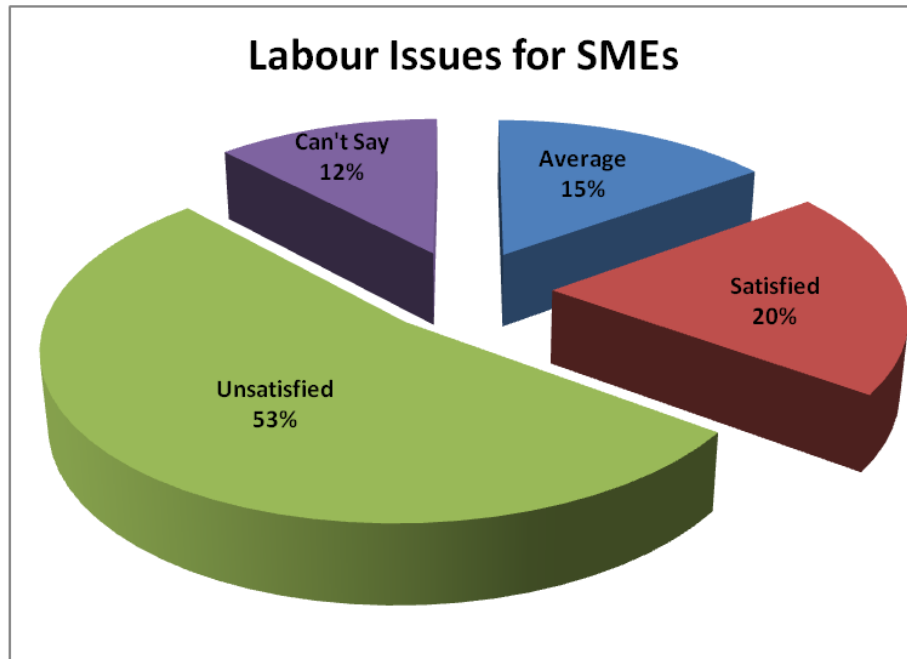
43% of the respondents felt that whilst there were schemes to support them the procedures and controls were so rigorous that they were not able to benefit from them. Another 15% felt that such rigors helped them ward off competition. 33% were quite happy with the current level of support, whilst there were 9% who were undecided (Figure 4.43).



**Fig. 4.43: Government Support**

#### 4.2.3.5 Labor Issues and SMEs

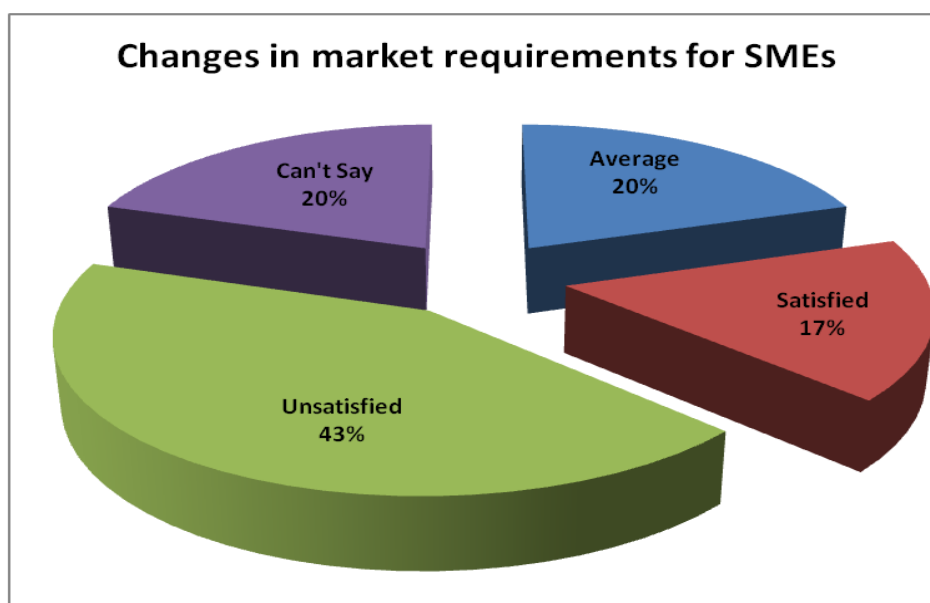
53% of the respondents were unhappy with the prevailing statutory/regulatory provisions regarding workers. The availability of trained and skilled workers and absenteeism at crucial times was major issue. Many respondents felt that it may lead to their failure in the long term. Another 15% experienced some problems essentially of the statutory/regulatory nature. 20% felt that their situation was quite satisfactory. About 12% could not comment as these were probably manned by members of the family (Figure 4.44).



**Fig. 4.44: Labour Issues**

**4.2.3.6 Frequent and drastic changes**

43% felt that technological and lifestyle changes guiding their parent unit or customers were too fast and too dramatic for them to keep pace and could lead to their nemesis. Another 20% found themselves breathless but were holding on somehow and an equal number (20%) were unable to even think about it. Merely 17% found that they were geared up to the challenge and were satisfied primarily because they were amply supported by their mother units (Figure 4.45).



**Fig. 4.45: Changes in Market Requirement**

#### 4.2.3.7 Effect of Economic Crisis, particularly the one in late 1980s

As many as 46% of the respondents felt they were badly hurt and would probably continue to hurt but 13% felt that they could weather the storm. Another 13% felt that they were on the borderline of recovery and were quite vulnerable to such downturns. However, there was still a significant 28% who felt that they would struggle as much in good times as in bad and therefore, could not say what effect an economic crisis has on them (Figure 4.46).

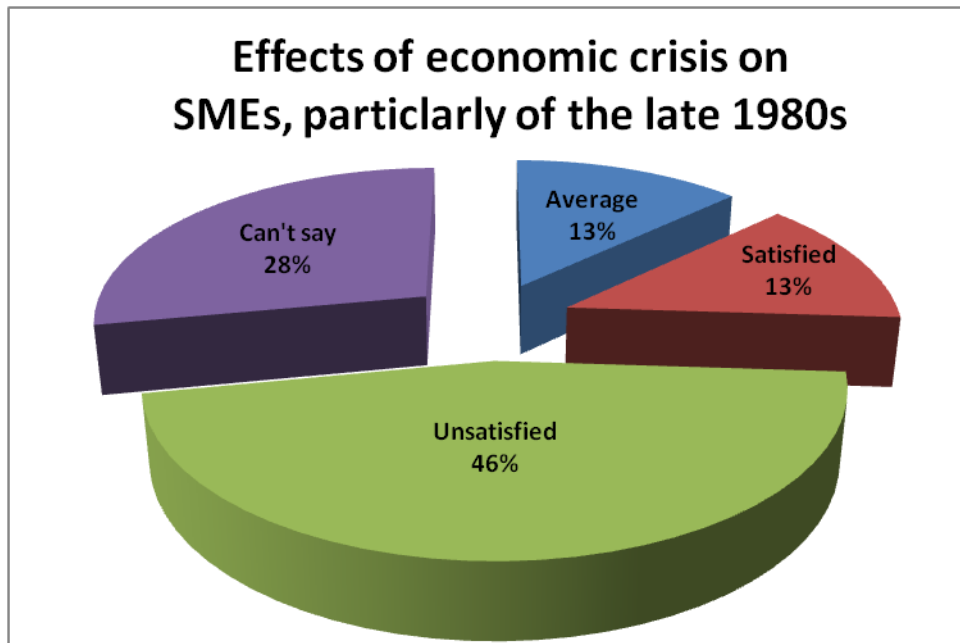
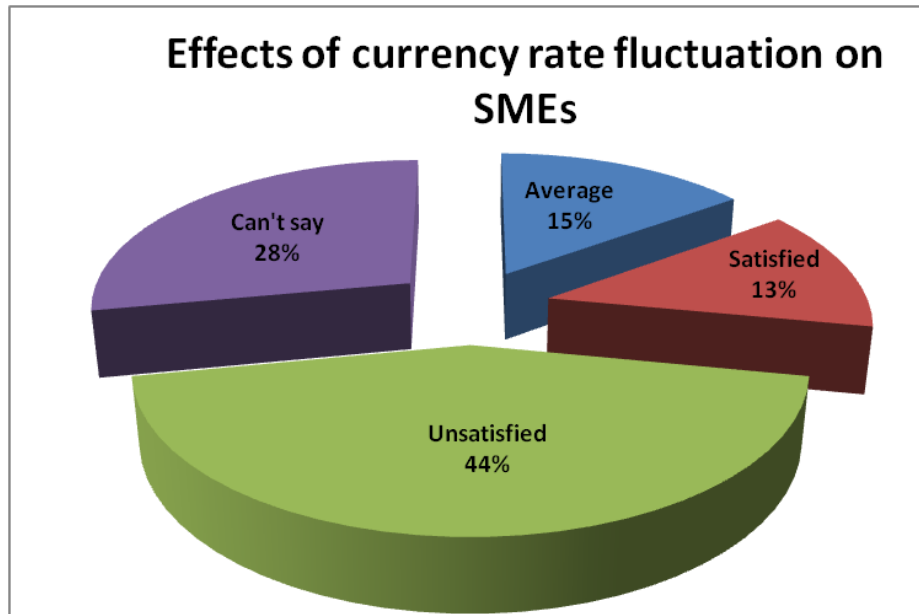


Fig. 4.46: Effects of Economic Crisis

#### 4.2.3.8 Effect of currency rate fluctuation on the SMEs

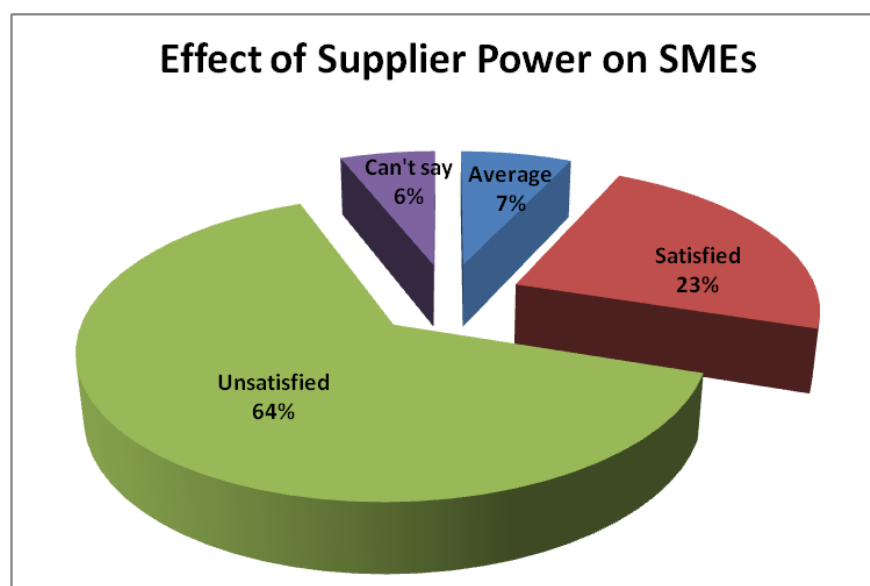
Currency rate fluctuation is a double-edged sword for the Indian SMEs. When the Indian Rupees rise against the US Dollars they tend to become uncompetitive both in the Indian as well as the international markets. And, when the Indian rupees fall, the input costs of raw materials tend to go up hitting the production side of the business. In line with this 44% of the respondents were adversely impacted by currency fluctuation particularly on the sales side. 13% were able to face such ups and downs. There were 15% who felt that they were impacted when fluctuations were too steep and another 28% could not say how they were affected (Figure 4.47).



**Fig. 4.47: Effects of Currency Rate Fluctuations**

**4.2.3.9 Power of suppliers**

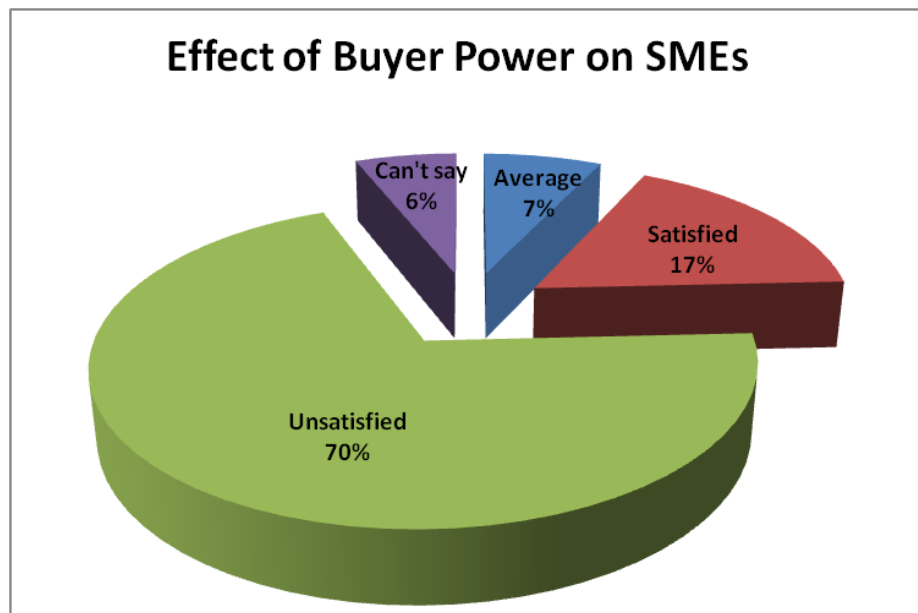
Majority (64%) of the respondents, depending on very large suppliers, felt that they were always in the grip of their suppliers and suppliers offered very stiff terms for them (particularly the payment terms) to do business, often bringing them to precarious levels. As against this, 23% felt that they were able to handle their suppliers comfortably. 7% felt that they were able to scrape through and there were 6% who felt their struggle in most other areas of business were such that they could not assess the impact of suppliers on their business (Figure 4.48).



