

Relevance of strategic management in small and medium enterprises.

**Presentation by:
Beenish Paracha
MBA 2004**



EXECUTIVE SUMMARY

Strategic management has enabled enterprises to do business more professionally, efficiently, proactively, gaining control over the business, satisfying stakeholders and establishing a “fit” between company’s strengths and weaknesses and the opportunities and threats that exist in the external environment.

It has gained more significance in the large-scale enterprises. It is generally perceived as irrelevant to Small and Medium Enterprises (SMEs) in Pakistan. SMEs play a vital role in the development of a country’s economy. Yet many reasons have lead to the lack of strategic management in them.

This study is conducted in order to understand what strategic management is, how is it beneficial to organizations, how do SMEs in developed countries adapt it, what is the role of SMEs in the development of our country, what is the role of SMEEDA in this regard.

After thorough research on the above topics, this study critically analyzes the entrepreneurs’ attitude towards business, level of adoption of strategic management in SMEs in Pakistan and reasons of lack of its awareness of strategic management.

TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION	III
1.1 OBJECTIVES:	7
1.2 CONCEPT OF SME:.....	7
1.2.1 GENERAL DEFINITION:.....	7
1.2.2 PAKISTAN SME DEFINITION:.....	8
1.2.3 SMEDA’S DEFINITION:.....	8
1.3 CONCEPT OF STRATEGIC MANAGEMENT	8
CHAPTER 2: STRATEGIC MANAGEMENT	10
2.1 STRATEGY:.....	10
2.2 LEVELS OF STRATEGY.....	10
2.2.1 MISSION/ DOMAIN OF THE ORGANIZATION:	10
2.2.2 CORPORATE LEVEL STRATEGIES:.....	11
2.2.3 BUSINESS LEVEL STRATEGIES:.....	12
2.2.3.1 Cost Leadership Strategies:	12
2.2.3.2 Differentiation Strategies:	12
2.2.3.3 Focus or Niche Strategies:	13
2.2.4 FUNCTIONAL LEVEL STRATEGIES:.....	13
2.3 STRATEGIC MANAGEMENT:	14
2.3.1 STRATEGIC FORMULATION AND IMPLEMENTATION:	14
CHAPTER 3: STRATEGIC MANAGEMENT IN SME’S	15
3.1 BENEFITS OF STRATEGIC MANAGEMENT IN SMES:.....	15
3.2 LIMITATIONS OF STRATEGIC MANAGEMENT IN SMES:	15
3.3 STRATEGIC MANAGEMENT PROCESS.....	16
3.3.1 ENVIRONMENT ANALYSIS:.....	17
3.3.1.1 SWOT Analysis:	17
3.3.1.2 PEST ANALYSIS:	19

3.3.1.3 PORTER’S FIVE FORCES MODEL:	21
The Threat of Entry:.....	22
The power of buyers	22
The Power of Suppliers.....	22
The Threat of Substitutes	23
Competitive Rivalry	23
3.3.2 STRATEGY FORMULATION:	23
3.3.2.1 Vision:.....	23
3.3.2.2 Defining the mission:	24
3.3.2.3 Specifying achievable objectives:	25
3.3.3 STRATEGY IMPLEMENTATION:	25
3.3.3.1 McKinsey Seven-S Framework:	25
3.3.4 STRATEGY EVALUATION:.....	28
3.3.4.1 Balanced Scorecard:.....	28
CHAPTER 4: SME SECTOR IN PAKISTAN	30
4.1 OVERVIEW:	30
4.2 SME SECTOR IN THE DEVELOPING COUNTRIES:	30
4.3 TIERS OF SME SECTOR IN PAKISTAN:	30
4.3.1 MODERN SME SECTOR:	31
4.3.2 TRADITIONAL SME SECTOR:	31
4.3.3 AGRO-BASED INDUSTRIES:.....	31
4.4 SMES IN PAKISTAN	31
4.5 EXISTING INFRASTRUCTURE FOR SME ASSISTANCE AND REGULATION 32	
4.6 NATURE AND EXTENT OF FOREIGN COOPERATION/ ASSISTANCE FOR SME SECTOR IN PAKISTAN	33
4.6.1 Asian Development Bank (ADB) - SME Sector Development Project.....	33
4.6.2 Japan International Cooperation Agency (JICA) - Senior Volunteers and Policy Experts....	33
4.6.3 World Bank – SMEDA: Investment Climate Study in Pakistan.....	33
4.6.4 UNIDO - Industrial Information Network (IIN) for SMEs	33
4.6.5 UNIDO - Cluster Development Project.....	34
4.7 ROLE OF SMEDA.....	34
4.7.1 SMEDA VISION.....	34
4.7.2 SMEDA MISSION:	34
4.7.3 SMEDA OBJECTIVES:	35

4.8 PROBLEMS FACED BY PAKISTAN’S SME SECTOR	35
4.8.1 NON-AVAILABILITY OF CONCRETE DATA ON THE SME SECTOR AND PAKISTAN’S ECONOMY	36
4.8.3 NON-CONDUCTIVE REGULATORY AND LEGISLATIVE FRAMEWORKS	36
4.8.4 RESISTANCE TO CHANGE	37
4.8.5 FINANCING GAP	37
4.8.6 INADEQUATE BUSINESS SUPPORT SERVICES PROVIDERS	37
4.8.7 HUMAN RESOURCE, RAW MATERIAL AND TECHNOLOGY	38
4.8.8 MARKETING ISSUES	38
5.1 CHOOSING QUALITATIVE OR QUANTITATIVE RESEARCH METHODOLOGIES:	39
5.1.1 QUANTITATIVE VS. QUANTITATIVE RESEARCH:	39
5.1.2 USING QUANTITATIVE AND QUALITATIVE RESEARCH METHODS TOGETHER	40
5.1.3 QUALITATIVE RESEARCH USED:	40
5.2 ADVANTAGES AND DISADVANTAGES TO VARIOUS DATA-GATHERING METHODS	40
5.2.1 FACE-TO-FACE INTERVIEW	40
5.2.2 TELEPHONE INTERVIEW	41
5.2.3 MAIL QUESTIONNAIRE (NOT A STRUCTURED INTERVIEW METHOD)	41
5.3 DESIGNING A STRUCTURED INTERVIEW:	41
5.3.1 Composing Appropriate Questions	42
5.3.2 Selecting a Question Format	42
5.4 COLLECTION OF OTHER DATA:	43
5.5 SIGNIFICANCE OF STUDY:	44
5.6 LIMITATIONS OF STUDY:	44
CHAPTER 6: FINDINGS & ANALYSIS	45
6.1 FINDINGS:	45
6.2 ANALYSIS	47
6.2.1 GENERAL:	47
6.2.2 SMALL ENTERPRISES:	48
6.2.3 NATURE OF PROBLEMS FACED BY SMALL ENTREPRENEURS:	48
6.2.4 PROFITABILITY NOT A GOOD GUIDE FOR EVALUATION:	48
6.2.5 BUSINESS AND FINANCIAL	49
6.2.6 ENTREPRENEURSHIP AND TOP MANAGEMENT	49
6.2.7 STRATEGIES AT FUNCTIONAL LEVEL:	50
6.2.7.1 Market for the product:	50

6.2.7.2 <i>Determining Location:</i>	50
6.2.7.3 <i>Production Planning and Control:</i>	51
6.2.7.4 <i>Purchasing:</i>	51
6.2.7.5 <i>Personnel management:</i>	51
6.2.7.6 <i>The Products:</i>	52
6.2.7.7 <i>Marketing:</i>	53
6.2.7.8 <i>Pricing Policies:</i>	53
6.2.8 SMEDA's CONTRIBUTION- KEY AREAS OF ACTIVITIES:	54
6.2.8.1 <i>Creating a conducive environment:</i>	54
6.2.8.2 <i>Cluster/Sector Development:</i>	54
6.2.8.3 <i>Enhancing access to key area development:</i>	54
6.2.9 LEGAL ASPECTS:	54
CHAPTER 7: CONCLUSION	55
BIBLIOGRAPHY	
ANNEXURE	

LIST OF FIGURES

FIGURE 1: STRATEGIC MANAGEMENT PROCESS	17
FIGURE 2: SWOT	18
FIGURE 3: PEST	19
FIGURE 4: FIVE FORCES MODEL.....	21
FIGURE 5: MCKINSEY SEVEN-S FRAMEWORK	26

LIST OF TABLES

TABLE 1: SME DEFINITION BY SMEDA	8
TABLE 2: SME ASSISTANCE AND REGULATIONS	32

CHAPTER 1: INTRODUCTION

Small and Medium Enterprises (SMEs) play a vital role in the development of a country's economy. Many entrepreneurs in developed countries have taken advantage of the principles of strategic management to boost their small or medium businesses. This study has been conducted to analyze whether SMEs in Pakistan are using the strategic management tools in their business.

In this chapter, I have described the objectives of this study, concept of SME and concept of strategic management.

1.1 Objectives:

The objective of this study is to create awareness about the significance of strategic management even in Small and Medium Enterprises (SMEs). To accomplish this, following are the more specific objectives:

- To review literature about the following:
 - What are Strategy and its levels?
 - What is the strategic management process?
 - Benefits and limitations of strategic management in SMEs
 - Strategic management process in SMEs
 - Review the SME sector in Pakistan
 - Role of SMEDA in development of SMEs
- Conduct interview with SMEDA
- Analyze the literature review and interview conducted from SMEDA to see strategic management from various aspects in SMEs in Pakistan

1.2 Concept of SME:

1.2.1 General Definition:

A small firm is one that has only a small share of its market and is managed in a personalized way by its owner or part-owner and not through the medium of an elaborate management structure. It is, therefore, not sufficiently large to have access to the capital market for the public issue or placement of securities.

