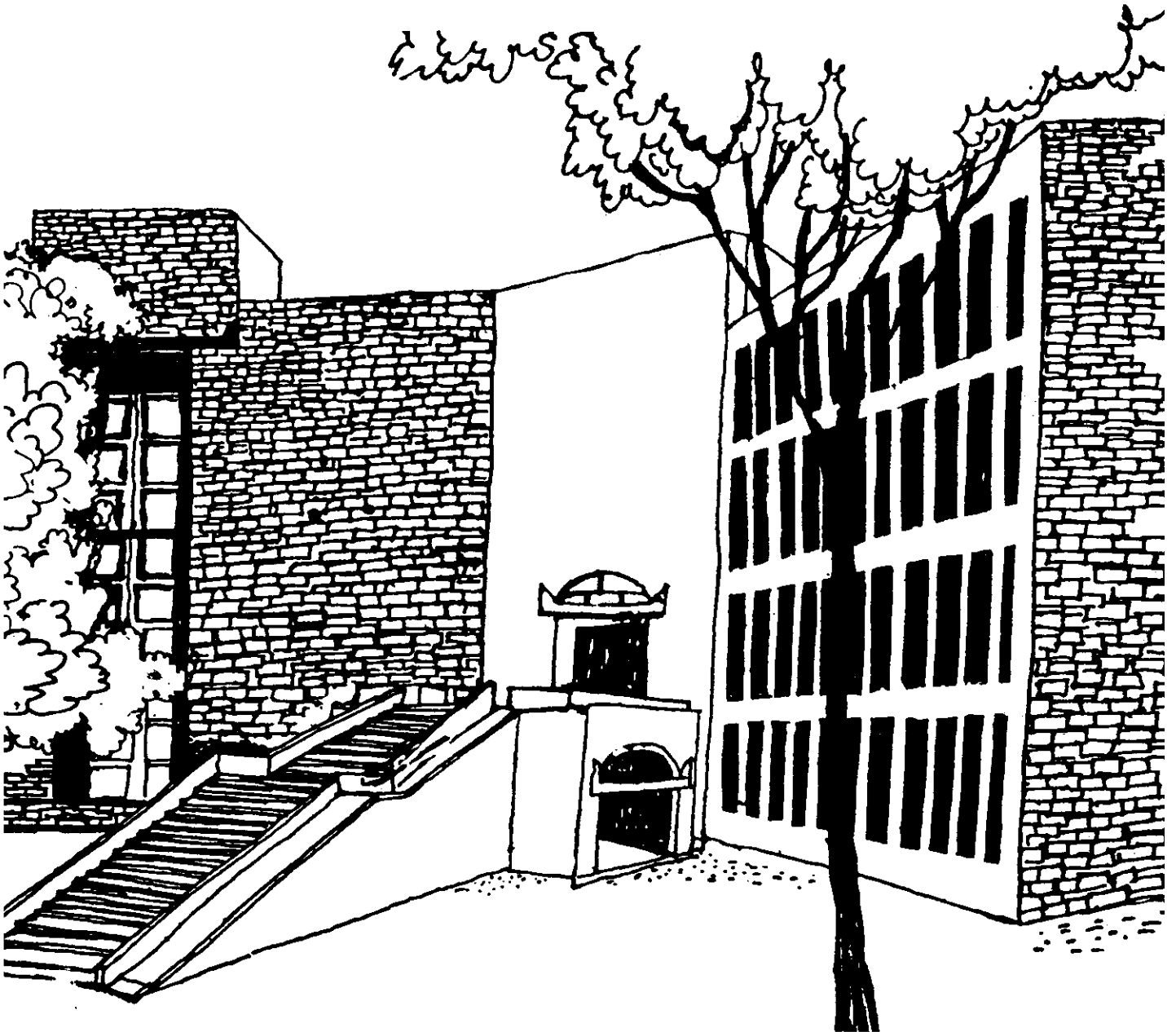




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STRATEGIC PLANNING PRACTICES OF
SMALL SCALE ENTERPRISES

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STRATEGIC PLANNING PRACTICES OF SMALL SCALE ENTERPRISES

Prof. K. Ramachandran

Abstract

Although there is some evidence to suggest that small scale enterprises also make strategic plans, there is still a lot of suspicion about its usefulness for small firms. The basic question is that given their level of operations and resource structure what kind of planning is possible in small firms. This study covering 117 small scale enterprises located in Ahmedabad attempts to answer some of the questions related to strategic planning practices of such firms. It is observed that most of the firms do undertake analysis of the constituents of the environment such as suppliers of materials, customers and implications of government policy changes. They also undertake analysis of their own strengths and weaknesses. Their planning horizon, however is limited to six months. It appears that considering their limited level of operations, and need to respond to environmental forces rather quickly, there is need to have speed and flexibility in planning and it may be because of this reason, at least partly that their plans are for short periods. Also there could be lack of awareness of the usefulness and importance of systematic planning. The paper also reports findings on the sources of information, frequency of review and related matters.