**Fig. 4.48: Effect of Supplier Power**

#### 4.2.3.10 Effect of buyer on SMEs

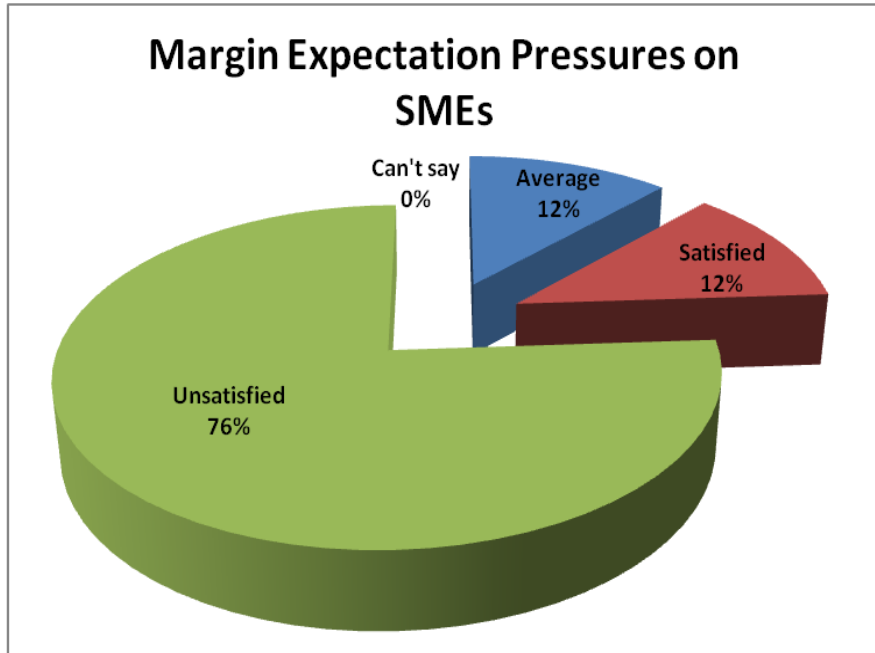
With increased globalised competition the large scale sector is facing newer turbulence each day. This has per force impacted their demands on their vendors. Also the customer now spoilt for choice could easily go for another brand. This has gravitated to severely impact the SMEs, particularly those who are ancillaries to larger OEM. Another factor that is affecting the cash starved SMEs is that their buyer are now looking for more lax payment terms, affecting the cash-flow cycles of the SMEs. This has left 70% of the SMEs tensed and unsatisfied in doing business and could close down. Only 17% feel they can match-up to the current demands, whilst 7% feel that these are tough times they would be able to manage. Another 6% felt they could not predict what would happen to them (Figure 4.49).



**Fig. 4.49: Effect of Buyer Power**

#### 4.2.3.11 Pressures on margins of SMEs

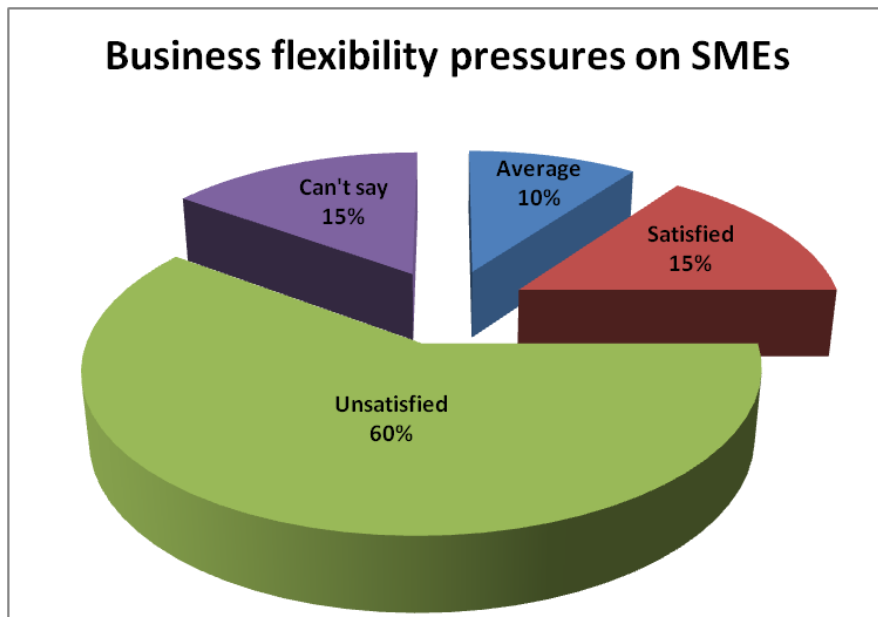
The advent of the WTO regime has brought in new paradigms of doing business and efficiencies are now being tested. This has taken its toll on the margins of SMEs surveyed. 76% of the respondents were finding that their margins are under precarious pressure. A further 12% felt that they are okay but there is struggle to keep their margin expectations intact. But, 12% felt they were still quite comfortable with their margins (Figure 4.50).



**Fig. 4.50: Margin Expectation Pressures**

**4.2.3.12 Flexibility Demands on SMEs**

Fast changing business scenario causes SMEs to always be accommodating and flexible. 60% of the respondents felt it was now happening too often. And another 10% felt that they do feel the pressures some time, whilst 15% felt that there were innovative enough to accommodate the changes. For another 15% it was how they have been and could not say what effect flexibility had on them (Figure 4.51).



**Fig. 4.51: Business Flexibility Pressures**

#### 4.2.3.13 Some are more successful than others

30% of the respondents felt that there were others who were more successful for a variety of reasons. However, there were overwhelming 61% who felt that the opportunities and threats to all were similar and it cannot be said that someone is more successful than other. 9% of the respondents were of the opinion that the canvass is large enough to accommodate all (Figure 4.52).

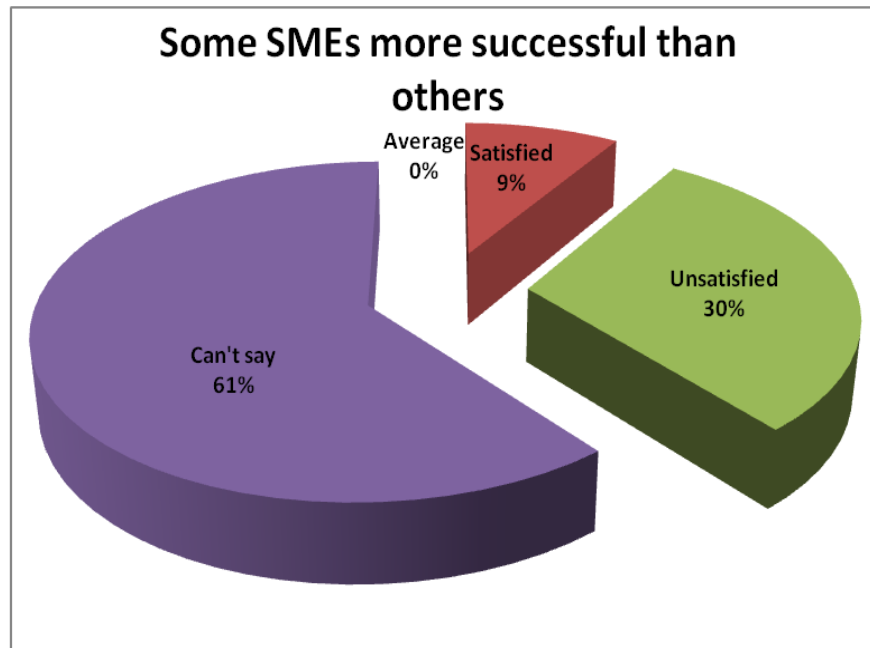
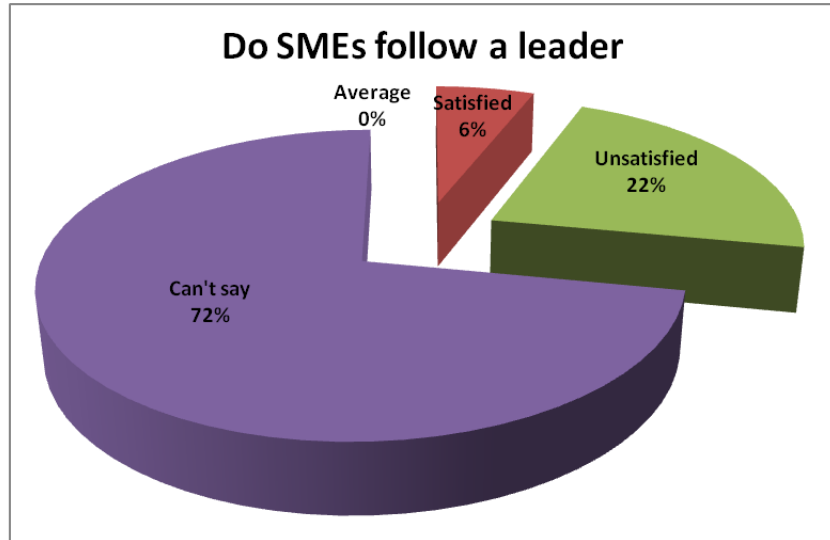


Fig. 4.52: Successful SMEs

#### 4.2.3.14 SMEs follow a leader

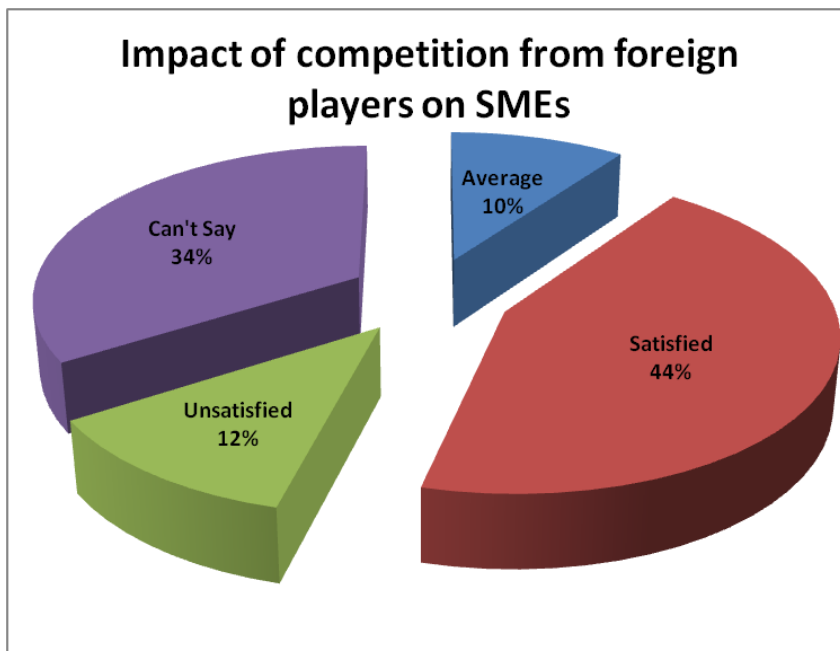
The SMEs surveyed are mostly family run and normally have a technocrat running the business. Given the amorphousness of the players and perhaps their belief that they are themselves better than other, 72% of the respondents do not follow anyone and are guided by the diktats of their buyers and their suppliers. About 6% benchmark themselves to one of their competitors and make strategies to better them. However, there are a significant 22% who do benchmark but are unsatisfied because of the indicators of the leader is often shrouded in secrecy (Figure 4.53).



**Fig. 4.53: Do SMEs follow a Leader**

**4.2.3.15 Impact of competition from foreign players**

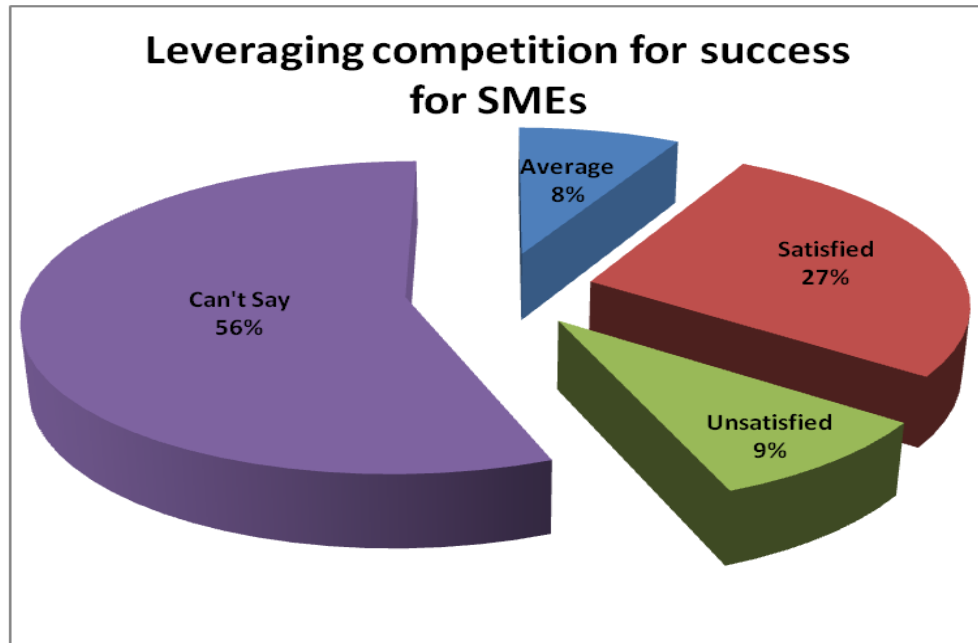
As MNCs are setting up shop in India, there is a tendency to bring their own set vendors. This has had an effect on the existing SMEs. However, given their technical prowess 44% of the respondents were satisfied and had a positive outlook. 34% felt that they cannot say as at this moment their business was going relatively smoothly. Another 12% were feeling the heat of competition and 10% felt that though the competition was growing hotter they would be able to salvage themselves (Figure 4.54).



**Fig 4.54: Impact of Competition from Foreign Players**

#### 4.2.3.16 Leveraging competition was the key

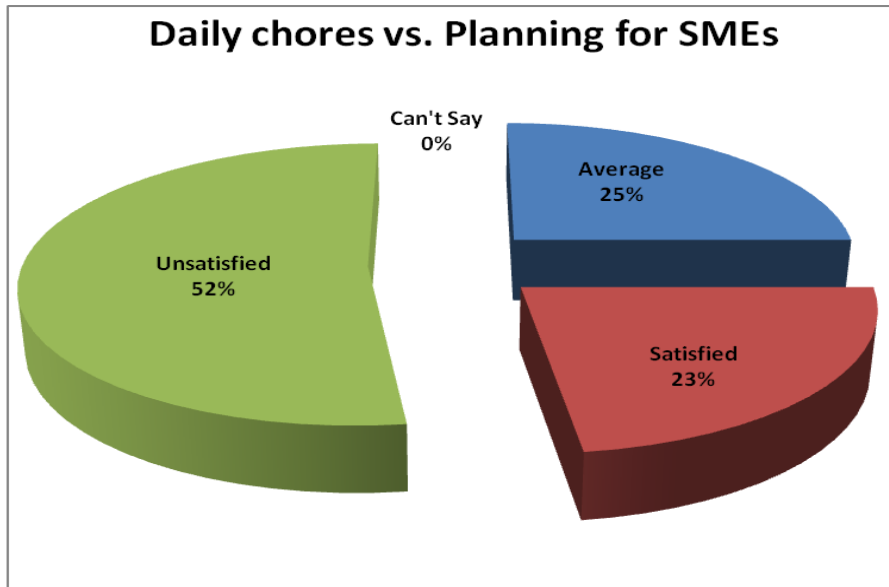
56% of the respondents felt that their technical prowess being very high did not need them to leverage competition – local or foreign – and hence could not say what they planned to do. Whereas 9% felt that they were lagging behind for want of resources and were unsatisfied. There were 27% of the respondents who felt that they were learning and innovating in all aspects of business to meet the new challenges but then there were also 8% who felt that they could and would do better (Figure 4.55).