A branch of a large company can not be regarded as a small firm because, although it is small and may even be independent with regard to decision-making, it will still have access to capital and technical assistance from the parent company. (Bannock 1981)

1.2.2 Pakistan SME definition:

SME (Small and Medium Enterprise) means an entity, ideally not a public limited company, which does not employ more than 250 persons (if it is manufacturing concern) and 50 persons (if it is trading / service concern) and also fulfills the following criteria of either 'a' and 'c' or 'b' and 'c' as relevant:

- (a) A trading / service concern with total assets at cost excluding land and buildings up to Rs 50 million.
- (b) A manufacturing concern with total assets at cost excluding land and building up to Rs 100 million.
- (c) Any concern (trading, service or manufacturing) with net sales not exceeding Rs 300 million as per latest financial statements.

1.2.3 SMEDA's Definition:

In Pakistan, SMEDA has defined the SMEs in terms of employment generated as well as investment in productive assets. SMEDA's definition of SMEs is primarily based on the number of personnel employed in the enterprise. The secondary criteria for classification of the SMEs, is the value of productive assets employed in the enterprise.

Table 1: SME Definition by SMEDA

SMEDA: SME Definition		
	Employment	Productive Assets (Rs. in millions)
Small	Between 10-35 people	2 – 20
Medium	Between 36-99 people	20 – 40

1.3 Concept of Strategic Management

Strategic management is often also known by the name of business policies, so both can be used interchangeably.

Strategic management is the set of managerial decisions and actions that determines the long term performance of a company or corporation. Strategic management handles how

a strategy is developed and where the organization's environment is analyzed before the appropriate strategy is selected and implemented. Since the environment in which an organization works change over time, the organization's performance may fall below desired levels. Reason being any, organization needs to continuously re-examine its existing and make any necessary adjustments to regain high performance.

From the above definition, we can say that strategic management process is mainly comprised of four phases namely:

- ⊕ Environmental Analysis
- ⊕ Strategy Formulation
- ⊕ Strategy Implementation
- ⊕ Strategy Evaluation

Each of these phases will be further explained in following chapters. Next two chapters are about literature review.

CHAPTER 2: STRATEGIC MANAGEMENT

2.1 Strategy:

In order to understand the strategic management process in SMEs, we must first understand the word strategy in management. The word strategy has been long used implicitly in different ways. Strategy can be defined as “*means to ends*”. These ends concern the purpose and objectives of the organization.

Hofer and Schendel (1978) provided a continuous and interactive definition of strategy. They defined strategy as:

“A fundamental pattern of present and planned resource deployments and environmental interactions that indicate the organization will achieve its objectives”.

(Book STRATEGIC MANAGEMENT in Small and Medium Enterprises by Analoui and Karami)

2.2 Levels of Strategy

2.2.1 Mission/ domain of the Organization:

Before identification of strategy can occur, one must clearly identify the mission or domain of the organization. The domain of an organization consists of the population it serves and the functions it performs (satisfies) for that population. Sometimes the domain is defined in terms of products or services offered (rather than functions performed), but this tends to be more limiting because it defines the mission more in terms of means rather than ends. Mission/domain is different from a firm’s mission statement. *Mission statements often contain visions, goals, competitive strategies, and even human resource strategies.*

Strategists in the organization deal with three levels of strategy development. Various hierarchical levels in the organizations have different managerial responsibilities in terms of their contribution to defining the strategy of the firm.

2.2.2 Corporate Level Strategies:

The first level of strategy is concerned with determining the corporate strategy. It is primarily responsible for defining the firm's overall mission and objectives, validating proposals emerging from business and functional levels, and allocating resources with sense of strategic priorities. (Thomson, 2001)

Corporate level strategy defines the scope of the business in terms of the industries and markets in which it competes. The following are generic strategies:

- a. Vertical Integration
 1. Forward Integration- Gaining ownership or control over distributors or retailers.
 2. Backward Integration- Seeking ownership or control of suppliers
- b. Horizontal Integration- Seeking ownership or control over competitors
- c. Market Penetration- Seeking increased market share for present products through greater marketing efforts
- d. Market Development- Introducing present products in new markets
- e. Product Development- Seeking increased sales by improving present products
- f. Diversification
 1. Concentric- Adding new or related product lines
 2. Conglomerate- Adding new, but unrelated product lines
- g. Joint Venture- Two or more sponsoring firms forming a separate organization for cooperative purposes
- h. Retrenchment- Regrouping through cost and asset reduction to reverse declining sales and profits
- i. Divestiture- Selling a division or part of organization
- j. Liquidation- Selling off tangible assets, in parts for their tangible worth. (<http://www.cba.uri.edu/scholl/Notes/Strategy.htm>)

2.2.3 Business Level Strategies:

The second level of strategy is business strategy. Business level strategy is concerned with creating and maintaining a competitive advantage in each strategic business unit. It can be achieved through any one function, or a combination of several. Business strategy usually occurs at the business unit or product level and it emphasizes the importance of the competitive position of products and services in the specific industry or market segment served by that business unit. It enhances the competitive position of the business units.

Business level strategies are also known as competitive strategies. They involve determining the basis of customer or client decision making. Generally, they are based on some combination of quality, service, cost, time, and quality of the experience. There are many typologies of competitive strategies. Porter's generic strategy typology has received the most attention, which are as follows:

2.2.3.1 Cost Leadership Strategies:

With this strategy organizations are competing on price. Organization's various functional strategies all emphasize cost reduction. This is an effective strategy when the market is comprised of many price sensitive buyers, when there are few ways to achieve product differentiation, when buyers do not care much about differences from brand to brand (Coke vs. Pepsi), or when there are a large number of buyers with significant bargaining power. Some risks (*potential threats*) of pursuing this strategy are that competitors may imitate the strategy, thus driving overall industry profits down, technological breakthrough in the industry by other firms (generally firms pursuing this strategy have low R & D budgets), or buyer interest may swing to other differentiating feature besides price.

2.2.3.2 Differentiation Strategies:

Differentiation strategies rely on some basis of product differentiation such as flexibility, specific features, service, time and availability, low maintenance, etc. as the basis for competition. Product development and market research are generally necessary components of a differentiation strategy. Generally, a successful differentiation strategy allows a firm to charge a higher price for its product. Organizations generally need strong R & D departments with strong

coordination between R & D and marketing departments. Human Resource strategies must place emphasis maintaining a competitive skill base and motivating employees toward the basis for differentiation. Common risks (*potential threats*) include there may not exist the necessary price/feature trade-off among customers to justify higher prices, development of a quick copy of the differentiating features without the expensive R & D.

2.2.3.3 Focus or Niche Strategies:

A successful focus strategy depends upon an industry segment that is of sufficient size, has good growth potential, and it not crucial to the success of other major competitors. Focus strategies are pursued in limited markets in conjunction with cost leadership and/or differentiation strategies. Focus strategies are the most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment. Risks of pursuing a focus strategy include the possibility that numerous competitors recognize the successful focus strategy and copy the strategy, or that consumer preferences drift towards those of the market as a whole. Customer groups, geographic areas, and specific product lines are some bases of focus strategies. (<http://www.cba.uri.edu/scholl/Notes/Strategy.htm>)

2.2.4 Functional Level Strategies:

The third level of strategy is the functional one. Functional strategy is concerned with the functional areas of the firm such as operation, marketing, financial, human resources, and research and development. It is critical that the functional level strategies are designed and managed in a coordinated way, so that they interrelate with each other and at the same time collectively allow the competitive strategies to be implemented properly. Functional level strategy looks at how the various functional strategies integrated to achieve competitive advantage.

1. Marketing Strategies- How do we communicate our strengths to the customer? How do we identify customer requirements and changes in customer requirements?

2. Human Resource Strategies- How do we recruit, train, develop, motivate, compensate, and place employees so that behavior is directed toward the competitive strategy and works to build competitive advantage?
3. Financial Strategies- How do we secure financial resources necessary to carry our competitive strategy?
4. Operations Strategies- How do we design our processes to produce products and/or service that meet customer requirements as specified in our strategy?
5. Information System Strategies- How do we provide decision makers, at all levels, with information necessary to make decisions consistent with strategy?
6. Technological (R & D) Strategies- How do we develop products consistent with customer requirements as specified in strategy?

2.3 Strategic Management:

Strategic management is the set of managerial decisions and actions that determines the long term performance of a corporation. Strategic management handles how a strategy is developed and where the organization's environment is analyzed before the appropriate strategy is selected and implemented. Strategic management is thus characterized by two principal functions: strategy formulation and implementation.

2.3.1 Strategic Formulation and Implementation:

Strategic formulation is about how the firm chooses to define its strategy and how it approaches its implementation through strategic management. The approach to strategic management will dictate the eventual management style. In contrast, the managerial style and the degree of effectiveness of the senior managers involved can influence the nature of strategy formulation in organizations. (Analoui, 1997) It results in the adoption of a specific approach to strategic management. Only after a firm has determined how it will formulate strategy can the path of strategic management be effectively undertaken. The development of strategy can either be formal or rational, emergent or progressed under a logical incremental path.

