₹ 200 ISSN - 2249-555X

Volume : 1 Issue : 9 June 2012

Indian Journal Of Applied Research

Journal for All Subjects

www.ijar.in

Listed in International ISSN Directory, Paris.

ISSN - 2249-555X

Indian Journal of Applied Research

Journal for All Subjects

Advertisement Details

Position	B/W (Single Color)	Fore Color
Full Inside Cover	₹ 6000	₹ 12500
Full Page (Inside)	₹ 5000	-

Subscription Details

Period	Rate	Discount	Amount Payable
One Year (12 Issues)	₹ 2400	Nil	₹ 2400
Two Year (24 issues)	₹ 4800	₹ 200	₹ 4600
Three Year (36 issues)	₹ 7200	₹ 300	₹ 6900
Five Year (60 issues)	₹ 12000	₹ 600	₹ 11400

You can download the Advertisement / Subscription Form from website www.ijar.in. You will require to print the form. Please fill the form completely and send it to the **Editor, INDIAN JOURNAL OF APPLIED RESEARCH** along with the payment in the form of Demand Draft/Cheque at Par drawn in favour of **INDIAN JOURNAL OF APPLIED RESEARCH** payable at Ahmedabad.

1. Thoughts, language vision and example in published research paper are entirely of author of research paper. It is not necessary that both editor and editorial board are satisfied by the research paper. The responsibility of the matter of research paper/article is entirely of author.
2. Editing of the Indian Journal of Applied Research is processed without any remittance. The selection and publication is done after recommendations of atleast two subject expert referees.
3. In any condition if any National/International University denies accepting the research paper published in IJAR, then it is not the responsibility of Editor, Publisher and Management.
4. Only the first author is entitle to receive the copies of all co-authors
5. Before re-use of published research paper in any manner, it is compulsory to take written permission from the Editor-IJAR, unless it will be assumed as disobedience of copyright rules.
5. All the legal undertaking related to Indian Journal of Applied Research is subject to Ahmedabad Jurisdiction.
7. The research journal will be send by normal post. If the journal is not received by the author of research papers then it will not be the responsibility of the Editor and publisher. The amount for registered post should be borne by author of the research paper in case of second copy of the journal.

Editor,
Indian Journal Of Applied Research
8-A, Banans, Opp. SLU Girls College, New Congres Bhavan, Paldi,
Ahmedabad-380006, Gujarat, INDIA
Contact.: +91-9824097643 E-mail : editor@ijar.in

INDEX

Research Paper Management

Cost and Strategic Management - Application, Framework and Strategies for the Growth of Sme Sector

* Manisha gaur

* Assistant Professor, Post Graduate Govt College Sec-46 chd

ABSTRACT

The SME sector has grown at an impressive rate of 14.4% over the past few years. SMEs are characterized by flexibility, small scale, traditional, technology, etc. The SME sector targets both domestic as well global markets. Globalization opens a window of opportunities and threats for SMEs.. This necessitates the enterprise to think strategically by focusing on major issues. The SME sector's contribution to India's economic growth is well established. The sector is the second largest manpower employer in India. This paper focuse on the different problems faced by SME sector and the various strategies that should be adopted by the SME sector for its growth.

INTRODUCTION

Indian Small and Medium Enterprises (SMEs) account for 40% of the Industrial production, 35% of the total manufactured exports of the country, 95% of all industrial units and about 70% of employment1, they are under tremendous pressure of providing employment and experiencing sluggish growth because of dwindling agriculture sector and globalization. The sector is the second largest manpower employer in India, next only to agriculture, and it accounts for 40% of gross industrial value addition and 44% of total manufacturing exports. The sector has grown at an impressive rate of 14.4% over the past few years. The Government of India (GoI) has recognized the potential of SMEs as significant contributors to economic growth and GDP, and supports SMEs in terms of providing entrepreneurial training, technological up-gradation, financial assistance, market provision, raw material supply, etc. Despite these supportive measures, the small scale industry is unable to come out of its moribund situation. There are two reasons, the first is the high administrative cost and lack of managerial and executive capacity and the second is that policies mostly favour large firms (Schmitz and Musyck, 1994).