**Fig. 4.55: Leveraging Competition for Success**

#### 4.2.3.17 Day to day working is time consuming to plan for future

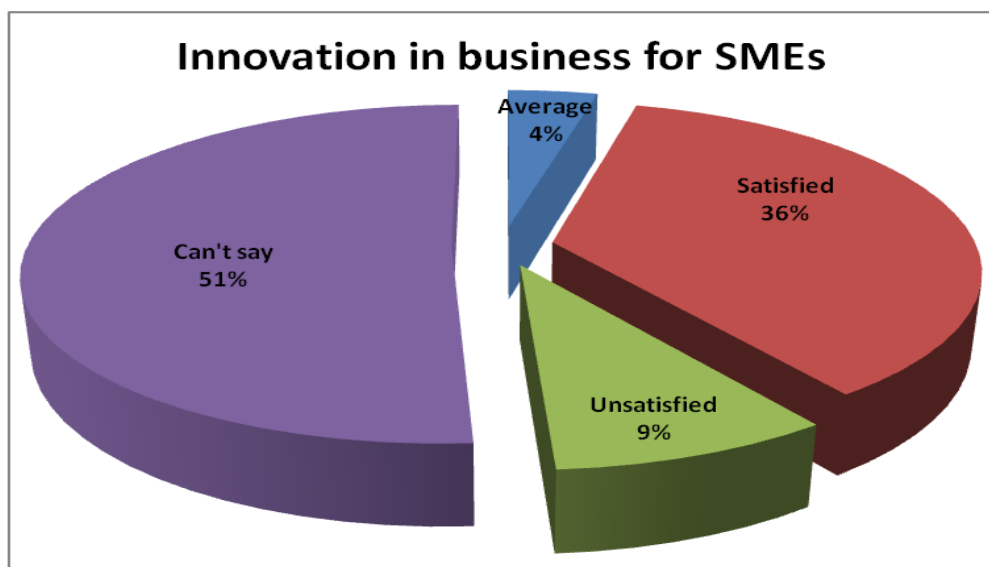
Whilst 23% of the respondents said they do take out time from their daily grind to plan future course of action, regularly, there were another 25% who took time out, though infrequently for planning their business. Large number of respondents (52%) felt that they were so busy struggling with their daily task that they were not able to make time for planning anything and just went with the flow and felt planning was more for the bigger and the richer organizations (Fig. 4.56).



**Fig. 4.56: Daily Chores versus Planning**

**4.2.3.18 Innovation in business**

Majority (51%) of the respondents was not able to say how and what kind of innovation in their business process could help them as they were too involved with what they could do for the day. As opposed to this 36% felt that innovation is the mantra for their success and they need constantly look for opportunities in this direction. To them, the only way to beat competition with limited resource was to reinvent themselves as often as required. However, some limited by resources and skills (9%) though agreeing that innovations would help them, were dissatisfied with their abilities to do so. 4% had mixed feelings about this (Fig. 4.57).



**Fig. 4.57: Innovation in Business**

#### 4.2.3.19 Marketing is sales

55% of the SMEs surveyed were not able to distinguish between marketing and sales. 23% were able to distinguish and had taken steps accordingly, whereas 22% understood the difference but did not have the resources to implement marketing (Figure 4.58).

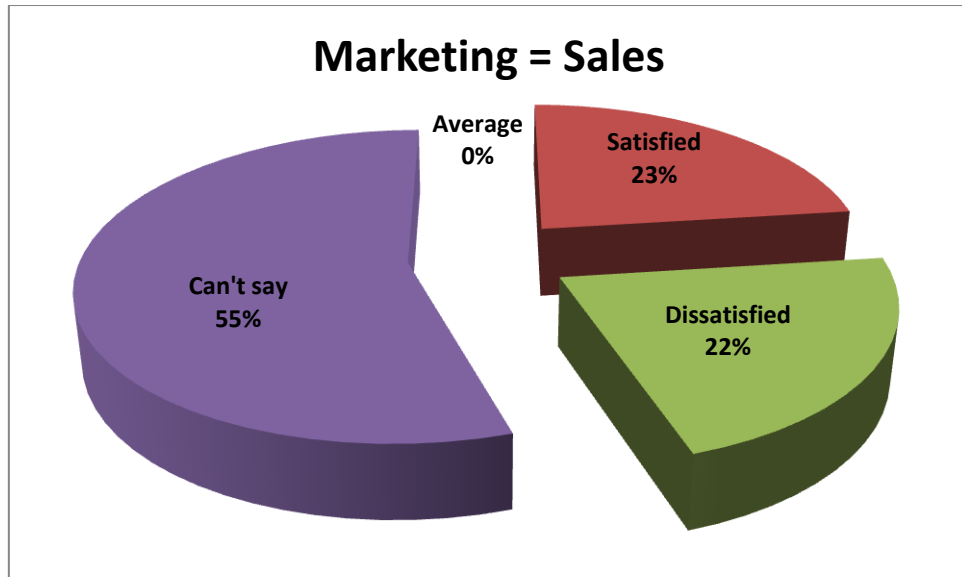


Fig. 4.58: Marketing is Sales

#### 4.2.3.20 Planning for success is a dream or a myth

37% of the respondents did not know how planning could help but 23% felt that planning was always necessary and they were doing it. 40% of the respondent felt that planning would help but they felt they did not have the resources and time for it (Figure 4.59)

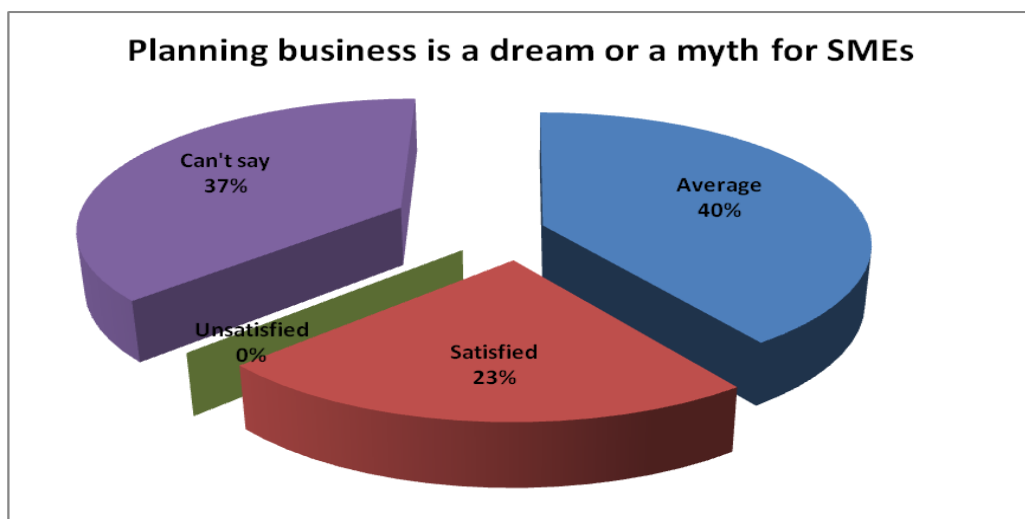


Fig. 4.59: Planning for Success

#### **4.1 Analysis Techniques Used**

In order to analyze the data gathered and convert them into information necessary for validating the hypotheses I have primarily relied on Analytic Hierarchy Process (AHP) and z-Test using MS Excel and Minitab software. SPSS was also used for conducting exploratory factor analysis (EFA); and for checking reliability and normality. AMOS 20.0 was used for conducting confirmatory factor analysis (CFA) and SEM (Structural Equation Modeling).

##### **4.1.1 About Analytic Hierarchy Process**

Analytic Hierarchy Process (AHP) is a bundle of precepts that focus on the state of a given issue (Saaty, 1986). The premise of unambiguously delineated scientific schema of a rationally developed grid of options and the ability of applicable right eigenvector's is to deliver suitable weight (Saaty, 2003; Saaty, 1994; Merkin, 1979). AHP looks at criteria, or options, with reference to a basis in a characteristic pair-wise mode (Saaty, 2006). It changes over individual preferences to the extent a relation-scale weights that may be compiled together into a linearly added weight scale  $w(f)$  for each issue (f) . The resultant  $w(f)$  can be utilized to correlate as a viable rival and rank the variables and subsequently support in higher cognitive process.

From all the literature that is available on AHP there is some confusion and misunderstanding concerning this deciding tool? AHP is quite simply a method for weighing alternatives – though it has been applied with success; there are many other alternative creating selections (Saaty, 1997).

##### **4.1.2 History of AHP**

In the later part of nineteen sixties, Thomas L Saaty, was amongst the pioneers in researching on Mathematical Methodologies, authoring a book entitled, “Mathematical Method of Operation Research”, was heading tasks related to Arms Control and Disarmament at the State Department of U.S.A. He had huge funding supports available to him for such research ventures. He, thus, enlisted various exceedingly qualified economists other than amusements and utility scholars including a few Nobel Laureates. Be that as it may, he was not content with the results they were producing.

Some years later, Saaty noticed frequent communication breakdowns say between scientists and lawyers, apparently owing to lack of sensible and systematic approach to priority setting and higher cognitive process. This set him thinking that resulted in devising a straightforward methodology that could assist laymen to construct a set of alternatives that enabled prioritizing from complicated options. This, in essence, is Analytic Hierarchy Process – a coagulation of ideas that were already there, underlining the ingenuity of Saaty, through its power to ease of research and make complex decisions.

### **4.1.3 The Three Primary Functions of AHP**

AHP is often used in diverse situations. Making selection and decision on multiple objective choices is only one of them. It must be understood that the reason why AHP is so general is because it uses three fundamental functionalities that can be widely applied to many complicated problems. These are:

1. Scientifically organizing and structuring complexity
2. Measuring the complexity
3. Synthesizing the complexity

#### ***4.1.3.1 Scientifically organizing and structuring complexity***

To deal with a complex situation, Saaty looked for a method that was very basic. He wanted it to be so simple that even a lay person could comprehend and take part in the process. So in examples after examples of how human being handled complexities, he discovered hierarchically structuring of factors into more consistent clusters was a common occurrence and simplified making choices.

#### ***4.1.3.2 Measurement of complexity***

Whilst earlier decision making processes and methodologies rely upon lower levels of measure (Electra ordinal measure and MAUT interval measures), Saaty's mathematical grounding convinced him that quantitative relation scales would most accurately reflected the factors that made up the hierarchy (Stevens, 1946). This conjointly was not anything new. In keeping with Stevens (1946) measure classification scheme, there were four levels of measure to consider. This may be starting from minimum to maximum level measure - Nominal, Ordinal, Interval, and Ratio. Each level has meaning of the level underneath and

extra meanings. As an example, a quantitative relation may have meanings in terms of intervals, ordinals and nominals. Associate intervals do not have quantitative relation but will have interval, ordinal and nominal. Quantitative relation becomes necessary for representing proportions. As an example the proportions in Monet's paintings may be thought to represent the way people see it, the paintings of Picasso are valued for it thought provoking character, however might not be superior models of the importance world. Hence, Saaty contemplated a technique that is more easily doable. He has, therefore, proposed exploitation of understandings of the quantitative relations of every combination of two available alternatives within the rankings to derived ratio scale measures.

Most methodology that engage in determining priority rankings (including AHP and MAUT) uses ratio scale for prioritizing components on top of the bottom level of the rankings. This is often essential as a result of the priorities (or weights) of the elements at any level of the hierarchy can be determined by multiplying the priorities of the elements in that level by the priorities of the parent element. The product of two interval level measures may not be logical, mathematically speaking; some ratio scales are, however, required for this multiplication. Whilst AHP also utilizes ratio scales for even the bottom level of the hierarchy (the alternatives in a particular selection model), MAUT uses associate interval scale for the alternatives. Therefore the ensuing priorities for alternatives in an AHP model are ratio scale measures whereas those in a MAUT model are solely interval scale measures. The ratio scale could be a higher level of measurement; it is notably vital if the priorities ratio measure to be used not solely in selection applications, but for different applications likewise, like allocation of resources.

#### ***4.1.3.3 Synthesizing complexity***

Analytic, the primary word in the acronym AHP's implies separating an abstract entity into its constituent components. The opposite of this is synthesis and it involves amalgamating numerous elements into an entire whole. As a result of complexities and demanding natures of decision-making processes, or forecasts, or resource allocations usually have several dimensions for humans to synthesize intuitively. Hence, how to synthesize over several dimensions becomes a need. In a company meeting heads of departments could sitting around a table, 'equipped' with the results of analyses of their department's performance. All would even have reached a conclusion on what's best for the organization from their own

departmental viewpoint. The dilemma sometimes is not the dearth of sterling analyses but an absence of ability to synthesize the analyses that are created.

#### **4.1.3.4 AHP - A popularly used tool**

Any advanced scenario that needs structuring of activity options, and/or synthesis is a suitable candidate for AHP. However, AHP is often not utilized in isolation. Rather, it's used in support of various methodologies, as example to synthesize the results of various methodologies like choosing what share servers to use in queuing scenario taking into consideration waiting times, costs, and human frustrations, or to derive prospects for a call tree. Vital areas within which AHP has been used with success include: selecting of one variable from many; resource allocation; forecasting; total quality management; business method re-engineering; quality/operations preparation, and in addition the balanced book.

#### **4.1.4 AHP applied to this study**

For arriving at a scientific conclusion AHP was used to allocate the weights to each of the 57 questions in the questionnaire (16 question of the first group of the questionnaire to test Hypothesis I, 21 questions in the second group of the questionnaire to test Hypothesis 2 and finally, 20 questions in the third group to test Hypothesis III). A group of SME owner-managers were invited to a one-day session and allocated the relative importance pair-wise to each of the questions. These weight-ages were then used for estimation the weighted rating of the combine of the 517 responses with respect to each question in the questionnaire.

## **4.2 Testing of Hypotheses**

The first group of 16 questions are used for testing the Hypothesis 1 i.e. *SMEs Marketing Strategies resulting from appropriate Business Planning is rudimentary.*

Similarly the second group of 21 questions has been used for testing the Hypothesis 2 i.e. *SMEs do not have the required Business skills to anticipate and match it to the fast changing Business environment & Market needs.*

And finally, the third group of 20 questions were used for testing the Hypothesis 3 i.e. *Despite examples of benchmarking available to them – often times even within their own peer organizations, networks etc., the SMEs are not amenable to making Strategic changes that affect the Market abilities.*

### 4.3 z-Test

The Z-test is a statistical test used in inference which determines if the difference between a sample mean and the population mean is large enough to be statistically significant, that is, if it is unlikely to have occurred by chance. The Z-test is used primarily with standardized testing to determine if the test scores of a particular sample of test takers are within or outside of the standard performance of test takers.