CHAPTER 3: **STRATEGIC MANAGEMENT IN SME'S**

The purpose of this chapter is to introduce to SMEs an adaptation of strategic management and deployment methods being adapted by large corporations. But before that, we must understand the benefits and limitation of strategic management in SMEs.

3.1 Benefits of Strategic Management in SMEs:

There are many benefits in adapting a strategic management system:

- Helps the strategists to understand the current situation of the firm
- Gives a clear sense of vision and mission for the firm
- Assesses the strengths and weaknesses of the firm and enables it to focus on what is strategically important
- Helps strategists to set the proper goals and objectives of the firm
- Prepares the means to achieve the goals and objectives of the organization
- Allows an organization to be more proactive
- Prepares the firm to get ready to confront any controlled and/or uncontrolled issues
- Creates a process of communication within an organization thus facilitating commitment to the achievement of specified goals
- Evaluates the implementation of the strategy of the firm, providing information on the issue of 'fit' with the environment, and aids understanding of the nature of the environmental change
- Allows ethics and corporate social responsibility to infuse the strategy process.

3.2 Limitations of Strategic Management in SMEs:

Despite the many advantages for managers of small businesses in using strategic management, there are still some who avoid the process because they:

- Lack knowledge of strategic management techniques

- Lack time and planning
- May be unaware of the importance of strategic management
- Lack the necessary knowledge and information about strategic planning and its advantages
- Pay less attention to financial indicators such as cash flow
- Lack of necessary managerial skills
- Are heavily involved in the daily and routine operations
- Feel uncertainty about the future
- Have few employees
- Lack effective MIS, especially ineffective and poor data recording systems

(Book: strategic management in SME by Analoui and Karami)

Despite the limitations, throughout my study I emphasize that strategic management has relevance in SMEs and entrepreneurs must understand its relevance to improve the performance of the firm.

3.3 Strategic Management Process

There are different models of the strategic management process and scholars have proposed different models of the strategy process within the organization. These models are generally similar in the phase of strategic management process. According to Pitts and Lei (1996) definition, strategic management process is a management process designed to satisfy the strategic imperatives that push forward the firm's vision and mission.

Strategic management process usually consists of four steps. It starts with environmental analysis, continues with strategy formulation and implementation and ends with evaluation of the implemented strategies.

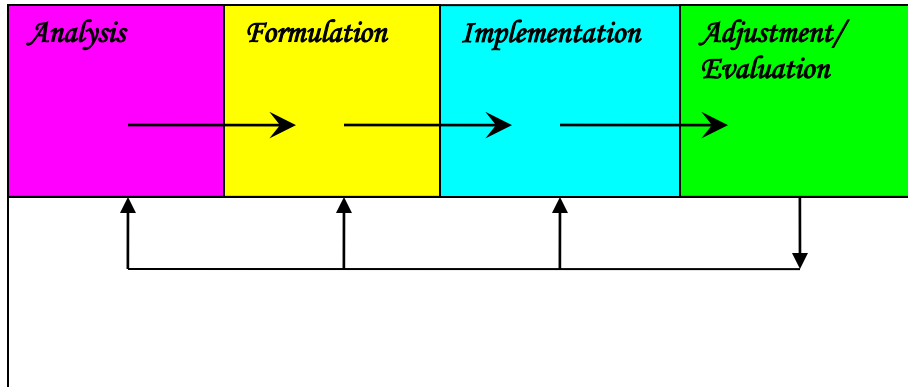


Figure 1: Strategic Management Process

3.3.1 Environment Analysis:

3.3.1.1 SWOT Analysis:

Environment analysis begins with SWOT analysis, the analysis of a company's internal strengths and weaknesses and its external opportunities and threats. This information helps the organization to make strategies that will enable to company to pursue its mission.

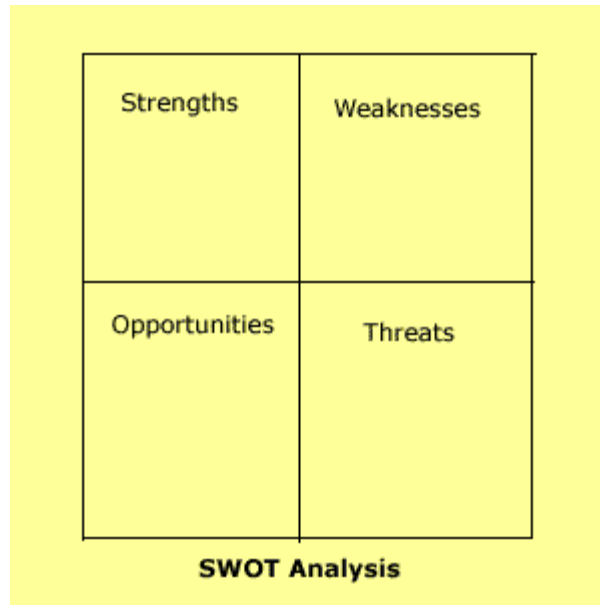


Figure 2: SWOT

Strengths and weaknesses are **internal** factors. Following could be the strengths and weaknesses of a firm:

Strength

- your specialist marketing expertise
- a new, innovative product or service
- location of your business
- quality processes and procedures
- any other aspect of your business that adds value to your product or service

Weakness

- lack of marketing expertise
- undifferentiated products or services (i.e. in relation to your competitors)
- location of your business
- poor quality goods or services
- damaged reputation

Opportunities and threats are **external** factors. For example:

Opportunity:

- a developing market such as the Internet
- mergers, joint ventures or strategic alliances
- moving into new market segments that offer improved profits
- a new international market
- a market vacated by an ineffective competitor

Threat:

- a new competitor in your home market
- price wars with competitors
- a competitor has a new, innovative product or service
- competitors have superior access to channels of distribution
- taxation is introduced on your product or service

While carefully examining an organization's environment, it must also see how the organization is affected by macro factors in the environment (PEST: political, social, economical and technological) these factors affect how an organization later on formulates its strategies.

3.3.1.2 PEST Analysis:

PEST analysis is very important for an organization because it considers the macro-environment factors. Environmental analysis should be continuous and feed all aspects of planning. PEST analysis looks at the following four factors in the macro-environment:

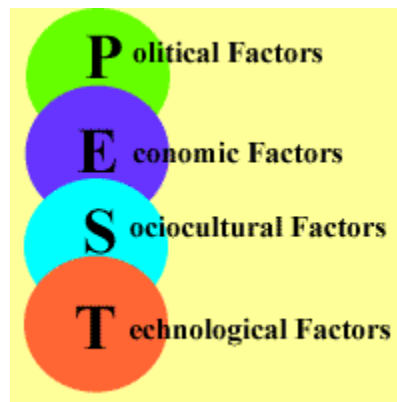


Figure 3: PEST

Political Factors:

The political arena has a huge influence upon the regulation of businesses, and the spending power of consumers and other businesses. You must consider issues such as:

1. How stable is the political environment?
2. Will government policy influence laws that regulate or tax your business?
3. What is the government's position on marketing ethics?
4. What is the government's policy on the economy?
5. Does the government have a view on culture and religion?
6. Is the government involved in trading agreements such as EU, NAFTA, ASEAN, or others?

Economic Factors

Marketers need to consider the state of a trading economy in the short and long-terms. This is especially true when planning for international marketing. You need to look at:

1. Interest rates
2. The level of inflation Employment level per capita
3. Long-term prospects for the economy Gross Domestic Product (GDP) per capita, and so on

Socio/cultural Factors

The social and cultural influences on business vary from country to country. It is very important that such factors are considered. Factors include:

1. What is the dominant religion?
2. What are attitudes to foreign products and services?
3. Does language impact upon the diffusion of products onto markets?
4. How much time do consumers have for leisure?
5. What are the roles of men and women within society?
6. How long are the population living? Are the older generations wealthy?
7. Does the population have a strong/weak opinion on green issues?

Technological Factors

Technology is vital for competitive advantage, and is a major driver of globalization. Consider the following points:

1. Does technology allow for products and services to be made more cheaply and to a better standard of quality?

2. Do the technologies offer consumers and businesses more innovative products and services such as Internet banking, new generation mobile telephones, etc?
3. How is distribution changed by new technologies e.g. books via the Internet, flight tickets, auctions, etc?
4. Does technology offer companies a new way to communicate with consumers e.g. banners, Customer Relationship Management (CRM), etc? (www.marketingteacher.com)

3.3.1.3 Porter's Five Forces Model:

Five forces analysis helps the marketer to contrast a competitive environment. It has similarities with other tools for environmental audit, such as PEST analysis, but tends to focus on the single, stand alone, business or SBU (Strategic Business Unit) rather than a single product or range of products. For example, Dell would analyze the market for Business Computers i.e. one of its SBUs.

Five forces analysis looks at five key areas namely the threat of entry, the power of buyers, the power of suppliers, the threat of substitutes, and competitive rivalry.



Figure 4: Five Forces Model

The Threat of Entry:

- Economies of scale e.g. the benefits associated with bulk purchasing.
- The high or low costs of entry e.g. how much will it cost for the latest technology?
- Ease of access to distribution channels e.g. Do our competitors have the distribution channels sewn up?
- Cost advantages not related to the size of the company e.g. personal contacts or knowledge that larger companies do not own or learning curve effects.
- Will competitors retaliate?
- Government action e.g. will new laws be introduced that will weaken our competitive position?
- How important is differentiation? e.g. The Champagne brand cannot be copied. This desensitizes the influence of the environment.