The Reserve Bank of India (RBI) defines SMEs as small scale industrial unit, an undertaking in which investment in plant and machinery does not exceed Rs.1 crore, except in respect of certain specified items under hosiery, hand tools, drugs and pharmaceuticals, stationery items and sports goods, where this investment limit has been enhanced to Rs. 5 crore. SMEs are established in almost all major sectors such as agriculture, food processing, chemical and pharmaceutical, sports goods, leather and leather goods, plastic products, computer software, and engineering, electronic and electronics, etc. (Sampath, 2006). The Indian SME segment's current production value is almost Rs 816,000 crores, manufacturing more than 8,000 diverse products, ranging from low-technology items to technologically advanced products. The SME sector targets both domestic as well global markets. The industry groups with a large share in exports are hosiery and garments (29.0%), food products (21.4%) and leather products (18%) (OECD Economic Surveys: India, 2007).

The industry sector, especially SMEs, plays a significant role in a developing country economy such as India. SMEs possess certain characteristics that make them vital for the Indian economy. These include greater operational flexibility, high propensity to adopt technology, high capacity to innovate export, high employment orientation, utilization of locally available human and material resources, reduction of regional imbalances2, rapid and effective internal communication, shorter decision chains, capable of fast learning and adapting routine and strategy (Das, 1996). Despite these benefits, SME's own inherent characteristics trap them into lethargic growth. These include small size, traditional technologies, low capital investment mostly because of financial problems, low scale of economies, mostly family-owned enterprises (Varma, 2002), and insufficient division of labour (Saith, 2001).

PROBLEMS FACED BY SME

Despite these strengths, the sector is, like all others, vulnerable to changing economic conditions. The Indian SME is not insulated from the ongoing financial crisis. The sector is seeing an overall decline in cash reserves and increased difficulty in finding working capital, further hampered by a sizing down of order books and piling up creditors. Sectors such as gems & jewellery, textiles, auto parts and handicrafts are severely impacted by the economic slowdown.

This has worsened the scenario for SMEs, facing formidable problems even in the normal course, in capital raising, human resource skills & attrition, technology, succession planning and acquiring global competitiveness.

The problems in raising finances arise because the sector is viewed with scepticism by private banks and financial agencies that perceive comparatively high risk-return factors with SME lending. The economic slowdown has compounded the considerations and made it more difficult for SMEs to seek finance. High interest rates coupled with reduced profitability from reduced demand globally are hurting SMEs.

The reduced credit availability is particularly hurting because venture capitalist funding and public issues have never been popular funding options for SMEs. In the absence of transparent credit rating agencies for SMEs, the conventional sources of raising funds have become too expensive or inaccessible.

The problems from the credit crunch are accentuated by the increased cost of operations: High inflation rates, increasing cost of inputs, rising recruitment costs and high employee attrition have increased the costs of operations for SMEs, thinning their profit margins.

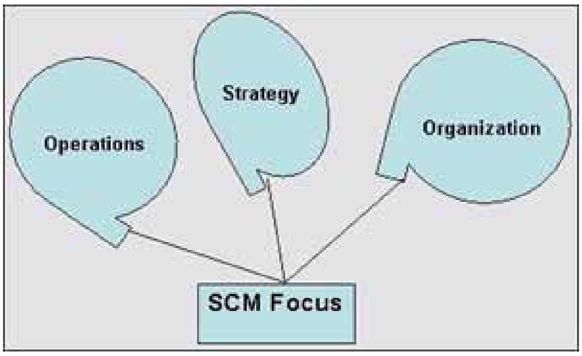
The current financial crisis has also made it difficult for SMEs to invest in latest technologies and enhance their production facilities or plan expansion. They often acquire equipment, machinery and software that are inappropriate or inadequate to save on expenditures.