The standard error (SE) of the mean is:

$$SE = \frac{\sigma}{\sqrt{n}}$$

The formula for calculating the z score for the Z-test is as follows:

$$Z = \frac{X - \mu}{SE}$$

Finally, the z-score is compared to a Z table, a table which contains the percent of area under the normal curve between the mean and the zscore. Using this table will indicate whether the calculated z score is within the realm of chance or if the z score is so different from the mean that the sample mean is unlikely to have happened by chance.

### 4.4 Analysis using Mini Tab

Cut-off point for supporting the three hypotheses is taken at 60% of the 5-point scale .i.e. 3 and lower. The reasons are:

- a. The owners/Managers of SMEs in this sector are smug in their business outlook. This means, even after getting lower margins than Industry standards they are quite satiated. This necessitates a higher cut-off for testing the hypothesis
- b. Various experts from industry, academia and consulting fraternity vetted the cut-off weight-age average at 3.0
- c. During active research it was noticed that most respondents seemed to present an overtly optimistic picture of their marketing efforts.
- d. Automotive Industry has been experiencing a CAGR higher than normally prevalent in the other sectors. Hence to validate this hypothesis we need to consider a higher cut-off at 60%

### 4.5 .1 Hypothesis I: SMEs Marketing Strategies resulting from appropriate Business Planning is rudimentary

#### 4.5.1.1 Results as per AHP

## Weights of the Factors Given by expert Group based on Pair-wise Comparison

Hypothesis 1: SMEs Marketing Strategies resulting from appropriate Business Planning is rudimentary																	
Weightages as allotted by Expert Group																	
Vari	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Total
1	1.000	1.300	2.000	3.000	1.000	0.700	2.400	1.500	3.000	1.000	1.000	1.000	1.000	1.000	2.000	1.500	24.400
2	0.769	1.000	1.000	2.000	0.400	0.500	1.250	1.000	1.500	1.000	0.300	1.250	1.000	1.000	5.000	1.000	19.969
3	0.500	1.000	1.000	0.500	0.800	0.500	0.300	0.800	0.800	0.700	0.500	0.500	2.000	2.000	0.500	0.500	12.900
4	0.333	0.500	2.000	1.000	0.300	0.300	2.500	0.900	1.000	0.700	0.300	1.500	0.500	0.400	1.000	2.000	15.233
5	1.000	2.500	1.250	3.333	1.000	1.000	1.250	1.500	3.000	1.000	0.300	2.500	0.800	0.700	0.500	3.000	24.633
6	1.429	2.000	2.000	3.333	1.000	1.000	1.000	1.250	1.500	0.800	0.800	2.000	0.800	1.250	0.750	2.000	22.912
7	0.417	0.800	3.333	0.400	0.800	1.000	1.000	0.800	1.500	1.000	0.500	1.300	0.500	0.400	1.500	1.250	16.500
8	0.667	1.000	1.250	1.111	0.667	0.800	1.250	1.000	0.900	0.700	0.300	0.500	0.900	0.700	1.500	2.000	15.244
9	0.333	0.667	1.250	1.000	0.333	0.667	0.667	1.111	1.000	1.000	0.400	0.700	0.800	0.800	0.800	1.500	13.028
10	1.000	1.000	1.429	1.429	1.000	1.250	1.000	1.429	1.000	1.000	0.400	0.400	0.500	0.500	1.250	1.500	16.086
11	1.000	2.250	1.500	2.500	2.750	1.000	1.500	2.250	1.500	1.750	0.800	0.900	0.900	0.900	1.250	1.500	24.250
12	1.000	0.800	2.000	0.667	0.400	0.500	0.769	2.000	1.429	2.500	0.800	1.000	0.700	0.600	1.250	1.500	17.914
13	1.000	1.000	0.500	2.000	1.250	1.250	2.000	1.111	1.250	2.000	0.800	1.429	1.000	0.800	1.250	2.000	20.640
14	1.000	1.000	0.500	2.500	1.429	0.800	2.500	1.429	1.250	2.000	0.800	1.667	1.250	1.000	2.000	3.000	24.124
15	0.500	0.200	2.000	1.000	2.000	1.333	0.667	0.667	1.250	0.800	0.667	0.800	0.800	0.500	1.000	2.000	16.183
16	0.667	1.000	2.000	0.500	0.333	0.500	0.800	0.500	0.667	0.667	0.500	0.667	0.500	0.333	0.500	1.000	11.133

**Table 4.1: Weights as allotted by Expert Group**

Hypothesis 1: SMEs Marketing Strategies resulting from appropriate Business Planning is rudimentary																	
Multivariate Heirachy																	
Vari	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Average
1	0.079	0.072	0.080	0.114	0.065	0.053	0.115	0.078	0.133	0.054	0.109	0.055	0.072	0.078	0.091	0.055	0.083
2	0.061	0.056	0.040	0.076	0.026	0.038	0.060	0.052	0.067	0.054	0.033	0.069	0.072	0.078	0.227	0.037	0.068
3	0.040	0.056	0.040	0.019	0.052	0.038	0.014	0.042	0.035	0.038	0.055	0.028	0.143	0.155	0.023	0.018	0.044
4	0.026	0.028	0.080	0.038	0.019	0.023	0.120	0.047	0.044	0.038	0.033	0.083	0.036	0.031	0.045	0.073	0.052
5	0.079	0.139	0.050	0.127	0.065	0.076	0.060	0.078	0.133	0.054	0.033	0.138	0.057	0.054	0.023	0.110	0.083
6	0.113	0.111	0.080	0.127	0.065	0.076	0.048	0.065	0.067	0.043	0.087	0.110	0.057	0.097	0.034	0.073	0.078
7	0.033	0.044	0.133	0.015	0.052	0.076	0.048	0.042	0.067	0.054	0.055	0.072	0.036	0.031	0.068	0.046	0.056
8	0.053	0.056	0.050	0.042	0.043	0.061	0.060	0.052	0.040	0.038	0.033	0.028	0.065	0.054	0.068	0.073	0.052
9	0.026	0.037	0.050	0.038	0.022	0.051	0.032	0.058	0.044	0.054	0.044	0.039	0.057	0.062	0.036	0.055	0.044
10	0.079	0.056	0.057	0.054	0.065	0.095	0.048	0.074	0.044	0.054	0.044	0.022	0.036	0.039	0.057	0.055	0.055
11	0.079	0.125	0.060	0.095	0.178	0.076	0.072	0.117	0.067	0.094	0.087	0.050	0.065	0.070	0.057	0.055	0.082
12	0.079	0.044	0.080	0.025	0.026	0.038	0.037	0.104	0.063	0.134	0.087	0.055	0.050	0.047	0.057	0.055	0.061
13	0.079	0.056	0.020	0.076	0.081	0.095	0.096	0.058	0.055	0.107	0.087	0.079	0.072	0.062	0.057	0.073	0.070
14	0.079	0.056	0.020	0.095	0.092	0.061	0.120	0.074	0.055	0.107	0.087	0.092	0.090	0.078	0.091	0.110	0.082
15	0.040	0.011	0.080	0.038	0.129	0.102	0.032	0.035	0.055	0.043	0.073	0.044	0.057	0.039	0.045	0.073	0.055
16	0.053	0.056	0.080	0.019	0.022	0.038	0.038	0.026	0.030	0.036	0.055	0.037	0.036	0.026	0.023	0.037	0.038

**Table 4.2: Multivariate Hierarchy**

### 4.5.1.2 Results Using Mini-tab

- a) Confidence Level : 95%
- b) Sample Size : 517
- c) Mean : 2.875
- d) Standard Deviation: 0.784
- e) Hypothesized Mean: 3.0

- i. Test of Hypotheses
- ii.  $H_0: \mu = 3$
- iii.  $H_1: \mu > 3$

(The assumed standard deviation= 0.784)

- iv. N = 517
- v. Standard Error Mean = 0.0329
- vi. 95% Upper Bound = 2.9292
- vii. Z value : - 3.80
- viii. P value : 0.000

Since the calculated p-value (P= 0.000) after the z-test is less than 0.05, the hypothesis is true  
 i.e. *SMEs Marketing Strategies resulting from appropriate Business Planning is rudimentary*

### 4.5.2 Hypothesis II: SMEs do not have the required Business skills to anticipate and match it to the fast changing Business environment & Market needs

#### 4.5.2.1 Results Using AHP

Hypothesis 2: SME Units do not have the required business skills to anticipate & match it to fast changing business environment and market needs																						
Weightages as allotted by Expert Group																						
Vari	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	Total
1	1.000	0.900	0.700	0.500	0.600	0.500	1.250	0.400	1.500	0.900	0.500	2.000	1.500	0.600	0.400	1.500	1.500	0.750	0.500	0.500	0.500	18.500
2	0.900	1.000	0.500	0.750	1.000	0.600	1.500	0.600	1.500	0.800	0.400	0.750	1.500	0.400	0.300	0.600	2.000	0.600	2.000	0.400	0.300	18.400
3	0.700	0.500	1.000	2.000	1.500	0.300	1.000	1.750	2.000	2.000	0.900	0.400	0.750	0.600	0.400	2.000	2.500	1.000	2.000	0.500	1.500	25.300
4	0.500	0.750	2.000	1.000	0.500	0.500	0.500	0.750	2.000	2.000	0.300	0.750	1.500	0.500	1.000	1.500	1.500	0.300	1.500	0.300	2.500	22.150
5	0.600	1.000	1.500	0.500	1.000	1.000	1.000	0.750	0.800	0.500	0.300	0.250	0.250	0.900	1.500	0.500	0.500	0.300	2.000	2.000	2.000	19.150
6	0.500	0.600	0.300	0.500	1.000	1.000	0.500	0.500	1.500	1.500	0.750	1.500	0.300	1.000	0.750	1.750	2.000	0.400	2.500	0.300	0.750	19.900
7	1.250	1.500	1.000	0.500	1.000	0.500	1.000	1.000	0.500	0.600	1.000	1.250	0.600	0.300	0.300	3.000	3.000	2.500	2.500	2.000	0.500	25.800
8	0.400	0.600	1.750	0.750	0.750	0.500	1.000	1.000	1.000	1.000	1.000	0.500	1.000	0.250	0.250	2.000	2.000	2.000	3.000	0.300	0.300	21.350
9	1.500	1.500	2.000	2.000	0.800	1.500	0.500	1.000	1.000	0.500	0.250	0.250	0.300	0.300	0.750	0.900	0.800	0.300	0.900	0.300	0.300	17.650
10	0.900	0.800	2.000	2.000	0.500	1.500	0.600	1.000	0.500	1.000	1.000	0.500	0.500	0.900	0.900	1.750	1.900	0.900	2.500	0.600	0.750	23.000
11	0.500	0.400	0.900	0.300	0.300	0.750	1.000	1.000	0.250	1.000	1.000	0.750	0.900	0.800	0.500	0.500	0.750	0.500	0.500	0.300	0.500	13.400
12	2.000	0.750	0.400	0.750	0.250	1.500	1.250	0.500	0.250	0.500	0.750	1.000	1.000	0.500	0.300	0.750	0.600	0.300	0.400	0.400	0.300	14.450
13	1.500	1.500	0.750	1.500	0.250	0.300	0.600	1.000	0.300	0.500	0.900	1.000	1.000	0.500	0.300	0.300	0.250	0.250	0.300	0.250	0.500	13.750
14	0.600	0.400	0.600	0.500	0.900	1.000	0.300	0.250	0.300	0.900	0.800	0.500	0.500	1.000	1.000	0.250	0.250	0.250	1.500	0.500	0.500	12.800
15	0.400	0.300	0.400	1.000	1.500	0.750	0.300	0.250	0.750	0.900	0.500	0.300	0.300	1.000	1.000	0.900	0.800	0.900	1.750	0.500	0.600	15.100
16	1.500	0.600	2.000	1.500	0.500	1.750	3.000	2.000	0.900	1.750	0.500	0.750	0.300	0.250	0.900	1.000	1.500	0.500	0.800	0.500	0.600	23.100
17	1.500	2.000	2.500	1.500	0.500	2.000	3.000	2.000	0.800	1.900	0.750	0.600	0.250	0.250	0.800	1.500	1.000	0.250	0.500	0.500	0.750	24.850
18	0.750	0.600	1.000	0.300	0.300	0.400	2.500	2.000	0.300	0.900	0.500	0.300	0.250	0.250	0.900	0.500	0.250	1.000	0.500	0.500	0.600	14.600
19	0.500	2.000	2.000	1.500	2.000	2.500	2.500	3.000	0.900	2.500	0.500	0.400	0.300	1.500	1.750	0.800	0.500	0.500	1.000	0.250	0.250	27.150
20	0.500	0.400	0.500	0.300	2.000	0.300	2.000	0.300	0.300	0.600	0.300	0.400	0.250	0.500	0.500	0.500	0.500	0.500	0.250	1.000	0.500	12.400
21	0.500	0.300	1.500	2.500	2.000	0.750	0.500	0.300	0.300	0.750	0.500	0.300	0.500	0.500	0.600	0.600	0.750	0.600	0.250	0.500	1.000	15.500