The power of buyers

- This is high where there are a few, large players in a market e.g. the large grocery chains.
- If there are a large number of undifferentiated, small suppliers e.g. small farming businesses supplying the large grocery chains.
- The cost of switching between suppliers is low e.g. from one fleet supplier of trucks to another.

The Power of Suppliers

- The power of suppliers tends to be a reversal of the power of buyers.
- Where the switching costs are high e.g. switching from one software supplier to another.
- Power is high where the brand is powerful e.g. Cadillac, Pizza Hut, Microsoft.

- There is a possibility of the supplier integrating forward e.g. Brewers buying bars.
- Customers are fragmented (not in clusters) so that they have little bargaining power e.g. Gas/Petrol stations in remote places.

The Threat of Substitutes

- Where there is product-for-product substitution e.g. email for fax
- Where there is substitution of need e.g. better toothpaste reduces the need for dentists
- Where there is generic substitution (competing for the currency in your pocket) e.g. Video suppliers compete with travel companies
- We could always do without e.g. cigarettes

Competitive Rivalry

This is most likely to be high where entry is likely; there is the threat of substitute products, and suppliers and buyers in the market attempt to control. This is why it is always seen in the center of the diagram.

(www.marketingteacher.com)

3.3.2 Strategy Formulation:

Effective strategy formulation is based on identifying, understanding and using the firm's distinctive competencies and strengths in a way that firms cannot.

Companies want to cash what they are best at, better than any one else can. Therefore, through the SWOT analysis the company is able to identify its core competencies. It thus sees what it can do the best in order to generate maximum profits.

In strategy formulation, there is emphasis on company mission, business goals and their relationship to the international nature of the external environment in which opportunities and threats are present.

3.3.2.1 Vision:

Vision is how the organization sees itself or wishes to be seen at some time in the future.

For the SMEs, vision is often spirited with the entrepreneurial spirit of the owner. This makes it easier to have a vision but often difficult to communicate it to others in the organization, since this spirit can be little more than a vague sense of the “what feels right”.

A verbal algorithm can be used to help the entrepreneur articulate his vision(s). It should contain a direction of improvement verb+ an indicator of improvement, a measurable target value of how much improvement the company wants to achieve stated in terms of current performance level and envisioned performance level + a time limit by when the improvement must be realized.

The value of this algorithm is that it forces clarity and measurement. A common condition of vision statement is that it tends to be abstract. Lacking specifics, it is easy to see why vision is considered difficult to attain.

Another way of looking at vision is to look at it as a desired goal or outcome to be achieved, rather than the action to achieve it. It is the desired result not how to cause it.

Vision statements commonly deal with the business objectives such as profits, costs, market share as opposed to product objectives such as improved customer satisfaction, or use of some new technology. Product objectives are better viewed as the means to achieve the business objectives.

An SME should limit itself to its top three visions. Priority matrix is a tool used to prioritize vision.

3.3.2.2 Defining the mission:

The mission identifies the activities we believe will allow us to achieve the Vision. Mission are activities over which we can exert enough control so that we can predict that their performance will be adequate to achieve the vision.

3.3.2.3 Specifying achievable objectives:

Owner-manager of small businesses need to set objectives for their business on the basis of current and projected opportunities. These objectives should give firms direction for their future activities and investments. Clear objectives are needed wherever performance and results are central to an organization's success. Often it is observed that objectives are too vague or too weak to guide performance. There is no doubt that strong and precise objectives can lead to high performance and poor objectives lead to poor performance. It is for this reason that small businesses must get their objectives right. SMEs can benefit from developing proper objectives. Thus, an effective objective should contain the following characteristics, they ought to be

- Specific
- Measurable
- Attainable
- Realistic
- Time constrained

3.3.3 Strategy Implementation:

The third element is the implementation process of the strategies formulated. Implementation measures include organizing the firm's tasks, hiring individuals to perform designated activities properly and rewarding them for carrying out these responsibilities effectively.

In this stage there is an emphasis on leadership, organization structure, organization culture and their relationship to functional policies and resource allocation decisions. One of the oldest and widely accepted frameworks for strategy implementation and organization development is that of McKinsey.

3.3.3.1 McKinsey Seven-S Framework:

McKinsey seven-S framework identifies seven factors that are essential for successful implementation. This framework provides a useful visualization of the key components that managers must consider in making sure that a strategy permeates the day-to-day life of the firm. Each of these seven factors is equally important and interacts with all the other factors. It consists of *strategy, structure, systems, shared values, skills, style and staff*.

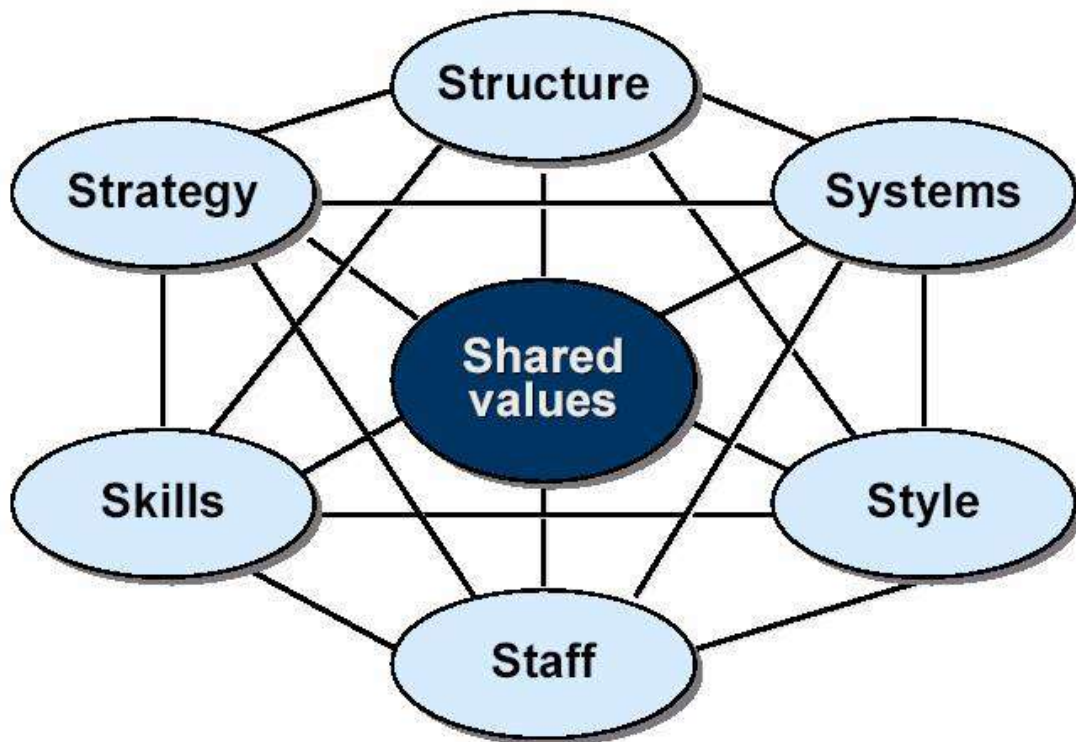


Figure 5: McKinsey Seven-S Framework

(www.valuebasedmanagement.net)

Strategy:

Strategy is a general plan of action. It is the way a company aims to plan in response to anticipation of changes in its external environment, its customers and its competitors. Strategy can be developed through SWOT analysis and defining firm's mission and objectives. The development of strategy is less problematic than its implementation.

Structure:

Developing an appropriate organizational structure and matching the structure to the strategy is a fundamental task of company strategists. The structure of the organization represents the vehicle for reaching the final destination, namely its objectives. In today's dynamic and complex environment, a successful organization may make temporary structural changes to cope with specific tasks without abandoning basic structural divisions throughout the organization. This calls for flexibility and creative management to respond to and/or proactively take action to meet the new demands.

Systems:

Systems consist of all the formal and informal procedures that allow the firm to work. Systems can overpower expressed strategies. This category includes organizations subsystems such as the Management Information System (MIS), training, budgeting, and accounting systems.

Style:

Style refers to the pattern of actions undertaken by top managers in the organization. Leadership style can either ease or create difficulties and problems in implementing successful strategy.

Staff:

Successful organizations view people as valuable resources that should be carefully developed, guarded, allocated and retained. Human resources are considered as the strategic assets of organizations. Thus, selecting key people for implantation of the developed strategies is a crucial task. Top managers should devote time and energy to planning the progress and participation of staff and more importantly the key people who are involved in strategy implementation.

Skills:

The term skill refers to those activities that people do best and for which they are known. Nowadays this is referred to as a body of competencies that a firm possesses. Strategic changes may require organizations to add one or more new skills to their portfolio of competencies.

Shared values:

This refers to culture, guiding concepts and the dominant set of values that unite an organization in some common purpose. The mission statement is an example of a value which ought to be shared by all employees of the firm. In implementing strategies there is a need to manage the organization culture effectively.

Failing in implementing strategy successfully will result in waste of organization's scarce resources, money and time. Entrepreneurs of SMEs have scarce resources and they need to pay great consideration on their implementation strategy.

