

Chapter 14

Strategic Management Overview and SME in Globalized World

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ABSTRACT

Small and Medium Enterprises (SMEs) play an important role in each economy. Some of them even became market leaders from an international perspective. This stands in stark contrast to the fact that scientific and strategic management research up to date has only rudimentarily covered the field of strategic management of SMEs. Globalization is not a trend, a fad, or an isolated phenomenon. It is an inescapable force. If anticipated and understood, it is a powerful opportunity. If not, it can swiftly destroy businesses and drown organizations. Meanwhile the concern for globalization and its effect on SMEs has grown tremendously over the recent decade. Hence, strategic management becomes critical and deserves more attention due to the threats and opportunities globalization exposes and offers SMEs to at the same time. This chapter intends to make a contribution to this research gap by means of raising the question whether strategic management is feasible and/or necessary for SMEs, identifying suitable concepts of strategic management and their applicability for SMEs so that they can maintain their independence and at the same time blossom to their fullest extent.

INTRODUCTION

SMEs play an important role in each economy. Some of them even became market leaders from an international perspective. This stands in stark contrast to the fact, that scientific and strategic management research up to date has only rudimentarily covered the field of strategic management of SMEs. The concept and motivation for this chapter developed from the starting point, that the field of SME-strategic management was not

researched in sufficient manner, at least not by far to the degree as for large corporations especially in the light of globalization. Globalization can be concluded as neither a trend, nor a fad or an isolated phenomenon. It is an inescapable force. If anticipated and understood, it is a powerful opportunity. If not, it can swiftly destroy businesses and drown organizations. As the concern to globalization for SMEs has grown extremely over the recent decade, strategic management becomes critical; hence the demand for extended

DOI: 10.4018/978-1-4666-8195-8.ch014

scientific research on the subject matter increases proportionally. The issue of strategic management for SME deserves more attention due to the threats and opportunities globalization exposes and offers SMEs to at the same time. This chapter intends to make a contribution to this research gap by means of raising the question whether strategic management is feasible and/or necessary for SMEs and identifying suitable concepts of strategic management their applicability for SMEs so that they can maintain their independence and at the same blossom to their fullest extent.

Since academic research and economic policy spend an increasing amount of attention on SMEs there is also an intensive discussion about new management approaches, new organizations and how to promote this group of enterprises. However, definition for SMEs is often considered to be an obstacle for business studies and market research. Definitions in use today define thresholds in terms of employment, turnover and assets. They also incorporate a reasonable amount of flexibility around year-to-year changes in these measures so that a business qualifying as an SME in one year can have a reasonable expectation of remaining an SME in the next. The thresholds themselves, however, vary substantially between countries. As the SME thresholds dictate to some extent the provision of government support, countries in which manufacturing and labor-intensive industries are prioritized politically tend to opt for more relaxed thresholds. Furthermore, defining a SME is itself a challenging task, as every country has its own definition for a SME. For instance in a country like India as per the Micro, Small and Medium Enterprises Development Act 2006, enterprises are broadly classified into micro units, small units, medium units & large units depending on the investment in plant and machinery. In India, the Micro and Small Enterprises (MSEs) sector plays a pivotal role in the overall industrial economy of the country. It is estimated that in terms of value, the sector accounts for about 39%

of the manufacturing output and around 33% of the total export of the country.

In India, SMEs' contribution to GDP is nearly 30%. Moreover, in recent years the MSE sector has consistently registered higher growth rate compared to the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost. As per available statistics, this sector employs an estimated 31 million persons spread over 12.8 million enterprises and the labor intensity in the MSE sector is estimated to be almost 4 times higher than the large enterprises. However, compare that to the EU where it is based on the parameters of employment, turnover and asset size, and OECD on employment and sales turnover has totally different criteria for establishment.

With various definitions by various countries, sometimes it becomes a difficult task for an individual to understand the importance of a SME. One may not know the important role that SME plays in developing any particular sector, economy of any country, alleviating poverty, increasing employment, and, above all providing various items of daily use at an affordable cost. Within the last few years many developed and developing countries have realized the importance of the sector but from the last decade SMEs have to face new challenges due to the rise of new technologies and globalization. Though a vast number of new concepts, methods, tools and theories of and for management have emerged yet, some of the offered magic solutions rarely deliver as much as they promise and turn out to be quick-fix-solutions.

Managers and entrepreneurs are faced with new approaches aiming at making them more innovative, competitive or excellent. Lean management, core competencies, strategic alliances, business process reengineering, and virtual enterprises are the most popular concepts. Often these new concepts are transferred by consultants. Moreover, most of these new concepts are still explicitly or implicitly designed for large companies. For small firms it is even more difficult than for larger ones

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