**Table 4.3: Weights as allotted by Expert Group**

Hypothesis 2: SME Units do not have the required business skills to anticipate & match it to fast changing business environment and market needs																								
Multivariate Hierarchy																								
Vari	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	Total	Average	
1	0.05405	0.04891	0.02767	0.02257	0.03133	0.02513	0.04845	0.01874	0.08499	0.03913	0.03731	0.13841	0.10909	0.04688	0.02649	0.06494	0.06036	0.05137	0.01842	0.04032	0.03226	0.046447	1.163769	0.048784
2	0.04865	0.05435	0.01976	0.03386	0.05222	0.03015	0.05814	0.02811	0.08499	0.03478	0.02985	0.0519	0.10909	0.03125	0.01987	0.02597	0.08048	0.0411	0.07366	0.03226	0.01935	0.046196	1.053085	0.045727
3	0.03784	0.02717	0.03953	0.09029	0.07833	0.01508	0.03876	0.08197	0.11331	0.08696	0.06716	0.02768	0.05455	0.04688	0.02649	0.08658	0.1006	0.06849	0.07366	0.04032	0.09677	0.06352	0.595684	0.061907
4	0.02703	0.04076	0.07905	0.04515	0.02611	0.02513	0.01938	0.03513	0.11331	0.08696	0.02239	0.0519	0.10909	0.03906	0.06623	0.06494	0.06036	0.02055	0.05525	0.02419	0.16129	0.055611	1.485998	0.055857
5	0.03243	0.05435	0.05929	0.02257	0.05222	0.05025	0.03876	0.03513	0.04533	0.02174	0.02239	0.0173	0.01818	0.07031	0.09934	0.02165	0.02012	0.02055	0.07366	0.16129	0.12903	0.048079	0.674561	0.050635
6	0.02703	0.03261	0.01186	0.02257	0.05222	0.05025	0.01938	0.02342	0.08499	0.06522	0.05597	0.10381	0.02182	0.07813	0.04967	0.07576	0.08048	0.0274	0.09208	0.02419	0.04839	0.049962	1.540948	0.049872
7	0.06757	0.08152	0.03953	0.02257	0.05222	0.02513	0.03876	0.04684	0.02833	0.02609	0.07463	0.08651	0.04364	0.02344	0.01987	0.12987	0.12072	0.17123	0.09208	0.16129	0.03226	0.064775	1.043107	0.065857
8	0.02162	0.03261	0.06917	0.03386	0.03916	0.02513	0.03876	0.04684	0.05666	0.04348	0.07463	0.0346	0.07273	0.01953	0.01656	0.08658	0.08048	0.13699	0.1105	0.02419	0.01935	0.053603	1.403367	0.051683
9	0.08108	0.08152	0.07905	0.09029	0.04178	0.07538	0.01938	0.04684	0.05666	0.02174	0.01866	0.0173	0.02182	0.02344	0.04967	0.03896	0.03219	0.02055	0.03315	0.02419	0.01935	0.044313	1.829722	0.042605
10	0.04865	0.04348	0.07905	0.09029	0.02611	0.07538	0.02326	0.04684	0.02833	0.04348	0.07463	0.0346	0.03636	0.07031	0.0596	0.07576	0.07646	0.06164	0.09208	0.04839	0.04839	0.057745	0.842468	0.056401
11	0.02703	0.02174	0.03557	0.01354	0.01567	0.03769	0.03876	0.04684	0.01416	0.04348	0.07463	0.0519	0.06545	0.0625	0.03311	0.02165	0.03018	0.03425	0.01842	0.02419	0.03226	0.033643	0.803348	0.035303
12	0.10811	0.04076	0.01581	0.03386	0.01305	0.07538	0.04845	0.02342	0.01416	0.02174	0.05597	0.0692	0.07273	0.03906	0.01987	0.03247	0.02414	0.02055	0.01473	0.03226	0.01935	0.036279	2.979893	0.037789
13	0.08108	0.08152	0.02964	0.06772	0.01305	0.01508	0.02326	0.04684	0.017	0.02174	0.06716	0.0692	0.07273	0.03906	0.01987	0.01299	0.01006	0.01712	0.01105	0.02016	0.03226	0.034522	2.348698	0.036505
14	0.03243	0.02174	0.02372	0.02257	0.047	0.05025	0.01163	0.01171	0.017	0.03913	0.0597	0.0346	0.03636	0.07813	0.06623	0.01082	0.01006	0.01712	0.05525	0.04032	0.03226	0.032137	1.009206	0.034098
15	0.02162	0.0163	0.01581	0.04515	0.07833	0.03769	0.01163	0.01171	0.04249	0.03913	0.03731	0.02076	0.02182	0.07813	0.06623	0.03896	0.03219	0.06164	0.06446	0.04032	0.03871	0.037911	0.570324	0.039014
16	0.08108	0.03261	0.07905	0.06772	0.02611	0.08794	0.11628	0.09368	0.05099	0.06709	0.03731	0.0519	0.02182	0.01953	0.0596	0.04329	0.06036	0.03425	0.02947	0.04032	0.03871	0.057996	1.398034	0.054823
17	0.08108	0.1087	0.09881	0.06772	0.02611	0.1005	0.11628	0.09368	0.04533	0.08261	0.05597	0.04152	0.01818	0.01953	0.05298	0.06494	0.04024	0.01712	0.01842	0.04032	0.04839	0.06239	1.299581	0.059128
18	0.04054	0.03261	0.03953	0.01354	0.01567	0.0201	0.0969	0.09368	0.017	0.03913	0.03731	0.02076	0.01818	0.01953	0.0596	0.02165	0.01006	0.06849	0.01842	0.04032	0.03871	0.036656	1.105979	0.03629
19	0.02703	0.1087	0.07905	0.06772	0.10444	0.12563	0.0969	0.14052	0.05099	0.1087	0.03731	0.02768	0.02182	0.11719	0.11589	0.03463	0.02012	0.03425	0.03683	0.02016	0.01613	0.068165	0.396496	0.066357
20	0.02703	0.02174	0.01976	0.01354	0.10444	0.01508	0.07752	0.01405	0.017	0.02609	0.02239	0.02768	0.01818	0.03906	0.03311	0.02165	0.02012	0.03425	0.00921	0.08065	0.03226	0.031132	0.868134	0.032087
21	0.02703	0.0163	0.05929	0.11287	0.10444	0.03769	0.01938	0.01405	0.017	0.03261	0.03731	0.02076	0.03636	0.03906	0.03974	0.02597	0.03018	0.0411	0.00921	0.04032	0.06452	0.038915	0.694507	0.039277

**Table 4.4: Multivariate Hierarchy**

#### **4.5.2.2 Results using Mini-Tab**

##### 3.2 Results using Mini-Tab

- a) Confidence Level : 95%
- b) Sample Size : 517
- c) Mean : 2.488
- d) Standard Deviation: 0.793
- e) Hypothesized Mean: 3.0

##### f) Test of Hypotheses

I.  $H_0: \mu = 3$

II.  $H_2: \mu > 3$

(The assumed standard deviation = 0.793)

$N = 517$

- i. Mean = 2.4880
- ii. Standard Error Mean = 0.0333
- iii. 95% Upper Bound = 2.5428
- iv. z value = -15.37
- v. p value = 0.000

Since the calculated p-value ( $P= 0.000$ ) after the z-test is less than 0.05, the hypothesis is true that is: *“Despite examples of benchmarking available to them – often times even within their own peer organizations, networks etc., the SMEs are not amenable to making Strategic changes that affect the Market abilities.”*

Since the calculated p-value ( $P= 0.000$ ) after the z-test is less than 0.05, the hypothesis is true i.e. SMEs do not have the required Business skills to anticipate and match it to the fast changing Business environment & Market needs.

**4.5.3 Hypothesis III: Despite examples of benchmarking available to them – often times even within their own peer organizations, networks etc., the SMEs are not amenable to making Strategic changes that affect the Market abilities.**

### 4.5.3.1 Results Using AHP

Despite examples of Benchmarking available to them - often times in their own Peer Organization, Network etc., The SMEs are not amenable to Strategic changes that affect their Market Ability

Weightage as allotted by Expert Group																					
Vari	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	Total
1	1.000	0.500	0.300	1.500	0.750	0.900	1.000	1.500	0.300	0.500	0.300	0.900	0.700	1.500	0.750	0.500	0.900	0.300	0.900	1.500	16.500
2	0.500	1.000	0.300	0.500	0.600	1.000	0.750	0.300	0.300	0.300	0.250	0.250	0.750	1.500	0.900	0.400	0.500	0.500	1.500	0.300	12.400
3	0.300	0.300	1.000	0.250	0.500	0.250	0.300	0.500	0.250	0.300	0.300	0.250	0.900	0.500	0.750	0.400	1.000	0.250	1.500	0.300	10.100
4	1.500	0.500	0.250	1.000	0.250	1.500	2.000	2.000	2.000	1.500	0.750	1.500	0.750	1.500	0.500	1.000	0.300	0.400	2.500	0.600	22.300
5	0.750	0.600	0.500	0.250	1.000	0.250	0.250	0.900	2.000	1.750	0.250	0.250	0.250	0.500	0.250	0.500	0.250	0.250	2.500	0.900	14.150
6	0.900	1.000	0.250	1.500	0.250	1.000	0.500	0.800	0.250	0.300	0.250	0.300	0.300	0.900	0.500	0.900	1.000	0.500	0.750	1.000	13.150
7	1.000	0.750	0.300	2.000	0.250	0.500	1.000	0.250	0.300	0.250	0.500	1.500	2.000	0.750	1.000	0.250	0.750	0.500	0.750	1.000	15.600
8	1.500	0.300	0.500	2.000	0.900	0.800	0.250	1.000	0.250	0.250	0.250	0.300	1.500	0.800	0.300	0.250	0.250	0.500	1.500	0.300	13.700
9	0.300	0.300	0.250	2.000	2.000	0.250	0.300	0.250	1.000	0.500	0.250	0.500	0.900	1.500	0.500	0.900	0.750	0.900	1.750	0.250	15.350
10	0.500	0.300	0.300	1.500	1.750	0.300	0.250	0.250	0.500	1.000	0.250	0.250	0.800	1.500	0.300	0.250	0.900	0.900	1.000	0.250	13.050
11	0.300	0.250	0.300	0.750	0.250	0.250	0.500	0.250	0.250	0.250	1.000	0.250	0.900	0.900	0.250	0.250	0.400	0.250	2.000	0.500	10.050
12	0.900	0.250	0.250	1.500	0.250	0.300	1.500	0.300	0.500	0.250	0.250	1.000	0.300	0.900	0.500	0.250	0.800	0.300	1.500	0.500	12.300
13	0.700	0.750	0.900	0.750	0.250	0.300	2.000	1.500	0.900	0.800	0.900	0.300	1.000	1.000	0.500	0.250	0.300	0.800	1.500	0.250	15.650
14	1.500	1.500	0.500	1.500	0.500	0.900	0.750	0.800	1.500	1.500	0.900	0.900	1.000	1.000	0.500	0.250	0.750	0.300	1.500	0.500	18.550
15	0.750	0.900	0.750	0.500	0.250	0.500	1.000	0.300	0.500	0.300	0.250	0.500	0.500	0.500	1.000	0.250	0.500	0.500	0.500	0.250	10.500
16	0.500	0.400	0.400	1.000	0.500	0.900	0.250	0.500	0.900	0.250	0.250	0.250	0.250	0.250	0.250	1.000	1.500	0.750	0.300	0.250	10.400
17	0.900	0.500	1.000	0.300	0.250	1.000	0.750	0.250	0.750	0.900	0.400	0.800	0.300	0.750	0.500	1.500	1.000	0.250	1.500	0.500	14.100
18	0.300	0.500	0.250	0.400	0.250	0.500	0.500	0.500	0.900	0.900	0.250	0.300	0.800	0.300	0.500	0.750	0.250	1.000	0.500	0.250	9.900
19	0.900	1.500	1.500	2.500	2.500	0.750	0.750	1.500	1.750	1.000	2.000	1.500	1.500	1.500	0.500	0.300	1.500	0.500	1.000	0.250	25.200
20	1.500	0.300	0.300	0.600	0.900	1.000	1.000	0.300	0.250	0.250	0.500	0.500	0.250	0.500	0.250	0.250	0.500	0.250	0.250	1.000	10.650

**Table 4.5: Weights as allotted by Expert Group**

Despite examples of Benchmarking available to them - often times in their own Peer Organization, Network etc., The SMEs are not amenable to Strategic changes that affect their Market Ability

Multivariate Hierarchy																							
																					Average		
1	0.06061	0.04032	0.0297	0.06726	0.053	0.06844	0.0641	0.10949	0.01954	0.03831	0.02985	0.07317	0.04473	0.08086	0.07143	0.04808	0.06383	0.0303	0.03571	0.14085	0.058181	0.959979	0.058466
2	0.0303	0.08065	0.0297	0.02242	0.0424	0.07605	0.04808	0.0219	0.01954	0.02299	0.02488	0.02033	0.04792	0.08086	0.08571	0.03846	0.03546	0.0505	0.05952	0.02817	0.043724	1.442877	0.043313
3	0.01818	0.02419	0.09901	0.01121	0.03534	0.01901	0.01923	0.0365	0.01629	0.02299	0.02985	0.02033	0.05751	0.02695	0.07143	0.03846	0.07092	0.0253	0.05952	0.02817	0.035614	1.958745	0.036474
4	0.09091	0.04032	0.02475	0.04484	0.01767	0.11407	0.12821	0.14599	0.13029	0.11494	0.07463	0.12195	0.04792	0.08086	0.04762	0.09615	0.02128	0.0404	0.09921	0.05634	0.078632	0.864951	0.076999
5	0.04545	0.04839	0.0495	0.01121	0.07067	0.01901	0.01603	0.06569	0.13029	0.1341	0.02488	0.02033	0.01597	0.02695	0.02381	0.04808	0.01773	0.0253	0.09921	0.08451	0.049894	1.097673	0.048903
6	0.05455	0.08065	0.02475	0.06726	0.01767	0.07605	0.03205	0.05839	0.01629	0.02299	0.02488	0.02439	0.01917	0.04852	0.04762	0.08654	0.07092	0.0505	0.02976	0.0939	0.046368	0.850082	0.047296
7	0.06061	0.06048	0.0297	0.08969	0.01767	0.03802	0.0641	0.01825	0.01954	0.01916	0.04975	0.12195	0.1278	0.04043	0.09524	0.02404	0.05319	0.0505	0.02976	0.0939	0.055007	0.907616	0.05518
8	0.09091	0.02419	0.0495	0.08969	0.0636	0.06084	0.01603	0.07299	0.01629	0.01916	0.02488	0.02439	0.09585	0.04313	0.02857	0.02404	0.01773	0.0505	0.05952	0.02817	0.048307	0.531382	0.045156
9	0.01818	0.02419	0.02475	0.08969	0.14134	0.01901	0.01923	0.01825	0.06515	0.03831	0.02488	0.04065	0.05751	0.08086	0.04762	0.08654	0.05319	0.0909	0.06944	0.02347	0.054126	2.976904	0.051777
10	0.0303	0.02419	0.0297	0.06726	0.12367	0.02281	0.01603	0.01825	0.03257	0.07663	0.02488	0.02033	0.05112	0.08086	0.02857	0.02404	0.06383	0.0909	0.03968	0.02347	0.046016	1.518512	0.04453
11	0.01818	0.02016	0.0297	0.03363	0.01767	0.01901	0.03205	0.01825	0.01629	0.01916	0.0995	0.02033	0.05751	0.04852	0.02381	0.02404	0.02837	0.0253	0.07937	0.04695	0.035437	1.949048	0.033961
12	0.05455	0.02016	0.02475	0.06726	0.01767	0.02281	0.09615	0.0219	0.03257	0.01916	0.02488	0.0813	0.01917	0.04852	0.04762	0.02404	0.05674	0.0303	0.05952	0.04695	0.043371	0.795134	0.040923
13	0.04242	0.06048	0.08911	0.03363	0.01767	0.02281	0.12821	0.10949	0.05863	0.0613	0.08955	0.02439	0.0639	0.05391	0.04762	0.02404	0.02128	0.0808	0.05952	0.02347	0.055183	1.300751	0.055592
14	0.09091	0.12097	0.0495	0.06726	0.03534	0.06844	0.04808	0.05839	0.09772	0.11494	0.08955	0.07317	0.0639	0.05391	0.04762	0.02404	0.05319	0.0303	0.05952	0.04695	0.065409	0.719499	0.06472
15	0.04545	0.07258	0.07426	0.02242	0.01767	0.03802	0.0641	0.0219	0.03257	0.02299	0.02488	0.04065	0.03195	0.02695	0.09524	0.02404	0.03546	0.0505	0.01984	0.02347	0.037024	0.814528	0.039142
16	0.0303	0.03226	0.0396	0.04484	0.03534	0.06844	0.01603	0.01825	0.05863	0.01916	0.02488	0.02033	0.01597	0.01348	0.02381	0.09615	0.10638	0.0758	0.0119	0.02347	0.036671	1.210155	0.03865
17	0.05455	0.04032	0.09901	0.01345	0.01767	0.07605	0.04808	0.01825	0.04886	0.06897	0.0398	0.06504	0.01917	0.04043	0.04762	0.14423	0.07092	0.0253	0.05952	0.04695	0.049718	0.911495	0.052088
18	0.01818	0.04032	0.02475	0.01794	0.01767	0.03802	0.03205	0.0365	0.05863	0.06897	0.02488	0.02439	0.05112	0.01617	0.04762	0.07212	0.01773	0.101	0.01984	0.02347	0.034908	1.919958	0.037442
19	0.05455	0.12097	0.14851	0.11211	0.17668	0.05703	0.04808	0.10949	0.11401	0.07663	0.199	0.12195	0.09585	0.08086	0.04762	0.02885	0.10638	0.0505	0.03968	0.02347	0.088858	1.629055	0.090528
20	0.09091	0.02419	0.0297	0.02691	0.0636	0.07605	0.0641	0.0219	0.01629	0.01916	0.04975	0.04065	0.01597	0.02695	0.02381	0.02404	0.03546	0.0253	0.00992	0.0939	0.037553	0.413082	0.03886