(Book: Strategic management in Small and Medium Enterprises, by Analoui and Karami)

3.3.4 Strategy Evaluation:

Since the environment in which an organization works change over time, the organization's performance may fall below desired levels. Reason being any, organization needs to continuously re-examine its existing and make any necessary adjustments to regain high performance. Mechanisms must be put into place to monitor potential environment changes and alert managers to developments that require modifications or adjustment of mission, goals, strategies and implementation process.

In strategy evaluation, the emphasis is on control of activities, using performance appraisal to provide positive feedback, motivating, improvement of policies and operational procedures in line with grand strategy.

3.3.4.1 Balanced Scorecard:

Rather than evaluating a corporation using just a few financial measures, Kaplan and Norton (1998) argued for a balanced scorecard, including non-financial as well as financial measures of organizational effectiveness.

The balanced scorecard approach combines the financial measures that tell the results of actions already taken with operational measures on customer satisfaction, internal processes, corporation innovation and important activities- the drivers of future financial performance. The balanced scorecard provides an

alternative which might offer improvements. Management should develop goals and objectives in each of the four areas:

- Financial: how do we appear to shareholders?
- Customers: how do customers view us?
- Internal business perspective: What must we excel at?
- Innovation and learning: can we continue to improve and create value?

Each goal in each area is assigned one or more measures, as well as target and initiatives. These measures can be thought of as key performance measures that are essential for achieving desired strategic option. The balanced scorecard allows managers to look at the business from these four important perspectives.

3.3.4.1 How the balanced scorecard helps SME's strategists?

It combines the financial, customer, internal process and innovation and organizational learning perspectives and helps managers in:

- Understanding many interrelationships within the firm
- Transcending traditional notions about functional barriers
- Improved decision making and problem solving

The balanced scorecard keeps companies looking and moving forward instead of backward. (Book: Strategic management in small and medium enterprises, Analoui and Karami, pg.230)

CHAPTER 4: SME SECTOR IN PAKISTAN

4.1 Overview:

SMEs all over the world have played a fundamental role in promoting economic and industrial production. In particular, SMEs provide necessary foundations for sustained growth and rising incomes in the less developed and transitional economies.

Sustained and healthy growth of the SME sector in weaker economies is obviously necessary, as it is difficult to imagine raising overall living standards and social peace in those economies without SME development. In general, SMEs provide bulk of the entrepreneurs and employment in those economies and they are mostly in the private sector.

Most countries are undergoing reforms that are opening their economies to greater international competition. However domestic factor markets are not adequately developed to ensure the successful adaptation of SMEs to this new competitive environment. Unlike larger firms, which can more easily absorb the transaction cost, SMEs are at a disadvantage and require specific compensatory assistance.

The importance of SMEs to longer-term economic stability derives from their size and structure which, under adequate conditions?. SMEs are more labor intensive than larger firms and therefore have lower capital costs associated with the creation of jobs. Consequently, SMEs play in fostering income stability, growth and employment. SMEs competitiveness affects the competitive position of economy as a whole.

4.2 SME Sector in the Developing Countries:

SME sector in many developing countries has usually been neglected and discriminated against in terms of access to government attention, access to finance, management and marketing expertise and technology, as compared with large enterprises. This has been particularly true in the economies in transition, where the large scale State sector had assumed the major role in economic and industrial development.

4.3 Tiers of SME Sector in Pakistan:

In Pakistan, SME sector employs about 80 per cent of the industrial labor force and makes up about 60 percent of the manufacturing sector. (www.smeda.org.pk)

Policies have been adapted and attempts made to improve the institutional facilities for their functioning. SMEs comprise a wide range of plant sizes and technologies, both across and within countries covering three broad tiers of activities:

4.3.1 Modern SME Sector:

At the top, there is the modern SME sector often closely linked with large enterprises as subcontractors and producing modern consumer and manufacturing products such as metal goods, paints, processed foods, plastic goods and wood products. These types of enterprises generally use more modern technology and are located nearer to cities and ports with well developed infrastructure facilities. In addition urbanization and localization tend to facilitate the growth of the modern SME sector.

4.3.2 Traditional SME Sector:

At the other extreme we can find the traditional SME sector consisting of artisans, workshops, household units and craft industries and other industries; normally found in rural areas. Enterprises operating in this segment of the SME spectrum usually employ basic implements and rely on local markets for the supply of raw materials and the sale of the final products. Here, the agrarian nature of the economy and fragmented markets, low technology and weak infrastructure favor labor intensive manufacturing at the household level.

4.3.3 Agro-based Industries:

Between these two sets of SMEs are the agro-based industries, most often found in semi-urban areas, which utilize agricultural raw materials as major production inputs but may depend on distant markets to sell their products. These types of SMEs, clustering around townships and population centers, have a great potential in meeting some of the urgent needs of Pakistan.

4.4 SMEs in Pakistan

Although no accurate data is yet available, it is estimated that there are approximately 220,000 SMEs in Pakistan, which:

- 1 Provide employment to over 80% of the labor force since artisans, workshops, household units, craft industries, vendors and agro-based businesses that cluster around townships and population centers have a tremendous capacity to provide employment.
- 2 Contribute more than 50% to GDP by manufacturing products to meet the demands of local and regional markets.

- 3 Contribute more than 50% towards export earnings through both direct and indirect exports. Have a default rate that is far less than that for Large Scale Enterprises.
- 4 15% for SMEs, as against 65% for LSEs. Avail credit to the tune of only 12% from the formal financial sector, which indicates the wide gap between the lenders and SMEs.
- 5 The SME sector also provides both rural and urban women an opportunity to utilize their vocational skills while staying within their residential premises. In urban areas, many female entrepreneurs have introduced product lines whose uniqueness has created a strong demand in the market.
- 6 Today, the SME sector is the lifeline of big industrial establishments due to its direct contribution and support towards value addition and exports. For the past three decades, the fastest growing export industries have been dominated by SMEs. Of all, cotton weaving and textile rank among the top two exporting sectors. Others include sports goods, surgical instruments, carpets and footwear etc. SME exports dominate low value added sectors and rely on traditional technologies.

4.5 Existing Infrastructure for SME Assistance and Regulation

Table 2: SME Assistance and Regulations

Institutions	Roles
SME Bank	SME Financing & Business Support Services (BSS)
National Productivity Organization	Creating awareness about the institutional & economic productivity and quality
SMEDA	BSS Provider, Research Body
SECP, SBP	Regulators
Chambers of Commerce & Industry	SME Representation
Commercial Banks / Leasing Companies	Financing
SME Associations	Representation of SME clusters

4.6 Nature and extent of foreign cooperation/ assistance for SME sector in Pakistan

4.6.1 Asian Development Bank (ADB) - SME Sector Development Project

The objective of this project is to prepare key policies for the development of SMEs, undertake institutional reforms and develop suitable business and financial service channels and products to facilitate a demand led growth of SMEs. The design phase of the project is the Project Preparatory Technical Assistance (PPTA), to be undertaken jointly by ADB, SME Bank and SMEDA. ADB is providing a grant of \$800,000 for this PPTA. A loan of \$100-200 million is expected in light of the final design of the project for the implementation of the SME sector development program.

4.6.2 Japan International Cooperation Agency (JICA) - Senior Volunteers and Policy Experts

JICA has agreed to provide Senior Volunteers (SVs) to SMEDA in the field of textiles.

4.6.3 World Bank – SMEDA: Investment Climate Study in Pakistan

SMEDA is undertaking an Investment Climate Study jointly with the World Bank which will enable potential investors to benchmark the investment climate in Pakistan against other countries.

4.6.4 UNIDO - Industrial Information Network (IIN) for SMEs

UNIDO, SME Bank, SMEDA and COMSATS are undertaking this project, which was initiated in May 2001.

The project entails establishment of a sustainable web-based industrial

information network (IIN), providing information services and value-added support to SMEs. The objective of the IIN is to provide SMEs access to information resources and needs, which will assist them in generating value-added products and increase their competitiveness in international markets.

4.6.5 UNIDO - Cluster Development Project

The objective of this project is to harness the opportunities available to SMEs existing in the form of clusters. The cluster development methodology helps to increase the collective efficiency of such clusters through increased collaboration and networking between various cluster actors. These opportunities include, but are not limited to collective marketing, warehousing, testing etc. the Garments, Fans, Gems & Jewelry, Leather, Cutlery, Horticulture and Fisheries sector.

4.7 Role of SMEDA

To develop the SME's in Pakistan, the Prime Minister has created a Small and Medium Enterprises Development Authority (SMEDA) in October 1998 as an autonomous corporate body at the federal level with the Prime Minister as its head. SMEDA is relatively a new organization with a futuristic structure and focus on providing business development services to small and medium enterprises. It is not only working for the uplift of small and medium enterprises in the country but also completed studies on various crucial sectors for Pakistan economy like textile, leather, agriculture and livestock, fisheries, light engineering and transport. SMEDA is also working on issues, which confront SMEs and preparation of regulatory and fiscal policy options to facilitate the sector. SMEDA is also engaged in international donors to obtain their cooperation and expertise in development of SMEs.

SMEDA's vision, mission and objectives will make us better understand its role.

4.7.1 SMEDA Vision

SMEDA has the long term vision of:

“Growth of globally competitive SME sector through a conducive and facilitating environment and support services”

4.7.2 SMEDA Mission:

To develop SME sector in Pakistan by creating a conducive and facilitating environment as well as providing services to equip, sustain and develop SMEs and enhancing their contribution in the overall national economy.