It is true that SMEs too face the same global, technological and infrastructure challenges that a large corporation does; however, they often tend to have greater resource, capital and skill constraints. The need of the hour is a curative approach (long-term perspective) in addition to a symptomatic treatment (short-term focus).

Applications of Cost AND Strategic Management:
There are three basic business areas where cost and strategic management strategies can be applied by the SME sector.

- **Strategy:**

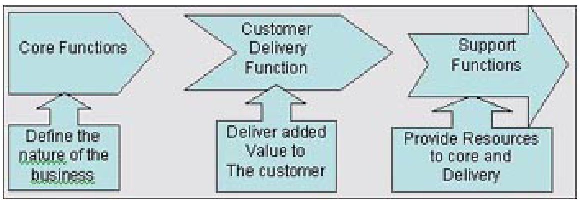
A strategy in general terms refers to a plan of action that will shape the direction of organization's success. Companies of late have realized the importance of clear articulation of strategy and its effective implementation. Before formulating any strategy, the management should think about the business model whether it is still relevant or need to be changed? Or whether the objectives of the business are going to be accomplished through laid out strategy.



Operations:
By setting the priorities according to its significance we can operate the tasks effectively and efficiently.

Organization:
Company should time and again check whether it is allocating its limited resources in the businesses which generate more value for the entire organization. Resources as such are the liming factors for any organization and that's why the company should be focus on the structure of the business and it should decide well in advance whether it should own all resources or not?

Cost AND Strategic management framework:
The Cost and Strategic management framework provides a clear plan of attack for addressing costs and decisions that affect the SME sector. Following are the three core components of this framework.



1. Core Functions:
Core functions elaborate on the nature of the business. It answers the very obvious question what type of business are we in? At this stage the company has to clearly identify its courses of actions with respect to strategy planning, research and development, and product development.

2. Customer Delivery Function:
This step emphasizes more on value addition with various activities such as marketing, sales, manufacturing, quality assurance and control, sourcing, procurement and logistics, engineering and maintenance, customer service and technical support etc. Excellence in those activities can create a sort of competitive advantage for the company if it could harness its resources intelligently than its competitors.

3. Support Functions:
As the name suggests, to support the core activities of business some secondary activities are to be carried out which includes IT, Finance and Accounting, HR management General administration. These activities will facilitate the performance of the core activities in a way that goals of the business can be accomplished successfully without wasting limited resources. They will also help in synchronizing the different tasks which are to be carried out simultaneously.

Strategies for the growth of SME
In most corporations there are several levels of management. Cost and Strategic management is the highest of these levels in the sense that it is the broadest - applying to all parts of the firm - while also incorporating the longest time horizon. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy there are typically business-level competitive strategies and functional unit strategies.

Corporate strategy refers to the overarching strategy of the diversified firm. Such a corporate strategy answers the questions of "which businesses should we be in?" and "how does being in these businesses create synergy and/or add to the competitive advantage of the corporation as a whole?"

Business strategy refers to the aggregated strategies of single business firm or a strategic business unit (SBU) in a diversified corporation. According to Michael Porter, a firm must formulate a business strategy that incorporates either cost leadership, differentiation or focus in order to achieve a sustainable competitive advantage and long-term success in its chosen areas or industries. Alternatively, according to W. Chan Kim and Renée Mauborgne, an organization can achieve high growth and profits by creating a Blue Ocean Strategy that breaks the previous value-cost tradeoff by simultaneously pursuing both differentiation and low cost. Some of these strategies by Michael Porter are as follows-

- COST LEADERSHIP STRATEGY is based on the concept that you can produce and market a good quality product or service at a lower cost than your competitors. These low costs should translate to profit margins that are higher than the industry average. Some of the conditions that should exist to support a cost leadership strategy include an on-going availability of operating capital, good process engineering skills, close management of labor, products designed for ease of manufacturing and low cost distribution.