**Table 4.6: Multivariate Hierarchy**

### 4.5.3.2 Results using Mini-Tab

1. Confidence Level : 95%
2. Sample Size : 517
3. Mean : 2.488
4. Standard Deviation: 0.793
5. Hypothesized Mean: 3.

Test of Hypotheses

1. Ho:  $\mu = 3$
2. H<sub>3</sub>:  $\mu > 3$

(The assumed standard deviation = 0.793)

1. N = 517
2. Mean = 2.4880
3. Standard Error Mean = 0.0333
4. 95% Upper Bound = 2.5428
5. z value = -15.37
6. p value = 0.000

Since the calculated p-value ( $P= 0.000$ ) after the z-test is less than 0.05, the hypothesis is true i.e. Despite examples of benchmarking available to them – often times even within their own peer organizations, networks etc., the SMEs are not amenable to making Strategic changes that affect the Market abilities.

## 4.6 Factor Analysis

### 4.6.1 Hypothesis I:

SMEs Marketing Strategies resulting from appropriate business planning is rudimentary

**Table 4.7 Total variance explained for marketing strategies**

<b>Total variance explained for marketing strategies</b>									
<b>Component</b>	<b>Initial Eigenvalues</b>			<b>Extraction Sums of Squared Loadings</b>			<b>Rotation Sums of Squared Loadings</b>		
	<b>Total</b>	<b>% of Variance</b>	<b>Cumulative %</b>	<b>Total</b>	<b>% of Variance</b>	<b>Cumulative %</b>	<b>Total</b>	<b>% of Variance</b>	<b>Cumulative %</b>
1	2.714	18.093	18.093	2.714	18.093	18.093	2.140	14.269	14.269
2	1.946	12.971	31.064	1.946	12.971	31.064	1.849	12.326	26.595
3	1.614	10.758	41.822	1.614	10.758	41.822	1.617	10.782	37.377
4	1.466	9.775	51.597	1.466	9.775	51.597	1.560	10.397	47.774
5	1.323	8.821	60.418	1.323	8.821	60.418	1.555	10.365	58.138
6	1.080	7.201	67.620	1.080	7.201	67.620	1.422	9.481	67.620
7	.993	6.622	74.242						
8	.946	6.308	80.550						
9	.741	4.942	85.493						
10	.660	4.401	89.894						
11	.470	3.131	93.024						
12	.362	2.413	95.437						
13	.300	1.999	97.436						
14	.222	1.477	98.913						
15	.163	1.087	100.000						
Extraction Method: Principal Component Analysis.									
<b>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</b>							.744		
<b>Bartlett's Test of Sphericity</b>				Approx. Chi-Square			1.016E3		
				df			120		
				Sig.			.000		

**Table 4.8 Rotated component matrix<sup>a</sup> for SMEs marketing strategies**

Rotated component matrix <sup>a</sup> for SMEs marketing strategies						
	Component					
	1	2	3	4	5	6
ROII					.831	
Regl				.698		
Ecotrends					.616	
Sociocul	.705					
Techdev						.659
Awareness		.681				
Lifestyleappr		.802				
Upgrade	.618					
Innov			.708			
Largesupp				.752		
Largebuy	.798					
Substitute			.759			
a. Rotation converged in 21 iterations.						

SMEs are slow to adapt to Socio-cultural necessitating technological upgradation that become incumbent due to changing trends in the market. New substitutes and innovations adversely impact the SMEs because they seem to be muddled with their day-to-day operations, with little head paid to the changes that happen slowly but surely. Also of importance is the increasing need for regulatory compliances that are demanded by the suppliers.

**Table 4.9: Component Factors leading to rudimentary marketing strategy**

Component Factors leading to rudimentary marketing strategy					
Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6
Socio-cul Upgrade	Awareness Lifestyle App	Innov. Substitute	Regl Large supp	ROII Eco-trends	Tech dev
Technological Preference	Market Trends	Product Innovation	Supplier Compliance	Economic Trends	Technological Development

The need to keep a watch on the economic trend is again a weak point that adversely hit the SMEs, who fail to upgrade themselves to newer technologies that not only help enhance productivity but also helps the keep up with the trends. Hence SMEs need to get their act together giving due importance and take steps in following order of priority (after taking FA and AHP Weights):

1. Technological Development (7.97)
2. Product Innovation (7.03)
3. Supplier Compliances (6.87)
4. Economic Trends (6.55)
5. Technological Preferences (5.13)
6. Market Trends (4.75)

***4.6.2 Hypothesis II:***

SMEs do not have the required Business skills to anticipate and match it to the fast changing business environment and market needs

**Table 4.10: Total variance explained for business skills**

<b>Total variance explained for business skills</b>									
Comp.	<b>Initial Eigenvalues</b>			<b>Extraction Sums of Squared Loadings</b>			<b>Rotation Sums of Squared Loadings</b>		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.101	19.531	19.531	4.101	19.531	19.531	2.955	14.073	14.073
2	2.469	11.759	31.290	2.469	11.759	31.290	2.505	11.931	26.004
3	2.035	9.692	40.982	2.035	9.692	40.982	2.041	9.719	35.723
4	1.770	8.426	49.409	1.770	8.426	49.409	1.736	8.266	43.989
5	1.470	6.999	56.408	1.470	6.999	56.408	1.716	8.174	52.163
6	1.294	6.163	62.571	1.294	6.163	62.571	1.689	8.041	60.204
7	1.108	5.275	67.847	1.108	5.275	67.847	1.605	7.642	67.847
8	.974	4.639	72.486						
9	.905	4.309	76.795						
10	.795	3.787	80.582						
11	.755	3.597	84.180						
12	.577	2.748	86.927						
13	.490	2.332	89.259						
14	.469	2.231	91.491						
15	.407	1.939	93.430						
16	.360	1.712	95.142						
17	.318	1.515	96.657						
18	.269	1.280	97.937						
19	.188	.897	98.833						
20	.151	.717	99.551						
21	.094	.449	100.000						

**Table 4.11 Component factors leading to developing business skills and anticipation**

<b>Component factors leading to developing business skills and anticipation</b>					
Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6
ProcChange Coursecor KPI	Growth Quality Customer	Global comp Import Global int	Ready wor Finnimb	Challenge Inovman	Envi Export
Change Management	Quality	Global Impact	Financial Agility	Proactive Innovation	Business Environment

The business environment is frequently changing and anticipating these changes before they happen is an important factor for survival of SMEs. Quality improvement in the face of highly competitive market conditions, driven by global players and maintaining a financial liquid situation can help SMEs tide over tough times. Hence, and SME must at all times look for innovations in its processes and products to match global impacts. This means SMEs will do well to keep themselves well-informed of their eco-systems and eventually look to take competition to the arena of the global operators. Hence SMEs need to get their act together giving due importance and take steps in following order of priority (after taking FA and AHP Weights):

1. Proactive Innovation (5.59)
2. Business Environment (5.39)
3. Financial Agility (5.28)
4. Change Management (4.86)
5. Global Impact (4.10)
6. Quality (3.61)

#### ***4.6.3 Hypothesis III:***

Despite examples of benchmarking available to them – often times even within their own peer organizations, networks etc., the SMEs are not amenable to making Strategic changes that affect the Market abilities

**Table 4.12 Total variance explained for benchmarking**

<b>Total variance explained for benchmarking</b>									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.663	18.315	18.315	3.663	18.315	18.315	2.445	12.224	12.224
2	2.526	12.631	30.946	2.526	12.631	30.946	2.355	11.776	24.000
3	1.961	9.805	40.751	1.961	9.805	40.751	1.996	9.978	33.978
4	1.707	8.537	49.289	1.707	8.537	49.289	1.746	8.732	42.711
5	1.460	7.300	56.588	1.460	7.300	56.588	1.666	8.328	51.038
6	1.189	5.947	62.536	1.189	5.947	62.536	1.526	7.628	58.667
7	1.066	5.329	67.864	1.066	5.329	67.864	1.471	7.355	66.022
8	1.036	5.179	73.043	1.036	5.179	73.043	1.404	7.022	73.043
9	.885	4.425	77.469						
10	.840	4.202	81.671						
11	.748	3.738	85.409						
12	.710	3.552	88.961						
13	.480	2.398	91.359						
14	.428	2.142	93.501						
15	.395	1.974	95.475						
16	.260	1.301	96.776						
17	.229	1.144	97.920						
18	.184	.918	98.838						
19	.137	.684	99.521						
20	.096	.479	100.000						
Extraction Method: Principal Component Analysis.									
<b>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</b>							.794		
<b>Bartlett's Test of Sphericity</b>				Approx. Chi-Square			4.276E3		
				df			210		
				Sig.			.000		

**Table 4.13 Rotated component matrix<sup>a</sup> for benchmarking**

Rotated component matrix <sup>a</sup> for benchmarking						
	Component					
	1	2	3	4	5	6
Play-ind						
Quitters			.841			
Fin-weak			.781			
Gov-sup					.709	
Changes		.657				
Eco-crisis	.810					
Forex	.807					
Supp				.821		
Buyer				.821		
Flexi	.683					
Leader		.635				
For compt					.723	
Lev compt		.659				
Biz inov						
Mkt		.684				
Plan						.903
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.						
a. Rotation converged in 7 iterations.						

**Table 4.14 Component factors leading to developments of strategic benchmarking and networking skills**

Component factors leading to developments of strategic benchmarking and networking skills					
Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6
Eco-crisis Forex Flexi	Changes Leader Lev compt. Mkt	Quitters Fin-weak	Supp Buyer	Gov-sup For compt.	Plan
Economic Uncertainty	Competitiveness	Precedence	Buyer Supplier Relations	Negative Attribution	Planning

SMEs have a tendency to stick to their ways. There is need for being vigilant about changing economic situations as globalization puts pressure on their markets and be flexible in their approach. At all times they must be alert to changes in the market and must learn the art of leveraging competition in their favor. This requires, given their limited resources to benchmark themselves against industry leaders and their willingness to meet and even beat those standards. Networking with the peer groups and keeping tab on financially weaker companies and what they could do to avoid those follies is a good way in which SMEs can ensure survival. SMEs must also realize that they are part of an eco-system and hence they need to ensure excellent relationship with both their suppliers and their buyers. Government support can be lobbied only if there is a strong network amongst the peers and a unified action though this network could help ward off foreign competition. All this could well happen if the SME plans meticulously. Thus, the SMEs need to prioritize (taking FA and AHP Weights into account):

1. Competitiveness (6.03)
2. Precedence (6.02)
3. Negative Attribution (5.81)
4. Buyer Supplier Relations (4.82)
5. Economic Uncertainty (4.71)
6. Planning (3.89)

#### **4.7 Structural Equation Modeling (SEM) to propose a business model for a successful SME**

##### **4.7.1 About SEM**

SEM equips practitioners to hypothesize models of behavioral aspects of an eco-system and scientifically test these models. Variable in structured equation system are normally observed directly measured variable and unmeasured latent variables that may not be easily relatable to the directly noticeable variable. The assumption here in SEM is that there is a casual structure to latent variables and measured variables have some relationship with them. And this, may lead a combination of measureable variables or to a set of intervening variable that may be more obvious (Byrne B. M., 1994).

#### 4.7.2 Proposed SEM modeling for success of SMEs

The dependent factor viz. successful SME; was calculated by taking the average of items viz. superior rate of return, anticipate and plan, and innovations; from the questionnaire. These items were part of the questionnaire. These items were taken from the literature and validated by expert opinion.