4.7.3 SMEDA Objectives:

- Formulate a policy to encourage the growth of SMEs in the country and to advise the Government on fiscal and monetary issues related to SMEs.
- Identification of business opportunities on the basis of supply/demand gap
- Set up and maintain a machinery and supplier database for SMEs.
- Arranging sector studies
- Facilitation of SMEs in securing financing
- Facilitation for WTO and other matters related to internationalization of SMEs by conducting seminars, workshops and training programs.
- Facilitation of sectoral Business Development Services to SMEs.
- Assist SMEs in getting international certifications (such as UL, CE, DIN, JIS, ASME, KS, etc.) for their products and processes.
- Facilitate the development and strengthening of SME associations/chambers, through linkages with Federal and Provincial organizations.
- Development of SMEs through donor assisted programs and projects.

(www.smeda.org.pk)

4.8 Problems Faced by Pakistan's SME Sector

Pakistan's economy has this amazing potential for development but sadly, we haven't been able to derive optimal benefits despite a series of efforts launched by various policy makers at different times. The impetus of all these endeavors was on the large scale industries and manufacturing concerns. High rate of failures, owing to economic slumps, institutional malpractices, political motives and damaging activities of labor unions in that sector, left the formal lending institutions with huge infected portfolios, in addition to adverse effects on the entire economy e.g. insufficient and low quality production to meet the demands of local and international markets, deficit in balance of payments and ever rising unemployment, etc.

Pakistan's SMEs are still unable to achieve their maximum potential and are in dire need of 'hand-holding' and business support services. Mostly, the small and medium entrepreneurs in Pakistan are facing following problems:

4.8.1 Non-Availability of Concrete Data on the SME sector and Pakistan's Economy

- .1 The above creates problems for the institutions dealing with the SME sector, since financial statements and accounts of many SMEs are non-existent. Financial appraisals thus become an arduous task for the formal lending organizations and banks. Thus SMEs have always been termed as non-bankable and risky.

- .2 SMEs still lack a uniform and clear definition, making it difficult for various institutions to form uniform policies and devise standardized procedures to deal with this sector.

- .3 This lack of information is in itself a problem for the SMEs since the entrepreneurs can not find feasibilities on different businesses and sectors of the economy. The available secondary data is inadequate and can not escort them on the path leading towards success.

4.8.2 Non-Conducive Regulatory and Legislative Frameworks

- Although, the GoP is looking into the above, still Pakistan's small and medium entrepreneurs have to go through a lot to get their businesses registered, deal with the tax authorities, meet other documentation requirements and so on and so forth.

- Similarly SBP has to review and revise the set of Prudential Regulations for this sector, in order for the institutions to be able to provide financial assistance on easy terms and conditions.

4.8.3 Resistance to Change

Due to the above, back dated technology, minimal use of latest production and designing techniques and several other factors, our entrepreneurs don't think about graduating from small to medium and then to large. Our economy needs a conducive business environment and an entrepreneurial culture for the change to take place. Educational institutions, GoP and other private sector role players need to make sincere contributions, if we are to compete with the international market.

4.8.4 Financing Gap

- Only 14% of Pakistan's SMEs approach the formal lending sector for financial assistance.
- SMEs perceive that high risks and high costs are associated with Bank's financing services. There is lack of accurate information on Banks and borrowers alike.
- SMEs are short of sound collateral and abilities to present bankable business plans.

4.8.5 Inadequate Business Support Services Providers

Unless our entrepreneur is provided with effective hand-holding, revenue and income sustainability will remain an issue for most of the enterprises. The SMEs today, need support services in the field of accounting, marketing, ecommerce, product designing, pricing, human resource development etc. The efforts of SMEDA and SME Bank need to be supplemented by additional BSS providers.

4.8.6 Human Resource, Raw Material and Technology

Shortage of skilled staff causes delays in production and affects quality of output & sales. High price and unsatisfactory quality of raw material is a matter of great concern for those belonging to the manufacturing sector. The entrepreneurs are also interested in adopting new technologies and training manpower, but lack the resources, technical and training assistance. Lack of all these has led SMEs towards low productivity since the sector contributes only 30% towards value addition.

4.8.7 Marketing Issues

Small entrepreneurs supplying to the domestic markets face issues like bargaining on price and credit purchases. And as they become outward oriented, they need to adjust and link with international markets.

The above are some of the major impediments that the country's SMEs and stakeholders face today in addition to ever fluctuating currency rates, worsening economic slump, increasing unemployment, natural calamities and the never ending list of taxes.

CHAPTER 5: RESEARCH METHODOLOGY

One key element in conducting useful research is gathering reliable information. And the basis for doing that is designing questions and questionnaires that get the kind of information from which conclusions are drawn.

When one looks at a completed questionnaire or the results of a valid study, he or she is often tempted to say, "That's not difficult to do," but that temptation quickly passes after a few minutes of closer analysis. That's about all it takes to realize that designing a good question and good questionnaire requires more thought and time than one might originally think. There are an almost infinite variety of things to think about and to do correctly to avoid the kinds of errors that can make scores of hours of work worthless.

5.1 Choosing qualitative or quantitative research methodologies:

Research dictates the kinds of research methodologies to use to underpin work and methods used in order to collect data.

5.1.1 Quantitative Vs. Quantitative Research:

Qualitative data collection method is used when measuring variables and verifying existing theories or hypotheses or questioning them. Data is often used to generate new hypotheses based on the results of data collected about different variables. One's colleagues are often much happier about the ability to verify quantitative data as many people feel safe only with numbers and statistics.

However, often collections of statistics and number crunching are not the answer to understanding meanings, beliefs and experience, which are better understood through qualitative data. And quantitative data, it must be remembered, are also collected in accordance with certain research vehicles and underlying research questions. Even the production of numbers is guided by the kinds of questions asked of the subjects, so is essentially subjective, although it appears less so than qualitative research data.

This is carried out when we wish to understand meanings, look at, describe and understand experience, ideas, beliefs and values, intangibles such as these. *Example:* an area of study that would benefit from qualitative research would be that of students' learning styles and approaches to study, which are described and understood subjectively by students.

5.1.2 Using quantitative and qualitative research methods together

This is a common approach and helps you to 'triangulate' ie to back up one set of findings from one method of data collection underpinned by one methodology, with another very different method underpinned by another methodology - for example, you might give out a questionnaire (normally quantitative) to gather statistical data about responses, and then back this up and research in more depth by interviewing (normally qualitative) selected members of your questionnaire sample.

5.1.3 Qualitative Research Used:

In order to complete this research, qualitative research has been used. The research was backed by a limitation of access to primary data, except interviewing. Most of the SMEs work in undocumented ways. They do not have written business policies that I could analyze for this study. Conducting questionnaire from the businessmen was not in my scope of study since it would require right kind of sampling of population, and getting questionnaire filled out by the entrepreneurs, that are not willing to share their business information with anyone. They have negative image of Government and they think that if they share their business information with others, they might be highly taxed. So, the only way to get a clearer picture of SMEs is to conduct interviews at SMEDA. (http://www.palgrave.com/skills4study/html/postgrad/postgrad_method.htm)

5.2 Advantages and Disadvantages to Various Data-Gathering

Methods:

This section discusses the relative benefits and disadvantages of the two primary types of structured interviews and compares them to the mail questionnaire. I have used face-to-face interview and have explained the other types of data gathering.

5.2.1 Face-to-Face Interview

I have conducted face-to-face interview with Mr. Abbas of SMEDA. Rawalpindi branch. Advantages of face-to-face interviewing are as follows:

- Enables the interviewer to establish rapport with the respondent
- Allows the interviewer to observe as well as listen
- Permits more complex questions to be asked than in other types of data collection
- An effective method of gathering data when the DCI is lengthy

- Some uses: to get before-and-after data about a lesson module or a change in administrative procedure; to gather opinions on a specific learning or teaching technique

5.2.2 Telephone Interview

- Less costly than personal interview
- Takes less time than a personal interview
- Simplifies recording of data if CATI is used
- Most effective when the number of questions is relatively small and time available to gather data is short
- Some uses: gathering information on parent satisfaction with the educational program; determining awareness of programs and tools available in the school district

5.2.3 Mail Questionnaire (not a structured interview method)

- Least costly but slowest method of collecting data
- Requires precise question design to match reading comprehension of respondents
- Some uses: to get demographic information on district residents; to get opinions on potential new programs, if they can be clearly described in the questionnaire

5.3 Designing a Structured Interview:

The first step in designing the interview is to formulate the broad overall questions that the survey is intended to answer, i.e.

- Why is the study being undertaken?
- What does the study aim to learn or determine?

To describe something that has occurred; Strategic management in SMEs in developed countries like England and USA is being paid attention. In my thesis, I am looking at the reasons of lack of its awareness in Pakistan.

To compare results to some standard (a normative study); e.g., Have the SMEs in developed countries benefited by following strategic management principles?

To determine if a procedural change has made a difference (a cause-and-effect study); e.g., has strategic management enabled entrepreneurs to generate more profits from their business?