STRATEGIC PLANNING PRACTICES OF SMALL SCALE ENTERPRISES

Strategic management has long been considered important to large firms, though its usefulness to smaller firms has often been disputed. Gibb and Scott (1985), and De Kluyver and McNally (1982) have however found it to be of considerable importance to small scale enterprises. According to Steiner (1967) strategic plan has been accepted as a useful instrument to ensure long term success of firms, both large and small. Although there is some evidence to suggest that small firms do make strategic plans (Nagel, 1981; De Kluyver and McNally, 1982), there is still a lot of suspicion about its usefulness for small firms. Some people go to the extent of saying that preparing a strategic plan for small firms is like shooting a mosquito with a double bared gun. There is however, a strong view that it is probably lack of planning knowledge which comes as an obstacle to most people from making plans (Unni, 1981). Bamberger (1982) has noted that small firm managers do not know strategically relevant information such as actual and future rate of growth, market size and market share.

There certainly appears to have a lack of unanimity in understanding about what strategic thinking and plan are for small firms. Given their level of operations and resource structure, probably a rather loose definition may have to be followed to understand the strategic thinking process in small firms. This raises questions as to what type of strategic thinking, if not planning in the pure sense of the term do small

firm owners undertake. It can range from some understanding of the environment to preparation of detailed written plans. This study attempts to know the realities of the situation through a study of over 100 small firms in Ahmedabad.

The basic edifice upon which a strategic plan stands ^{is} the management fit that is attained by analysing environmental opportunities and threats and building organisational strengths accordingly. It is therefore important to understand the extent to which small firms undertake environmental analysis on the one hand and strengths-weaknesses analysis on the other. The second phase involves conversion of the outcome of such analysis into strategic plans as per firm objectives. There is still lack of clarity about the extent to which small firms practice these two phases fully or partially.

Environmental analysis consists of understanding (and possibly influencing) the five competitive forces operating on a firm. These are threat from suppliers, buyers, substitutes, new entrants and existing firms (Porter, 1981). Large firms use a variety of techniques ranging from scenario building to complicated mathematical models to assess and predict environmental changes (Dixit, 1985). It is, however not known whether any of these techniques are found appropriate by small firms. Also, one has to find out what techniques are generally used by them to evaluate changes in environment.

The above discussion shows that our knowledge of strategic planning practices in small firms is rather limited. Also,

whatever evidence is available is in the context of advanced Western countries, and in large enterprise context. It is in this background that this study was undertaken.

Study Outline

This study was conducted among small scale enterprises located in the industrial estates in Ahmedabad. Data were collected from 117 entrepreneurs, by personally administering a close-ended questionnaire. Tables 1, 2 and 3 provide a profile of the respondent firms in terms of investments, turnover and employees.

Tables 1, 2 and 3 about here

As is evident from the tables, the surveyed firms are not very small as per Indian standards, despite the fact that the investments in fixed assets of more than a third of them are under Rs. 10 lakhs. Most of them, however, are owner managed with the help of a few assistants. In short, the study focusses on the bigger of the small scale units which, according to Little (1988) has the maximum potential for growth.

Findings

One of the areas where adequate evidence is not available is on the extent of detailed planning small enterprises undertake. As mentioned earlier, several people believe that strategic planning is not appropriate for small firms. Our study shows that this is only partially true. As can be seen from Table 4, they do

make plans, more than a third in written form, but for not more than six months. Detailed planning is undertaken for a short period, but for long periods beyond a year no such attempt is made by a significant number of them.

This may be either because, with their limitations of skills in detailed planning they find it difficult to visualise activities

Tables 4 about here

beyond six months. Also, it may be due to difficulty in forecasting due to uncertain environment. Several of the respondents, however, make rough estimation or even work out details of plan for at least two years.

It is pertinent to ask whether planning for six months is strategic in nature or would it be only operational. The basic difference between strategic and operational is that a strategic plan decides the products the firm should make and the markets it should operate in and quantify the activities to achieve the goals set. Small firms do make such decisions to a great extent based on environmental conditions both on input and output sides. Their difference from large firms would be that they do not make quantitative projections for future over a period of say three to five years. They do, however, want to grow. This indicates that organisational constraints of capabilities and uncertain environmental conditions discourage them from making such projection, if at all they knew of the technique involved.