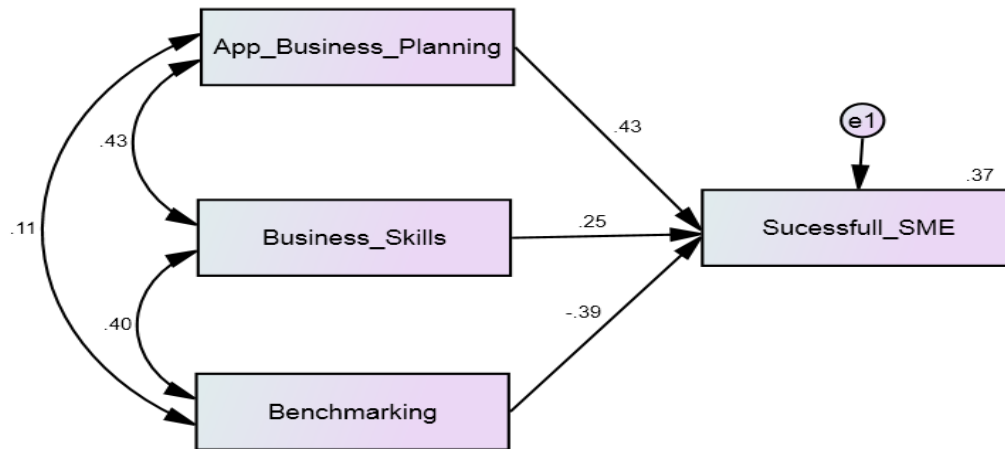
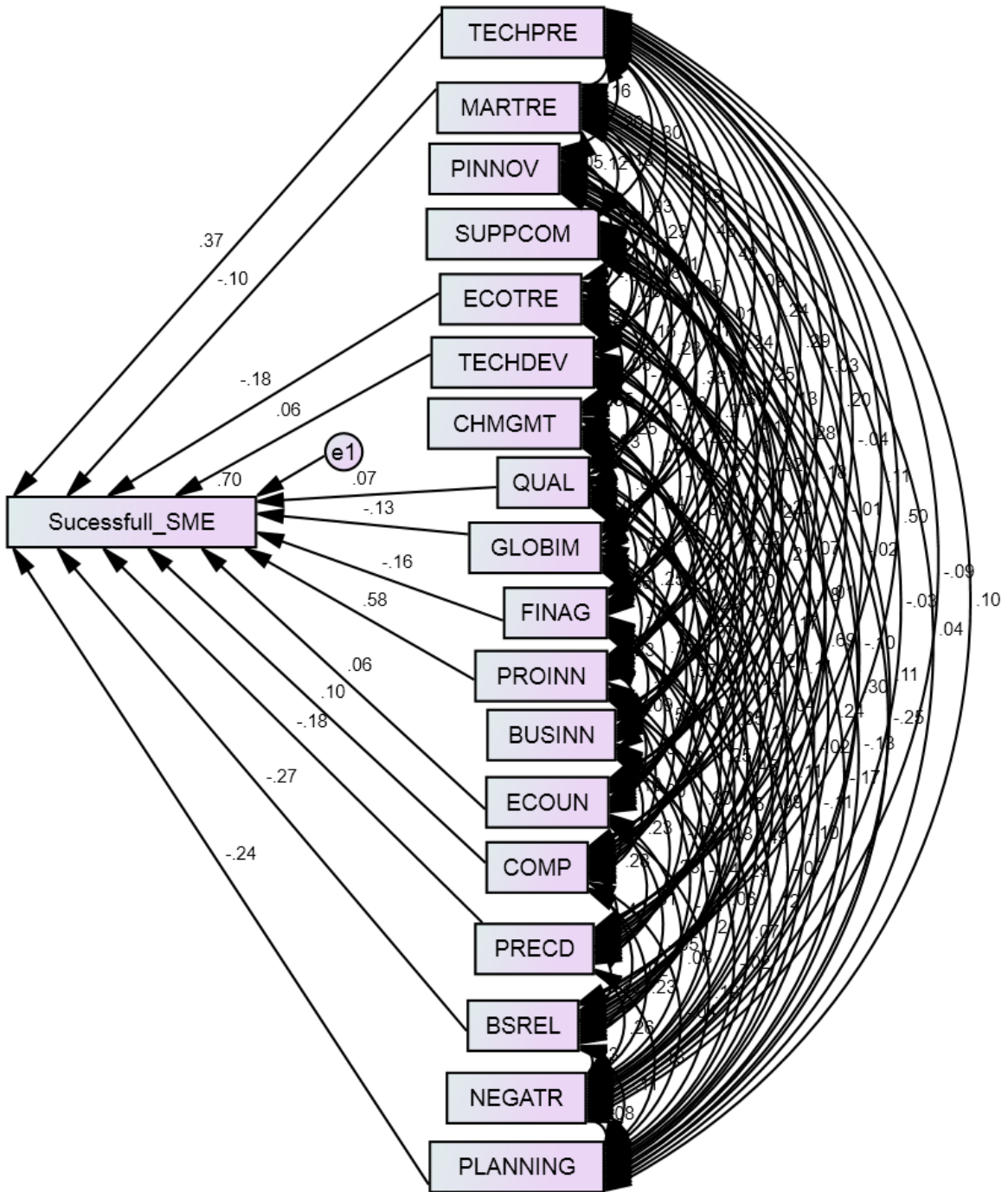


Fig. 4.60: Structural Model I

#### 4.15 Structural Model Relationships I

Relationship			Unstandardized Estimates	Standardized Estimates	S.E.	C.R. (t Values)	P	Hypotheses Significance
Successful_SME	<-	Business_Skills	0.363	0.248	0.061	5.928	***	Supported
Successful_SME	<-	Benchmarking	-0.496	-0.39	0.048	-10.275	***	Supported
Successful_SME	<-	Apply Business_Planning	0.509	0.427	0.046	11.062	***	Supported
Squared Multiple Correlations (Also known as R Square) for 'Successful SME' = 0.374								
SEM Model Fit Statistics: CFI = 0.999; GFI = 0.999; NFI = 0.999; RMR = 0.001; CMIN/df was unidentified								



**Figure 4.61 Structural Model II**

**Table 4.16 Structural Model Relationships**

Relationships			Unstandardized estimates	standardized estimates	S.E.	C.R. (t Values)	P
Sucessful_SME	<---	PLANNING	-0.224	-0.248	0.026	-8.542	***
Sucessful_SME	<---	NEGATR	0.027	0.049	0.018	1.471	0.141
Sucessful_SME	<---	BSREL	-0.18	-0.261	0.034	-5.265	***
Sucessful_SME	<---	PRECD	-0.086	-0.181	0.015	-5.642	***
Sucessful_SME	<---	COMP	0.147	0.095	0.052	2.852	0.004
Sucessful_SME	<---	TECHPRE	0.322	0.385	0.036	8.85	***
Sucessful_SME	<---	MARTRE	-0.101	-0.106	0.03	-3.403	***
Sucessful_SME	<---	PINNOV	0.032	0.055	0.025	1.279	0.201
Sucessful_SME	<---	SUPPCOM	-0.052	-0.054	0.044	-1.18	0.238
Sucessful_SME	<---	ECOTRE	-0.118	-0.159	0.022	-5.468	***
Sucessful_SME	<---	TECHDEV	0.016	0.042	0.014	1.154	0.248
Sucessful_SME	<---	CHMGMT	0.039	0.04	0.033	1.171	0.242
Sucessful_SME	<---	QUAL	0.046	0.057	0.026	1.759	0.079
Sucessful_SME	<---	GLOBIM	-0.085	-0.117	0.024	-3.518	***
Sucessful_SME	<---	FINAG	-0.215	-0.152	0.052	-4.136	***
Sucessful_SME	<---	PROINN	0.388	0.529	0.031	12.346	***
Sucessful_SME	<---	BUSINN	-0.013	-0.027	0.014	-0.937	0.349
Sucessful_SME	<---	ECOUN	0.033	0.046	0.029	1.13	0.259

Since in the above structural model relationships, CMIN/df was unidentifiable hence model relationships with all 18 factors that were obtained through EFA (Exploratory Factor Analysis) by taking the dependent variable i.e. successful SMEs; was tested. The structural model figures and outcome are shown in Figure 4.61 and Table 4.16. As is evident from the above Table 5.2, the CMIN/df has become identifiable and R<sup>2</sup> value has improved.

The model proposed is based on secondary analysis as the dependent variable - “success of SMEs” - had to be established through factors analyzed through SPSS data. The most important factors for the SME owners/managers to consider are:

1. Proactive innovation (0.529)
2. Technological Preferences (0.385)
3. Competitiveness (0.095)
4. Quality (0.057)
5. Product Innovation (0.055)
6. Negative attributes (0.049), that is Governmental supports and required compliance

## **CHAPTER – V: CONCLUSION, LIMITATIONS AND FURTHER STUDY**

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### **5.1 SMEs: Growth, Marketing and Strategy**

SMEs are backbone of almost every economy on the globe. In India, SMEs account for 95 per cent of the total number of industrial units in the country besides contributing up to 45 per cent of India's industrial output and 40 per cent of India's exports (Pandey and Singh, 2012). In the recent budget (FY 2014-2015), the government had announced an INR 100 billion fund for creating new businesses (Jaitely, 2014). There is a dedicated Ministry for MSME (Micro, Small in India to facilitate SMEs and micro enterprises to become more productive and help them grow to transform themselves into bigger organization. However there is curiosity in the SMEs policy-formation and research to identify the peculiarities that differentiate firms that show growth from those that are static or sick. This is thought to be essential to understand this phenomenon if more focused and innovative SME policies are to be created. Recognizing such defining characteristics of SMEs that aid profitability as opposed to the less fortunate one, might additionally afford understanding of the elements that affect this sector, resulting in improvements, which might consequently enhance understanding of the development process (Turok,1991). A more comprehensive finding on the research and policy adjurations for the winning traits amongst SMEs universally was explored by Gibbs and Davies(1991; 1990; 1989).

The literature review had shown that there is a lot of interest amongst the SME stakeholders to understand this phenomenon. Also, there are many grey areas regarding it as well. O'Farrell and Hitchens (1988) had opined, "At present an adequate explanatory framework within which to analyze the growth of the small owner-managed manufacturing enterprise has not been developed". On the premise of their studies, Gibb and Davies (1990) have expounded that "The production of such a theory and explanation in the near future was unlikely". The formulations by research scholars and authorities are still constrained to pick, short of certainty, amongst flawed depictions or descriptions SME development.

This study focused on hypothetically robust and factually acceptable clarification of SME development to deliver a widely applicable factors and resultant policy in regard to the business

development and growth. The study has endeavored to develop an exchange model utilized by practitioners in the field to portray and clarify business development forms amongst SMEs. One phase of development model specifically is depicted with some subtle elements and has then been painstakingly assessed in the light of contemporary literature to observe whether it seems to be the panacea for the key failings leading to vibrancy and success. The model was likewise looked at comprehensively with an exchange gestalts of SME development viewpoints (refer Chapter 2 above), which has as of late reinforced this thesis. The study, hence, is a conglomeration of the literature and survey leading to the conclusions reached in Chapter 4.

### **5.1.1 Growth – A measure of success in SMEs – explained**

Extensive academic understandings on business development in economic studies may be found in works by Acs, (1995); Reid, (1993); McMohan, Holmes, Hutchinson, & Forsaith (1993) Keasay & Watson, 1993; Acs & Audretsch, (1990); Johns, Dunlop, & Sheehan, (1989); Brocks & Evans, (1986) Casson, (1982) Lindgren & Aislabie, (1976); Marris & Ward, (1971). The most valuable scholarly research on the development of SMEs are those of Holmes & Zimmer (1994); Hanks, Watson, Jansen, and Chandler, (1993); Gibbs & Davies, 1991; 1990; 1989; Chell & Haworth, (1988); O'Farrell & Hitchens, (1988). These are all considerable and discerning studies of earlier research which has endeavored to clarify the passage and process of development in SMEs. Also, Birley & Westhead, (1990) gave a broad examination of contemporary research which works as a preface to recounting exact discoveries on development and execution differentiates in SMEs. Essentially, these surveys are expansive and extensive; and, all things considered, they are not limited to the point of view of a specific scholastic control or to a solitary illustrative standard for development.

In more recent times, various stage models of SME development have been examined with significantly deeper insightfulness. Substantive endeavors have been made to incorporate the multitude of models that are grounded in factual and experiential base. The recommendations made in research works of Hank & Chandler, (1994); Hanks, Watson, Jansen, & Chandler, (1993); Dodge & Robbins, (1992); Hanks, Watson, & Jansen, (1991); Kazanjian and Drazin, (1990); Hanks, (1990a; 1990b); Kazanjian and Drazin, (1989); Kazanjian, (1988); are

especially helpful in this direction. Much of the examination regarding this research has been included in Chapter 2 and is generally rooted in strategy management thought.

### **5.1.2 Importance of marketing in SMEs**

Excessive dependence on agriculture leads to the low income of the people. As a result of heavy reliance on agriculture, developed industrial sector and larger markets are not readily available to them within the country. Relatively there is a need for promotional activities. Since the supply for many products exceeds their demand, there is need to improve the existing marketing method. The developing nations are in the process of industrialization. Marketing is a dynamic process as it is highly situational. It is concerned with the activities involved in the flow of goods and services from producer to consumer. As the dimension of marketing activities has undergone a radical change with the change in environmental conditions of business, the concept of marketing too has undergone a metamorphosis. Efficiency and productivity of marketing are directly linked with the growth and development of the economy as a whole. Marketing, when effectively performed, contributes to the higher living standards, greater national prosperity and broader industrial expansion.

Marketing is an essential input for the success of small scale industries which produce wide range products. Companies have to move from traditional marketing to modern marketing. The problem of marketing did not to a large extent arise in 1950s. Anything that could be produced was sold irrespective of quality or price. But now the position has changed. There is keen internal competition. Marketing has moved from the periphery to the centre of the problem. There are several specific marketing problems affecting the small scale sector. Among these are poor product quality, the lack of standardization, poor finish, poor after-sales service and excessive competition among small units. The marketing problem is so acute that some units have become sick as a result of the failure of their marketing operations.

Marketing issues are often so acute that quite a few SMEs have become sick, often due to insipid marketing endeavors at reaching out to the consumers. Some of the elements which help bolster the marketing problems of the smaller enterprises have been recognized, lately as under:

1. Increasing rivalry between SMEs and in addition from large commercial enterprises with recognized brands and channels of distribution
2. Awareness amongst consumer, even in rural and small towns, for quality products.
3. The need to set up a network of supportive channel partners for connecting rather scattered markets
4. Inability of the SMEs units to venture into markets out of their catchment areas and/or international markets

Thus, strategizing marketing demands much greater attention not only from business owners especially in the SME sector but also from our planners and economists. The strength of the SME sector lies in its improved ability to compete with quality products in the world market which in turn depends on the health of the industry in India. The imperfections of the market and the advantages that large firms enjoy due to their wider marketing network and relatively greater brand loyalty put the small scale industries at a severe loss. To overcome this loss and assist the small scale industry sector in marketing its products most effectively in India, as also in other countries, the governments must introduce a variety of promotional measures grouped under the “Marketing Support Scheme”. The strength of the small business lies in its improved ability to market its quality products in the world market, whilst matching competition locally. Indeed, for SMEs “Marketing is business” and for this SMEs need to craft appropriate strategies in consonance with the external environment, emerging trends and internal strength.