The second task is to translate the broad overall questions into measurable elements as hypotheses or more precise questions. The descriptive question above, for example, would require developing measures such as entrepreneurs relative knowledge about strategic management, the importance of strategic management in business, whether it is worthwhile for entrepreneurs to take out time from their busy routines in learning them

Then, the target population needs to be identified. In my research, target population is businessmen and bodies working in development of Small and Medium Enterprises (SMEs). Currently, SMEDA (Small and Medium Enterprise Development Authority) is working for the development of SMEs in Pakistan. I interviewed Mr. Abbas, area manager of SMEDA, Rawalpindi branch. Questionnaire is attached in annexure. It may sound basic, but innumerable studies have proceeded to unsatisfactory completion because of insufficient consideration of this aspect.

Now, the study can proceed to the development of a pool of specific questions designed to elicit the desired information. The number of questions developed should be more than the number to be asked; then, the most appropriate and useful can be selected from those available.

5.3.1 Composing Appropriate Questions

Three main criteria exist for writing appropriate questions: relevance, selection of the proper respondents, ease of answering.

- Relevance--Questions should be directly related to the purpose of the study and have a good probability of yielding the kind of data desired.

Selection of respondents--Even though a question may be relevant to the study, it may not be answerable by the people to whom it will be asked.

- Ease of response--Questions need to be relatively easy to answer and should not create embarrassment for or an undue burden on the interviewee.

Among the types of questions that should be avoided are those that require respondents to consult records or other information sources, would make them uncomfortable for any reason, would reflect negatively on them, would make the interview confrontational, or have no specific answer.

5.3.2 Selecting a Question Format

Important considerations in deciding on the format of questions include how the question is to be delivered (mail, telephone, face to face), the type of information the respondent is expected to provide, and the possible alternative responses. Making these decisions will result in the selection of open-ended, fill-in-the

blank, binary-choice, scaled-response, or unscaled-response questions. Of course, depending on the type of information desired, a structured interview questionnaire will generally have a combination of these types of questions.

- Open-ended--Because open-ended questions provide no structure for the answer, they should be tightly focused to elicit the kind of information the researcher wants to get. And, because they require accurate and time-consuming transcription, their use should be limited to initial research where the number of respondents is small and the object is to refine the research direction and determine more precise questions that can be structured another way.
- Fill-in-the-blank--This type of question has a simple answer, usually a name, frequency, or quantity, which is the kind of information these questions are good at obtaining.
- Binary--These are good for obtaining factual information that falls into the yes-no, true-false category of answer.
- Scaled-response--These consist of a list of alternative responses that increase or decrease in intensity in an ordered fashion. These kinds of questions can be further defined as balanced, unbalanced, and rating and ranking.
- Unscaled-response--With this type of question, the respondent is asked to choose one or more options from a list; this is the type of question that should include the oothero category so that the responder is not forced to select an answer with which he or she is not completely satisfied.

The reader should be alerted to the fact that this article provides only an introduction to structured interviewing. Success in developing and conducting structured interviews requires consulting and studying additional references and reliance on the assistance of experts in the field.

<http://pareonline.net/getvn.asp?v=5&n=12>)

5.4 Collection of Other Data:

Other than interviewing, data was collected through secondary sources i.e. Internet research, books and newspaper.

5.5 Significance of Study:

Strategic management is mostly considered as something to be adapted by large-scale enterprises (LSEs) because of their elaborate and complex management structure, invested capital, and human resources. However, the concept of strategic management in SMEs is a relatively new area of study. Its significance has been realized by developed country, however, in Pakistan strategic management in SMEs is considered irrelevant even today. This study will analyze the way small businesses are conducted in Pakistan and reason of non-existence of strategic management in SMEs in Pakistan after reviewing what strategic management is all about.

5.6 Limitations of Study:

- In this regard, nothing much has been done on ground so far.
- Primary source of data collection is very difficult because the small businessmen in Rawalpindi/Islamabad do not have time, and it was out of my scope to visit small towns. Other than the interview with Mr. Abbas, area manager of SMEDA this study has to rely on secondary source of information.
- There are no studies conducted particularly on “strategic management in SMEs” in journals, books, articles in Pakistan.
- This study is limited to strategy levels and strategic management process and does not cover strategic planning process or business model of SMEs.

Chapter 6: Findings & Analysis

The purpose of this chapter is to present the findings of this study as well as the analysis of all the literature reviewed and interview conducted regarding the relevance of strategic management in SMEs in Pakistan. The scope of this chapter is limited to SMEs in Pakistan.

6.1 Findings:

Strategic management, as we have observed in literature review is very vital for organizations to survive and grow in the competitive environment today. However, its significance is often neglected by even the large-scale enterprises in Pakistan. In multinational companies, we see that there are business policies (the word strategic management and business policies can be used interchangeably). However local large-scale enterprises are not properly doing so. The question of “relevance of strategic management in SMEs” in Pakistan then holds absolutely no attention of entrepreneurs. For this, I interviewed Mr. Abbas, area manager of SMEDA Rawalpindi. He granted me three documents on SME sector in Pakistan, Role of SMEDA and SME women.

After a long meeting lasting 90 minutes, following were concluded:

- Generally, there is lack of awareness. The word strategic management is not heard by many entrepreneurs today. Literacy rate in Pakistan is very low.
- There is no long-term vision of the owner-manager of the business. (In literature review, we observed the significance of a vision statement for an organization. It gives the organization a long-term direction whereas the entrepreneurs are usually busy in attaining their short-term objectives.)
- In SMEs, unlike in large-scale enterprises, CEO of the company is the one who is handling all the managerial as well as operational tasks of the organization. He/she is to look after the finances, the client dealings, marketing and day-to-day operations. He is therefore very busy in achieving his daily/weekly targets that thinking for the future or improvement of way of business is something he does not have time for.

- Quality of HR is poor in Pakistan. Education system has advanced in recent years. People who are highly qualified are more interested in working in large-scale corporations or modern small-scale enterprises (among the three tiers of SMEs in Pakistan). Entrepreneurs starting their own business in Pakistan go for SMEs because of lack of financial resources and high risk involved. They feel that getting secondary education or even less is enough for them to have their own small business to earn their living.
- They tend to be less flexible and adaptive to new ideas because they are accustomed of doing things their own way. They do not consider what other people in the organization will think about their decisions. They are the sole decision makers in the organization. (I have talked about styles of leadership in literature review. In Pakistan, entrepreneurs/leaders are more authoritative.
- Owners of small business especially in small cities are very risk averse and less ambitious. They are happy with their business and do not want to expand their business. They have a standard routine and are always reluctant in adapting any changes or making further investments that does not promise returns. Professionally adapting strategic management tools does not seem relevant to them, even if it is.
- SMEDA has observed that people in general have a negative mindset towards Government. A businessman thinks of Government as a body to which he has to pay taxes, bills or as strict police rather than thinking of her as a caring, faithful body to their personal needs. They hide or manipulate information in order to secure themselves from paying taxes. Less than 1% of public honestly pays taxes. There is lack of information regarding their true financial performance.
- Most of the information in Pakistan is undocumented. For analysts, researchers and consultants it is very difficult to analyze through secondary source the working conditions and problems of SMEs and primary source is way expensive and irrelevant for them.

- Trend is shifting towards trading. People see it profitable to import final products from China and other countries, add up their margin and sell it in Pakistan rather than manufacturing in their own country. This is so because manufacturing locally involves high fixed costs leading to higher risk.
- Entrepreneurs have scarce resources due to which they are not willing to take risks. Financing from banking would further increase their liabilities and due to lack of professional business training and experience, there is higher probability that payback period will be large. Banks are reluctant in financing new businesses, so at the time of start up entrepreneurs have to arrange the finances on their own.
- There is great trend in Pakistan of conducting seminars and training courses. Entrepreneurs of big cities attend that and take assistance from them for improving their business. However, so far these sessions have never really talked about strategic management but rather on topics such as new accounting software, quality assurance etc. If a professional holds a seminar on strategic management in SMEs, he would charge high fees from people that will be unacceptable for them to pay since they do not see any relevance of the topic to their business needs. So even the trainers are reluctant to bring about such topics.

6.2 Analysis

6.2.1 General:

Most of the SMEs in Pakistan are traditional. Awareness about the topic under study may be created among the modern SMEs or agro-based SMEs. It will require years for this sector to develop on professional level and understand the significance of strategic management. Role of SMEDA in development of SMEs has allowed our SME sector to prosper in ways that was not being done before. SMEDA gives free consultation to entrepreneurs and may in the future start financing them.

6.2.2 Small enterprises:

No country can survive without smaller enterprises that form the foundations for its economy and help it establish large-scale enterprises and also perform a myriad of tasks which the large enterprise would find uneconomical to handle.

Small enterprises play a very important role even in the developed countries. They are very sensitive to any changes in the policies or business weather conditions. Slight changes in the technology, fashion, or import policy, taxation policies once affect its health.

6.2.3 Nature of problems faced by small entrepreneurs:

I found during my literature review and interview that managerial problems are the most important reasons for the failure of small entrepreneurs. Lack of managerial experience is often revealed in the following manner:

- Low literacy rate
- Inadequate records
- Lack of inventory controls
- Excessive operating costs
- Little or no internal control
- Faulty purchasing practices and sales policies
- Insufficient attention to managerial problems

6.2.4 Profitability not a good guide for evaluation:

The fact that an entrepreneur is earning profit is not a good guide that everything is alright with it. It may be profitable in spite of all the problems and mismanagement in it. In Pakistan, mostly people take profit as the only measure of success. The concept of balanced scorecard is not a good guide that everything is alright with it. A business may be profitable in spite of all the problems and mismanagement in it. In such a case, enterprise is losing the potential profit that it could earn.