- A DIFFERENTIATION STRATEGY is one of creating a product or service that is perceived as being unique "throughout the industry". The emphasis can be on brand image, proprietary technology, special features, superior service, a strong distributor network or other aspects that might be specific to your industry. This uniqueness should also translate to profit margins that are higher than the industry average. In addition, some of the conditions that should exist to support a differentiation strategy include strong marketing abilities, effective product engineering, creative personnel, the ability to perform basic research and a good reputation.

- A FOCUS STRATEGY may be the most sophisticated of the generic strategies, in that it is a more 'intense' form of either the cost leadership or differentiation strategy. It is designed to address a "focused" segment of the marketplace, product form or cost management process and is usually employed when it isn't appropriate to attempt an 'across the board' application of cost leadership or differentiation. It is based on the concept of serving a particular target in such an exceptional manner, that others cannot compete. Usually this means addressing a substantially smaller market segment than others in the industry, but because of minimal competition, profit margins can be very high.

Functional strategies include marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, supply-chain strategies, and information technology management strategies. The emphasis is on short and medium term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives, and hence to some extent their strategies are derived from broader corporate strategies.

Many companies feel that a functional organizational structure is not an efficient way to organize activities so they have reengineered according to processes or SBUs. A strategic business unit is a semi-autonomous unit that is usually responsible for its own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit centre by corporate headquarters. A technology strategy, for example, although it is focused on technology as a means of achieving an organization's overall objective(s), may include dimensions that are beyond the scope of a single business unit, engineering organization or IT department.

An additional level of strategy called operational strategy was encouraged by Peter Drucker in his theory of management by objectives (MBO). It is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. It must operate within a budget but is not at liberty to adjust or create that budget. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies.

Since the turn of the millennium, some firms have reverted to a simpler strategic structure driven by advances in information technology. It is felt that knowledge management systems should be used to share information and create common goals. Strategic divisions are thought to hamper this process. This notion of strategy has been captured under the rubric of dynamic strategy, popularized by Carpenter and Sanders's textbook . This work builds on that of Brown and Eisenhart as well as Christensen and portrays firm strategy, both business and corporate, as necessarily embracing ongoing strategic change, and the seamless integration of strategy formulation and implementation. Such change and implementation are usually built into the strategy through the staging and pacing facets.

CONCLUSION

Indian Small and Medium Enterprises (SMEs) account for 40% of the industrial production, 35% of the total manufactured exports of the country, 95% of all industrial units and about 70% of employment1, they are under tremendous pressure of providing employment and experiencing sluggish growth. . The Indian SME is not insulated from the ongoing financial crisis. The sector is seeing an overall decline in cash reserves and increased difficulty in finding working capital, further hampered by a sizing down of order books and piling up creditors. Sectors such as gems & jewellery, textiles, auto parts and handicrafts are severely impacted by the economic slowdown. The Cost and Strategic management framework provides a clear plan of attack for addressing costs and decisions that affect the SME sector In most (large) corporations there are several levels of management. Cost and Strategic management is the highest of these levels in the sense that it is the broadest - applying to all parts of the firm - while also incorporating the longest time horizon. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy here are typically business-level competitive strategies and functional unit strategies. So, the decision for which strategy to be adopted for the growth is on the firm.

Sara Publishing Academy
Indian Journal Of Applied Research
Journal for All Subjects

Editor,
Indian Journal Of Applied Research
8-A, Banans, Opp. SLU Girls College,
New Congres Bhavan, Paldi, Ahmedabad-380006.
Contact.: +91-9824097643 E-mail : editor@ijar.in

Printed at Unique Offset, Novatsing Rupam Estate, Opp. Abhay Estate, Tavdipura, Shahibaug, Ahmedabad