## **5.2 Fulfillment of research objectives**

The primary reason for existence of any successful business is that it must serve the customer and society in which the firm operates. Therefore there is need for a more holistic view of marketing strategy and business planning amongst SMEs in a continuum and see how all this could meld to serve the customer/consumer as a measure of their possible success or failure. Thus, this study was undertaken with four objectives in mind, as under:

1. How and why are some SMEs succeeding even as the business environment is rapidly changing and becoming more competitive than ever before? This becomes even more pertinent with the velocity of WTO led globalization affecting just about every aspect of business and life.

2. What is it that has been done right and is sustainable? Do the same paradigms hold in this era of “Global Trade and Commerce”?
3. What could be done to salvage sick or becoming sick SMEs and thus free the huge investments locked-in to become productive and contribute to the Indian economic success.
4. Given that over 90% of the SMEs in the country are family run, where often they do not have all the necessary education and training to actually visualize and implement strategic and tactical actions, there is need to probe how could SMEs professionalize their approach to rejuvenate and calibrate their own destinies in a fast globalizing economy scenario?

### **5.2.1 Determining success factors for SMEs**

Large amount of research work and opinion have been directed to discover what is it that differentiates a successful business from one that is tottering. Chapter 2 and various works quoted in all the chapters in this study were studied to find research gaps. Having done that, a methodology and designing of questionnaire based of the available literature was arrived at and this has been elaborated in Chapter 3. Analysis, data appropriation and discussion was done and reported in Chapter 4. A discussion to set in perspective these factors was also continued in the earlier pages of this chapter.

### **5.2.2 Gleaning sustainable success factors**

Whilst literature available throughout this thesis has been used as the basis for culling out factors that contribute to sustained success of a SME, the most important chapter here is the Chapter 4 where an attempt has been made to present a set of factors that SMEs may use to develop and succeed. Structural Equation Modeling (SEM) has been used for presenting a relationship model of factors identified by our findings of factors in the order of priority as:

1. Proactive innovation (0.529)
2. Technological Preferences (0.385)
3. Competitiveness (0.095)

4. Quality (0.057)
5. Product Innovation (0.055)
6. Negative attributes (0.049), that is Governmental support and requisite compliances.

### **5.2.3 Attempt to salvage the weak or dying SMEs**

An attempt has been made to construct a sequence of steps, based on the analysis discussed in chapter 4, the SMEs must take to beget success. These very same paradigms, it is argued, would hold true for SMEs that are struggling for survival or are looking for revival.

### **5.2.4 Professionalizing SMEs for globalization**

The proposed sequence of steps to be taken are generic (it may require industry-specific customization) but it by and large needs attention of the SME owner-manager as also the policy planners. Whilst skill development is now receiving much attention from the Government to equip the SMEs with manpower of global caliber; it is important that these owner-managers must develop a global vision and strategize and align their businesses in consonance with fast changing eco-system to succeed.

## **5.4 Conclusions and management take away**

Globalisation and advent of internationally active SMEs is now trending and nations have to facilitate the SMEs in their country to align themselves to the WTO regime. Hence, planning to retain markets and acquire new one through sound marketing would be a great strategy. However, it does appear that SMEs are loath to get into active marketing either by choice or by lack of resource planning (Knight, 1993). One of the major factors of globalisation is “de-territorialisation” i.e. the severance of local social, political and cultural practices. This affects people’s identity encouraging them acquire new beliefs and behaviour patterns to “re-territorialize” and thus forge an identity contributing to changing preferences and trend (Kale & De, 2013).

On the other hand to cater to this quicksand market situation as nations seek to globalise, co-operation amongst organisation, particularly SMEs is a marketing strategy that help grow

markets and acquire new ones particularly where there is all pervasive globalisation and competition. Such cooperation allows the SMEs abilities much greater that what they can do alone as such actions usually paves the way for greater exchange of experience, information and knowledge that can be help innovate and bring out competitiveness (Maldonado-Guzman, González-Campo, & Galvez-Albarracín, 2012).SMEs exist at both upstream and downstream ends of a business eco- system. How they formulate their strategies can make all the difference (Phulpagar & Koilakuntla, 2011). A company is said to be market-oriented if it has been listening to its customers, understanding their needs and developing products or services in accordance believe this could give them that crucial competitive advantage. There is a lot of support in the belief that the “voice of customer”, is the fulcrum point in making their strategic decisions. In reality though, firms are finding that it is not really being responsive to customer stated perception but by defining what customers are looking for “that convenience factor, which upgrades” and thus shape their purchase criteria and thus create new customers and value propositions (Dawar, 2013). This means that SMEs need to be innovative in their approach to the market and be assertively competitive to ever-changing business scenarios

The empirical research finding on marketing strategy and business planning obtained in this research has been cross-validated by undertaking two case studies in the Pune region. Pune is also one of major automotive hub in India. These cases were pertaining to “Madhu Automobiles” (Nandkeolyar, Pandey, Kiran, and Kumar, 2013)– an automotive workshop and “Radiant Consulting” (Nandkeolyar, Pandey, Kiran, and Kumar, 2014)– an automotive supply chain service provider. The finding of both the case studies (published in The Case Centre,UK) were in consonance with the research findings and thus validated the research findings.

This study attempted to critically analyse the marketing strategy and business planning processes of SMEs in order to offer some insights that have wider application and are not restricted to the specific type of SMEs, though the survey done were centred around Automotive and Light Engineering Sectors in India. It looks at marketing as a strategy for planning the business for SMEs in the global context and endeavours to illustrate factors that could help SMEs become competitive and agile in the dynamic era of globalisation. SMEs like all business must sell their products/services to survive tomorrow (Tripathi & Siddiqui, 2012) and for that Marketing

Strategy and Business planning needs their attention. For, without that no amount of support coming from other stake holders in the eco-system can make them succeed. Hence, to re-iterate, “Marketing is Business!” and strategizing for good marketing and business planning becomes important.

Quite different from what used to happen in the ‘Licence Raj’ when industry enjoyed a lot of protection and market was starved for choice, the opening up of the Indian economy in the early 1990s, not only liberalised domestic competition, but also owing to India’s alignment with the WTO; opened the floodgates of foreign goods and services. This meant SMEs need to become more nimble and alert in order to survive and grow. This study through the three hypotheses looks at what they need to pay attention to. Ability to strategize their outreach requires a set of strategies to retain and acquire markets.

Hypothesis  $H_1$  supports that SMEs must sequence their strategic priorities to become technological contemporary (7.97); look for innovations that they can create in their offerings (7.03), devise methods to manage suppliers and regulatory compliances (6.87). They then need to be aware and proactive about fast changing economic trends (6.55) that could affect their businesses and be abreast of changing customer’s technological preferences (5.13) and the resultant market trends (4.75).

Hypothesis  $H_2$  deduces that in order to remain competitive and relevant SMEs must first be proactively innovative (5.59). It is similar to the finding by Gopalkrishana, Kessler and Scillitoe (2010). Further SMEs should not only be innovatively proactive in their offering but also take care of their processes and procedures to manage costs. Next important focus should be managing the business environment (5.39) especially the fluctuating currency and constantly changing market conditions. Indeed SMEs must anticipate and even speculate changes. This means they must manage their cash flows and funds to remain financially agile (5.28). This requires them to have best change management (4.86) practices with clear understanding of global impact (4.10) it may cause on SMEs. Quality (3.61) management has to match international standards both in service and right strategies need to be put in place to ensure doing “things right first time and every time”. This is similar to findings by Prashar and Jaisal(2008).

Benchmarking and networking skills besides strategy are known to have been good aids for SMEs the world over (Geetika and Pandey, 2007). In fact clusters are good examples of this. Hypothesis H<sub>3</sub> reflects that focus must be on competitiveness (6.03) borne out of 'co-optition', where SMEs are able to share and learn from each other. Precedence (6.02) is important tool for understanding what could go wrong and what would make them win. This could enable them to identify the negative attribution (5.81) and through their networked associations ask for the right kind of support from government and their other stake holders. SMEs depend on suppliers for their production and then mostly supply finished goods to a designated "mother unit" as ancillary to them. The SMEs need to have strategies in place to manage buyer-supplier relationships (4.82). As in Hypothesis H<sub>2</sub>, SME must strategize either as part of a network or even by themselves to anticipate the economic uncertainty (4.71) that could positively or negatively affect them. And finally, once they have formulated strategies to address all the factors suggested in H<sub>1</sub>, H<sub>2</sub> and H<sub>3</sub>, a structured and sequential planning (3.89) is required so that they can review it from time to time by benchmarking themselves with the global leader.

Therefore SMEs seem to be rather unstructured in their approach to business. There is a need for more effective entrepreneurial drive, astute management inputs, market scouting and technological upgradation. This affects their competitiveness in the face of global competition as they are already facing or likely to soon face, despite all the help given by Government and other stakeholders in the business (Singh and Belwal, 2008). Whilst it is granted that they are limited in their resources, there is hardly any substitute for good structured approach for resolving issues to keep their nose above water and then thrive. This study brings out, to a large extent, the factors based on AHP and Factor Analysis that there are a few factors as outlined above needs their immediate attention and depending on the sector and their own resource capabilities they need to prioritise those factors in order to help themselves. The weights are given using AHP. Though they are truer for the automotive and light engineering sectors but have relative relevance for other sector of the SMEs space with only slight, if any, variance. Market-centric strategies and business planning seems to be the way forward and SMEs need to help themselves to remain buoyant.

However, this is far too many things to do for SMEs all at once, given their constraints of resources. However, there was still a case for planning and marketing strategy as the way to

success. Hence, the SMEs need to go step by step as culled from the SEM referred in chapter 4. In order to be successful an SME would have to take the following steps:

1. Being small and resource-crunched, SMEs must constantly be innovating in all of its business processes to stay ahead of the competition.
2. Awareness of advances in technology and being prepared for the changing scenario, even when the resources are limited, means they must make right choice of technology they use.
3. At all times, they would need to be assertively competitive and sensitive to the actions in the market by other players such that they are able to leverage competition to their advantage.
4. Building quality in their entire endeavor means systematizing their business processes to give them a leg-up on their competitors besides coming with substitute offerings.
5. SMEs need to improve and innovate in their offerings especially product innovation.
6. Thorough understanding of support mechanism in terms of subsidies, loans, excise exemption schemes, industrial testing facilities, etc. available from the Government besides the mandatory compliances would help smoothen operations and free them to fully concentrate on the business of their business.

These findings are somewhat in line with suggestions that were made by Blackburn, Carey, and Tanewski (2010) and Berry, Sweeting and Goto (2006) and are somewhat in confrontation with the finding of Pavit, Robson, and Townsend (1987) and Nafziger and Terrel (1996). But these similarities and differences are the proof of ever-changing business eco-system. In fact the literature is full of for and against opinions as outlined in chapter 2. The intention of this study was to fill in the gap in knowledge of what Indian SMEs in automotive sector could do to help themselves win. And the findings make a strong case for the criticality of business planning and market strategy as the panacea for all that plagues them. Admittedly, constraints of resources and time do pose a challenge but that notwithstanding the Indian SMEs, particularly in the automotive sector, need to constantly scan the business environment, anticipate the changes in technology, trends, and economic conditions. And this calls for putting planning process in place for themselves rather than depend on their “mother units” or the Original Equipment Manufacturers (OEMs) and quite rigorously so. This automatically means that they need to indulge thoroughly in strategizing their marketing practice to anticipate and fill gaps in market before their competition from domestic or overseas player.

### **5.7 Limitations of this research work**

Whilst the significance of this research work is undoubtedly useful to academics, policy planners and SMEs, it still may have its own limitations. However, these limitations become opportunities for further inquiry and research. One of the limitations is that the data used pertains to one industry segment i.e. automotive sector, of one emerging economy. So the models proposed, though largely applicable to all SMEs, may need further tweaking based on research focussed on other segments of the SMEs universe. This limitation was primarily a function of paucity of time and a variety of constraints available.

The study has been conducted in select automotive clusters of India. There is need to cover more automotive clusters, especially the smaller clusters around Rudrapur, Patna, Pinjore, etc..This will bring further better perspective to the success factors for SMEs.

Whilst this study has focussed essentially on proposing a business model which should help SMEs in the automotive sector to help themselves, there is still a scope for further inquiry into how could other stake holders catalyse this action to unleash the hidden potentials that SMEs offer quite naturally.

Caution and care was exercised in ensuring a fair response to the questionnaire. However, it cannot be said to free of individual biases of owner-managers, as the world of SMEs in India is shrouded with veil of confidentiality for a variety of reason – above and below board.

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## **Publications and Conferences**

### **My publications:**

- i. **“4 P’s of SMEs: Need for Marketing Paradigm Shift”** in **Journal of Studies (JoS)** Vol. 2 Issue 2, pp 85 – 91
- ii. **“Strategic Marketing Options and Firm Performance: A Case of an Independent Automobile Workshop”** in **South Asian Journal of Marketing & Management Research (SAJMMR)**, Vol. 4 Issue 4, pp. 1-15.
- iii. **“Market Strategies of SMBs With Special Reference To Automotive And Light Engineering Companies: Insights from India”** in **International Journal of Management Research and Review (IJMRR)** Vol. 4 Issue 2 , pp. 300-312.
- iv. **“Analysing Business and Marketing Environment for Automotive Component SMEs in India”** in **International Journal of Decision Making and Management (IJDMM)** Vol. 1. Issue 1; pp. 19-24
- v. **“Influence of Strategic Planning Process on SMEs: A Study of Marathwada Region in India”** in **Anvesha** Vol. 1 Issue 1, pp. 30-44
- vi. **“Managing Business Planning and Growth: A Case of Small Scale Service Business Enterprise (SSSBE) in India”** – Case Centre Code 513-085-1 and 513-085-8 for the relevant Teaching Notes
- vii. **“Madhu Automobiles: Managing Marketing Strategy for Success”** - Case Centre Code 513-114-1 for the case study and 513-114-8 for the relevant Teaching Notes.

### **International Conferences Attended:**

- i. Presented a Research Paper entitled **“Marketing Strategies for Small and Medium Enterprises in the Face of Global Recession and Beyond”** in International Conference: **“Spectacular Execution – The Need of the Hour”** - Organized by Pravish Rajnam Centre For Management Education from December 27-29, 2013 at Delhi. The Paper won **Best Paper Presentation Award**.

Presented a Paper entitled “**Management of Marketing Strategies For Small and Medium Enterprises in the Era of Globalization**” in 13<sup>th</sup> International Conference : “**Emerging Trends, Challenges & Opportunities in Global Business Management, Tourism & Information Technology 2013**” – Organized by Research Development Association and Research Development Research Foundation, in collaboration with Rajasthan Chamber of Commerce, Jaipur and in association with Karnataka Law Society’s Institute of Management and Research, Belgaum from September 28-29, 2013. The Paper won **Best Paper Award**.