Managing an enterprise has become complex task due to various reasons. In the early days of industrialization in Pakistan, failure was something unimaginable simply because the demand for goods was so large and the supply so small that any person who produced or sold anything was sure of a market. Moreover, there was oversupply of labor in the market and the labor itself did not really know about its rights. Further, the profit margin

was so large that a number of inefficiencies in various stages of production or sales could be easily covered up by the margin. Circumstances have totally changed today.

Since in Pakistan, CEO of SMEs is doing everything himself, he does not have time to evaluate himself, and can not pay a specialist to do this task for him. He does not understand the relevance of self-evaluation to his business.

6.2.5 Business and Financial

Thousands of small entrepreneurs risk their money, time and energy and good name in setting up businesses with the high hope of someday making it. Strategically managing a business is very different from being employed in business. Usually they have a friend who has succeeded in a business and they wish to or rather hope to do the same. Sometime they might have seen somebody succeed at a venture and hope to repeat the same. What they often do not realize is that the secrets of success are not easily passed out or shared.

6.2.6 Entrepreneurship and Top Management

Some of the principles that we studied in our literature review are being followed but unknowingly. The capabilities and abilities of entrepreneur are the key to the success of the venture and should be analyzed first. Entrepreneurs have insufficient experience and training to ensure that adequate attention will be paid to managerial aspects and nothing important will be overlooked. Even in the near future, it does not seem to happen that entrepreneurs will understand the business need of professional written policies.

They also lack greatly in evaluation. I talked about four phases of strategic management. Entrepreneurs unknowingly follow the teachings of strategic management. Entrepreneurs have a mission, short-term objectives and often know their strengths, opportunities, weaknesses and threats but it is not documented. They might be following one of the kinds of strategies I talked about in literature review but would not know in detail about those strategies, the pros and cons of them. They lack the most in analyzing the environment at all levels; industry or competitors analysis. It is very important to analyze the competitors to develop a sustainable competitive advantage. Entrepreneur has to rate himself against his competitor in many of the concepts explained earlier.

The capabilities and abilities of entrepreneur are the key to the success of the venture and should be analyzed first. Entrepreneurs have insufficient experience and training to ensure that adequate attention will be paid to managerial aspects and nothing important will be overlooked. Even in the near future, it does not seem to happen that entrepreneurs will understand the business need of strategic management.

6.2.7 Strategies at Functional Level:

Entrepreneur must have the capabilities to take the important decisions in the important areas of operations. Some of the areas where his decision making capabilities are required are explained below.

6.2.7.1 Market for the product:

Why does the entrepreneur think that his product would have sufficient market and sell in enough quantities to bring him enough profit.

The product is a very complex thing. Even a minor defect or a small feature of the product can render the product a failure in the market.

Manufacturing of a product requires raw materials, resources, skilled labor and strict quality control. If the entrepreneur sees that these are available, he has to establish whether there is demand for the product in the market. This requires preliminary market survey. He has to go through a thorough market analysis to see what is currently being sold.

6.2.7.2 Determining Location:

In a survey it was found that these entrepreneurs are very sharp in determining the location for their plant or showroom or shop. A small manufacturer of stainless steel utensil in Gujranwala explained his strategy as follows: "I have located my shop and the sign in such a manner that when people from Lahore or any other place go to Sialkot they would not miss my signboard. And since they are probably going there to buy stainless steel items, they would like to drop in and have a look at the items I have." He was an uneducated man, but he was doing roaring business and was also exporting to foreign countries. There were others who were manufacturing stainless steel but were located at obscure places. Their view was that their customers are fixed and they know the location, but they would like to avoid prying eyes to keep their other expenditures low.

(Book: Small Business Finance, IBP)

All their expertise and intelligence only helps them in selecting a place that is within their city or “mohalla”. Strategically analyzing their business to expand it to other places is where they find difficulty.

6.2.7.3 Production Planning and Control:

This is something that they are not very good at because they usually pay more attention to the manufacture of specific items, and planning of production often requires analysis and understanding of higher level.

In production planning and control, the less literate entrepreneurs lack expertise. A lot of time they are wasting their resources because of poor planning and control. They need to control to avoid idle workers, machinery, excessive work in process, unnecessary set-up time, wasteful sequence of operations, bottlenecks, too many rejects or wastes failure to meet delivery dates etc. If there is good planning and control of these areas, there are decided advantages.

6.2.7.4 Purchasing:

Purchasing is a very important function and another of the weaker points of small businessmen. The quality and price of raw material vitally affects the profitability of concern.

The businessmen that properly establish the real cost of each supplier and sources of supply are at advantage because they reduce the cost of dividing small orders among several suppliers. Proper inventory planning is required to see when to re order and many more decisions regarding purchasing need to be managed in professional ways.

6.2.7.5 Personnel management:

In SMEs, close personnel relation is the greatest advantage and helps avoid many personnel problems faced in large-scale enterprises. However the entrepreneurs need to carefully look at the various aspects and make sure that it does not get stuck with poor quality manpower.

While a large-scale corporation can or has to employ a specialist to solve its various problems, a small enterprise cannot hire specialized persons to solve its problems. The owner/specialist has to be a generalist as well as specialist in a number of areas of management to make his enterprise a success.

Our labor is often more comfortable in doing the same thing again and again. Bringing innovation would require further investment in training the staff. Entrepreneurs are often careful in investments and analyze the probability of success of innovation in their product. Labor is usually at copying but can not think creatively.

In Pakistan, there are no written or pre-decided human resource policies to establish what skills are required by the plant, hiring and recruiting of workers, training of unskilled or new workers, non-financial motivation etc.

6.2.7.6 The Products:

Assuming that the small businessmen is very clear about the product and has been able to manufacture it according to the requirements of the market, packaging and packing are something he may overlook.

While deciding the product and packaging, he must strategically analyze the costs required for any excess and its value in the eyes of the consumers.

Entrepreneurs need to put the customer at top and design their products and packaging according to the needs of consumers. Often, small businesses produce in bulk to have economy of scale and reduce the unit cost of the product. They are targeted to mass and not to specific markets.

Packaging the product is very essential because that is what customers first look at, and it should appeal to them, should be convenient, easy to handle, protected in shipment etc.

6.2.7.7 Marketing:

All income and profit ultimately depends upon the ability to market the product. Small businessmen often pay more attention to the manufacturing aspect and fail to pay adequate attention to the marketing their products. The identification of exact customer is the first step of marketing, only then will the manufacturer produce something that caters to the needs of the buyers.

Often the buyers in SMEs are large-scale businesses. It is not necessary that the customer of the product is the consumer of the product. Identification of both is necessary for establishing right business policies. Other than that, identification of distributor and important decisions related to distributors affect marketing of the product. Entrepreneurs also establish the pros and cons of selling directly to end consumers. Policies regarding the advertising and sale promotion are mostly missing because small businessmen feel that it is waste of money. They can often handle their marketing tasks without written policies due to which they again do not see the relevance of business policies or strategic management in their businesses.

6.2.7.8 Pricing Policies:

Small businessmen have difficulty in setting prices. They often do not know the actual cost of their product. They have little idea about future trend of prices. They do not know the various pricing strategies which can be followed. Since they are unaware, they often do not take out time to learn them. They consider the actual cost of producing the product, add up their margin and price the product. The analysis overheads are thus often missing such as indirect labor, supervision, administrative salaries, maintenance and repairs etc.

Having business policies in all areas of their business is how they can manage their business more strategically and earn the potential profits that they are not earning today.

6.2.8 SMEDA's contribution- key areas of activities:

6.2.8.1 Creating a conducive environment:

SMEDA is collaborating with policy makers in order to devise facilitating mechanisms for SMEs by removing regulatory impediments across numerous policy areas.

6.2.8.2 Cluster/Sector Development:

In collaboration with industry/trade association and chambers, SMEDA formulates and implements projects for SME clustering.

6.2.8.3 Enhancing access to key area development:

SMEDA offers consultancy to entrepreneurs for the development and provision of services to meet their business management, strategic and operational needs and requirements.

6.2.9 Legal Aspects:

Legal aspects include government policies regarding establishment of business, location, local taxes, unionization, sale tax, etc. the small businessmen should be thoroughly familiar with all the legal aspects.

Chapter 7: Conclusion

Strategic management is relevant to Small and Medium Enterprises (SMEs). However its significance has not been realized in Pakistan. SMEs play a vital role in the economic development of a country. Recently, Government has been paying attention on the development of SMEs. For this reason, SMEDA (Small and Medium Enterprise Development Authority) came into being. New policies of bank financing came in the favor of SMEs. However, even SMEDA considers it irrelevant to bring awareness in the minds of entrepreneurs about how they can profit from having documented business policies, evaluating their environment, properly formulating and implementing their strategies and evaluating themselves not only on the basis of profits but also keeping in consideration other factors such as customers, internal business perspective and innovation. The entrepreneurs do not have time and are not literate enough to have professional policies at work and revising them as required and hiring specialist is expensive for them.

The problem still persists; relevance of strategic management in SMEs has been realized by neither the entrepreneurs nor the Government. If the significance is realized, not only can the entrepreneurs take advantage of it, the whole economy of Pakistan can prosper.