After all, no prudent entrepreneur would put in his money unless he is clear about the returns involved.

Adjustments to environment become important for small firms under the above circumstances. Projections are possible based on available information. This evidently is based on an analysis of the environmental conditions and internal capabilities of the firm. Therefore, it can be said that firms which undertake analysis of internal and external environments think strategically, beyond simple operational terms.

It is important to know the extent of environmental scanning entrepreneurs undertake. Since the level of operation is limited, they may not venture into detailed written plans. Often an understanding of the environmental forces which operate on the business is adequate as an indicator of the strategic thinking of entrepreneurs. As can be seen from Tables 5 and 6, most of the entrepreneurs do analyse changes in environment.

Five questions on suppliers of raw materials and eight on buyers were asked to find out the level of environment scanning they undertake. Responses were collected on a 3-point scale. The composite supplier index therefore has a maximum score of 15 (5 questions x weight of 3) and a minimum score of 5. The dimensions covered here were -

- (a) knowledge about other suppliers of raw materials,
- (b) contingency plans for raw material shortage,
- (c) knowledge about their level of dependability

- (d) assessment of supply position in the subsequent three years, and
- (e) their plans to improve product features in the subsequent five years.

Similarly, for Buyer Index eight dimensions were assessed on a 3-point scale. Here the composite index ranged from 8 to 24 in a similar way as in the case of the supplier index. These were -

- (a) definiteness with which marketing plans are made for the subsequent three years,
- (b) level of competition for products,
- (c) knowledge of their market share,
- (d) knowledge of geographical territories covered by competitors,
- (e) extent of their knowledge about new entrants or exit of existing firms,
- (f) assessment of the demand pattern of the product in the subsequent three years,
- (g) regularity with which competitors operations are analysed, and
- (h) extent of their knowledge about competitors' plans.

Tables 5 and 6 about here

It is clear from Tables 5 and 6 that both supplier analysis and buyer analysis on the dimensions given above are done in detail

by most firms. Perhaps, small enterprises do more of supplier analysis compared to buyer analysis. It could be because of the relatively more uncertain environment on the raw material side. Another explanation could be that since the markets are small and often local, they have not felt the need to make constant environmental analysis of buyers. In any case, it is only an insignificant number of firms which do not make any useful environmental analysis. Majority of the firms have very clear supplier and market awareness. This is evident from the Pearson Coefficient of Correlation for Supplier Index and Buyer Index which was found to be 0.225, significant at 5% level of significance.

Surprisingly, no significant level of correlation was found between either Supplier Index or Buyer Index with the extent of planning done in the first six months. Also, Supplier Index did not have any significant level of Correlation with a Plan Period Index computed from the quality and duration of planning (see Table 4. Here 'no planning' was assigned zero weight and 'detailed written plans' three under each of the four plan periods. So if a respondent has detailed written plans for all the four planning periods, he gets a score of $3 \times 4 = 12$. This means the overall maximum score could be 12 and minimum 0).

Although entrepreneurs do environment scanning in some detail, it is often not reflected in terms of planning their activities. This could be because they have not realised the need or rather usefulness of having detailed plans, may be in written form. Because of the limited scale of their operations they may be

able to manage without writing down the plan. Also, many entrepreneurs do not like to sit down and prepare written plans systematically. There is an element of attitudinal problem also in this.

Planning was not found correlated to the size or age of the organisation.

Government Policy Analysis

Entrepreneurs' awareness of government policies affecting their business directly and indirectly is important particularly in a controlled economy such as India's. It was found that their awareness of the broad policy framework was pretty high with nearly 60 percent having clear idea about it. A caveat one has to bear in mind is that what we have gathered is their perception, and no effort has been made to assess whether it was in fact true. Still it could be added that we got the impression that they were clear about the broad policies of the government.

Table 7 about here

Answering another question, three-fourth of them said that they always keep track of changes in the government policy especially those affecting their business (See Table 8). That means, even those who are not fully aware of the existing policies, make efforts to keep track of changes. This, although looking a little inconsistent may be because, even without fully knowing

the existing policies their operations go on smoothly. They could however be worried about any change in policy which may have some implications on them.

Table 8 about here

This high level of awareness of government policies and the implications of changes go along with the finding that small scale entrepreneurs consider all major constituents of the environment as part of scanning. Their major source of information on government policy is daily newspapers. Nearly half of them refer to their specific trade journals also for information (Table 9). Considering their smallness in operation and resources, it is not surprising that other sources of information are not important. In fact Dixit (1985), also found that newspapers and periodicals were the most widely used sources of information by large firms in India.

Table 9 about here

Internal capabilities

It is the matching of organisational capabilities with the environmental opportunities that is basically required for the success of a firm. Asked about the respondents' awareness of their strengths and weaknesses, most of them replied that they knew very well what they were (See Table 10). It is intriguing, however that they have analysed their strengths and knew them

Table 10 about here

well, but relatively fewer of them did so in the case of weaknesses. It may not be easy to explain this pattern. Probably, they themselves are not clear about their weakness, or they have not realised the need to remove them and their impact on the business. It could also be because weaknesses are so intrinsically related to the fact of being small that since nothing could be done about them they do not dwell on them too much. This again shows need for training entrepreneurs on the tools of professional management in order at least to equip them to analyse their capabilities. They did such analysis at intervals, only a few doing it constantly (Table 11). It may be concluded that SSEs do perform analysis of their strengths and weaknesses consciously. The Supplier Index and Buyer Index were found to be independently correlated to a combined index of strengths and weaknesses ($r = 0.353$ and 0.220 , significant at $p < 0.05$). It comes out from the above that people who do environmental analysis to identify opportunities and threats also are likely to be aware of their organisational strengths and weaknesses.

Table 11 about here

Planning process

Plans are made generally by the owner or partners. In certain cases, experienced managers and sales staff are involved. This primarily depends on the trust and confidence reposed on them. Sometimes they are used as sounding boards by owners. 75 percent of them also communicate their plans within the organisation. It is most likely that plans are discussed and made known to the key individuals, often only in quantitative terms. It has to be remembered that only a third of the respondents have written plans. It comes out from the above that entrepreneurs discuss their plans whether written or not, with their key subordinates. Such discussions are largely to ensure that they knew the tasks ahead of them and also to make necessary arrangements for materials and other input procurements. It is rarely that such discussions with staff take the shape of discussions on equal terms. In the final analysis, the role of staff in planning depends on their relative importance to the organisation as perceived by the owners.

About fifty percent of the entrepreneurs review their plans always while most of the others do it sometimes. It is possibly the people who operate in industries which are susceptible to significant fluctuations and those who are aware of its importance who do plan reviews always.

Table 12 about here

Looking at the nature of planning and frequency of plan reviews together, it appears that people who undertake less rigorous planning process tend to review their plans more often. Entrepreneurs who make only rough plans review them frequently. This is only a marginal difference from those who undertake detailed written plans. In short, entrepreneurs have advantages of speed and flexibility on their side for survival and growth.

Since planning is fundamental to their survival and growth, prudent businessmen would spend sufficient time on it. This includes exploration of new avenues and formulation of new strategies. As shown in Table 13, nearly a third of the respondents spend a maximum of one hour per week for planning. Looking at it more positively, nearly a quarter of the entrepreneurs devote more than five hours for planning.

Table 13 about here

This not only shows the diversity among SSEs, but shows that several of them take pains to spend time on planning. This is likely to be people who have better management of their time compared to most SSEs who, engrossed in routine chores hardly find any time for future thinking.

An attempt was made to look at sales targets independently. As shown in Table 14, while one-third of them do not fix any targets and are prepared to face the music as it comes by, more than half

sets one year targets. This corroborates to a great extent with their planning activity overall.

Table 14 about here

Additionally, taking Table 4 and 12 together, one gets the impression that although they fix sales targets for a year, detailed planning is done only for about six months, and rarely for a year. Therefore, plans are made in two parts, one for overall sales targets and the other for incorporating other elements of planning, especially in terms of inputs and outputs.

None of the entrepreneurs seem to have prepared plans to comply with requirements of financial institutions, unlike their counterparts in some of the advanced countries such as the USA.

The process of fixing target is another important aspect to examine. Respondents were asked to rank the different methods used. A weighted average of the ranks, giving weightages of 3 for first rank, 2 for second and 1 for third rank was worked out (See Table 15).

Table 15 about here

The most important source of information is their discussion with suppliers and buyers who, in any case, are the immediate parties to affect business. Second comes their own analysis of status of industry and its future prospects. Interestingly,

consultants do not seem to play any significant role in this process. Earlier also it was noticed that in terms of environment analysis of suppliers, buyers and government policies, they play insignificant roles. Consultants are generally recruited to tackle specific problems, and most of the entrepreneurs generally do not have any retainer arrangement. It is generally believed that consultants are more interested in their fee than in solving clients' problems.

Conclusion

The above discussion provides some light to the ongoing debate on strategic planning or more appropriately thinking practices of small scale enterprises. There is enough evidence of environment scanning, both competitive and regulatory forces. Also firms perform strength-weakness analysis to some extent regularly. It is development and use of the outcome of such analyses that becomes difficult. While a few resort to written plan preparation, most others are happy with rough estimates of possible operations. It is difficult to say conclusively as to why it is so, but considering their limited exposure to professional management tools and techniques, it could be because of lack of knowledge. This is especially so for a future looking growth oriented firm.

Small firms differ from large in terms of the sources of information on environment and the methods used for scanning. The important point is that planning should be appropriate to the requirements of each firm, and tools and techniques suitable for

that should be adopted. Such a choice presupposes professional knowledge of them on the part of small enterprise management.

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It is reasonably clear from the above discussion that small scale enterprises do not undertake detailed written plans for long periods of say five years. It could be partly due to lack of awareness of the advantages of planning in whatever little detail it is possible. Also, there could be inadequacy of skills to prepare plans. There is apparently a need to expose entrepreneurs to the tools and techniques of strategic management. This would enable them to choose the form and substance of strategic thinking and planning. There are two parts to it. First is ignorance about the importance of planning and the second is knowledge about the process involved in the preparation. There is urgent need to provide training in enterprise management to small scale enterprises.

(The author gratefully acknowledges funding support provided by the Research and Publications Committee of IIMA in undertaking this study.)

Table 1

Sales

	No.
Upto Rs. 20 lakhs	21
20 - 50 "	13
50 - 100 "	18
100 - 200 "	14
> 200 "	45
No response	6
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	117

Table 2

Fixed Assets

	No.
Upto Rs. 10 lakhs	47
10 - 35 "	34
35 - 60 "	15
> 60 "	21
	<hr/>
	117

Table 3
Employment

	No.
Less than 20	39
20 - 50	35
50 - 100	22
More than 100	19
No response	2
	117

Table 4

Nature of Planning	Time Periods			
	Upto 6 months	6 months-1 year	1 year-2 years	Over 2 years
Very detailed written plan	42	21	3	1
Detailed but no written plan	29	28	18	6
Rough estimation and planning	40	25	25	19
No planning	4	41	69	89
No response	2	2	2	2
	117	117	117	117

Table 5

Supplier Index

<u>Weighted Index</u>	<u>No.</u>
5 - 8	2
9 - 11	28
12 - 15	79
No response	8
	<u>117</u>

Table 6

Buyer Index

<u>Weighted Index</u>	<u>No.</u>
8 - 13	6
14 - 19	47
20 - 24	60
No response	4
	<u>117</u>

Table 7

Awareness of Govt. Policy

	No.
Clear Idea	64
Some Idea	35
No idea	13
No response	5

	117

Table 8

Monitor Policy Changes

	No.
Always	85
Sometimes	17
Never	11
No response	4

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Table 9
Information Sources on Policy Changes

	Weighted average rank
Newspapers	43.00
Trade journals	25.00
Suppliers & Buyers	12.67
Consultants & Friends	9.67
Formal market research	2.00
Other sources	5.33

Table 10
Capabilities Analysis

	Strengths	Weaknesses
Very, well	93	65
Vaguely	19	38
Not done	1	10
No response	4	4
	----- 117	----- 117

Table 11

Regularity of Capabilities Analysis

	No.
Constantly	26
At regular intervals	41
Occasionally	35
No response	15
	117

Table 12

Detailed Planning and Reviews (Upto 6 Months)

	Review		
	Always	Sometimes	Never
Very detailed written plan	10	11	2
Detailed but no written plan	13	8	0
Rough estimation and planning	15	15	2

Table 13

Time Spent on Planning

Per Week	
1 hour or less	35
1 - 5 hours	46
5 - 10 hours	16
10 - 15 hours	2
More than 15 hours	8
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Table 14

Sales Target Period

	No.
No fixed target	38
Next one year	59
Next two years	5
Next three years	0
More than 3 years	1
No response	14
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Table 15
Sales Target Fixing Process

	Weighted average
Hunch and guess work	7.83
Discussion with consultants	5.50
Discussions with Suppliers & Buyers	25.83
Analysing Government Policy	7.50
Analysing Status of the industry	16.83
Any other	6.67

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