

**ORGANIZATIONAL DEVELOPMENT  
FOR SMALL AND MEDIUM ENTERPRISES**

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Small and medium enterprises (SMEs) occupy an important and strategic place for a country's growth. They contribute significantly to the region's wealth and employment, as intermediate and final producers as well as consumers of goods and services. They are the primary vehicles by which new entrepreneurs provide the economy a continuous supply of ideas, skills and innovation. Strong SME sectors attract and enable foreign investors to establish and expand domestic linkages. SMEs thus play a critical role in creating opportunities that make the attainment of equitable and sustainable growth possible.

Due to their size, however, SMEs suffer from constraints that lower their resiliency to risk and prevent them from attaining administrative economies of scale. These challenges are particularly significant in the areas of human resources development and access to financing, markets, technology and information.

Let on their own, many SMEs face difficulties arising from liberalization-induced adjustments. With SMEs varying widely in size, capabilities, environment (some are urban, other rural-based) and organizational structures (in the case of cooperatives) across economies, coherent region-wide strategies to address their problems have been difficult to craft. As a result, SMEs are still far from realizing their full potential.

SMEs therefore need enhanced administrative support, domestically and regionally, in order to harness the opportunities arising from the liberalization and facilitation of trade and investment, and in adjusting to a fast-changing business environment.

SMEs must establish benchmark policies and programs that are market-driven, non-distorting, and attuned to the dynamics of a fully liberalized trade and investment regime.

The task of empowering and promoting SME's requires appropriate institutions and organizations. With the recent advances in information technology and the progress of region-wide networking and cooperation among public and business/private sector organizations, the potential for international consortia to initiate programs and projects in pursuit of shared objectives has expanded.

- We see the need for concerted action among governments and business/private institutions, on a voluntary basis, to harness the potential of these different bodies, and to test new ideas through pilot projects
- information networking;

- mobilization of training opportunities for the absorption of technical know-how and upgrading; and
- syndicating technology transfer projects in the spirit of intra-regional cooperation and business internationalization.
- The aim to accelerate technological transfer/exchange and development among SMEs is a must, in order to make them more productive and competitive in both the domestic and international markets. It should consist of an international network of agencies, institutions and organizations which will have the flexibility to enter into institutional agreements for information exchange, technical assistance and project collaboration with international organizations involved in SME development. A centralized institution should work who can use existing commercial communication infrastructure to effect the information flow and exchange of project ideas and opportunities for training and technology sharing among SMEs.

**Given with today's scenario the main focus to develop SME's should focus on four key areas: Human Resources Development, Access to Technology and Information, Access to Market Opportunities and finally the Support of Appropriate Government Agencies.**

## **I. HUMAN RESOURCES DEVELOPMENT: PROMOTION OF SKILLS TRAINING AND THE VIRTUAL SME UNIVERSITY PROJECT**

### **a. Promotion of skill training**

The lack of workers with technical skills is the most significant barrier to the growth of SMEs in industry and services. This problem should be addressed by encouraging SMEs to invest in the training and development of basic skills of workers and by ensuring that the credentials of these workers are recognized within the region.

The Organization should initiate and coordinate actions that will lead to the accelerated exchange and development of skills and standards to support skills training within and across all SME's.

### **b. Virtual SME University**

The existing network of SME's can serve as the foundation of an wide Virtual SME University. This virtual university, employing distance learning technology and/or the actual exchange of students and trainers, can deliver both pedagogic and actual training on technical and management skills to SMEs. This system can harness the centers of excellence and supporting organization providing sector-specific technical, management, entrepreneur-ship, and financial training for SMEs, both in and outside organizations. It will thus facilitate the linking of supply and demand for training within the region. This virtual SME University should also address the training concerns of young entrepreneur.

Some such centers of excellence which exist are:

### **Centers of Excellence**

The Institute of the Japan Small Business Corporation. This institute provides training programs to SMEs, SME consultants and prefectural government advisers. The courses offered cover programs on management, upgrading, engineering, electronics and communications.

The Entrepreneurship Development Program of the Department of Industrial Promotion, Thailand. The program targets existing and new entrepreneurs and persons with entrepreneurs' potential. It provides investment opportunities research as well as training and follow-up service. The training program consists of five categories: successful entrepreneurship, business management, feasibility studies, business establishment and technical information.

## **II. ACCESS TO TECHNOLOGY AND INFORMATION: THE SME PAGE AND THE PARTNERSHIP AND COLLABORATION APPROACH TO TECHNOLOGY TRANSFER**

### **a. The SME Home Page**

SMEs need improved information access to participate more actively in the region's economic growth. With the present wealth of information that SMEs possess, however much has not been able to adequately take advantage. Information networks have limited sub-regional or domestic coverage. Accompanied by technology lag in some economies, their benefits to SMEs have not yet been significant. There is thus a need to centralize data for purposes of time efficiency.

A Network should create an SME Page as part of the Home Page which can be "hot-linked" to domestic entry points. This SME Page will be used by the Network to tap, link and coordinate information network sources presently existing in Asia Pacific Economic Centre to harness information technology. It should provide information on the following:

- **SME/Human Resources Development Focal Points** (one in each economy): These are existing organizations or SME centers, limited in number for manageability purposes, that serves as contact points for information on SME technical and entrepreneurship training, and sources of best on-line addressed providing information on local SMEs regarding their networking activities.
- **SME/Human Resources Development Policies and Programs:** These are current domestic and regional policies and programs related to SMEs and human resources development.

- **SME/Human Resources Development managerial Tools:** This is a section where economies can post electronic SME managerial resources and information about non-electronic tools, including distance training materials for export development, export readiness assessment tools and managerial best practices.
- **SME/Human Resources Development Best Practices:** These are government programs that have demonstrated benefits for SMEs and serve as best practice models for APEC member economies.
- **Non-Tariff Barriers:** A section where SMEs can report non-tariff barriers and impediments they may encounter in any economy, including those that are internal to member economies in the form of over-regulation.
- **SME Credit Programs:** This section should provide information about SME credit programs in each economy and the know-how for SMEs to be able to tap these programs more effectively.
- **SME Electronic Match-Making.** This facility will enhance and promote the match-making capabilities.
- **Quality Management Practices.** This section will contain information on the value of international quality management standards which SMEs may adopt to enhance their global competitiveness. In addition, this section will highlight best practices.

#### **b. Partnership and collaboration approach to technology transfer**

In order to improve their technical and managerial technologies, SMEs need access to practical applications in a time-efficient manner. Partnership and collaboration between large and small enterprises provide such a time-efficient approach to technology transfers. Pairing large and small companies encourages technical cooperation, secondment of administrative personnel in coaching roles, and sponsorship of smaller firms' membership in trade and industry associations, thus benefiting SMEs. The Network should initiate and coordinate actions to promote policies that encourage such

mentoring relationships between large business and SMEs. It should also initiate such projects within and across economies.

### **III. MARKET ACCESS: EXPANSION OF WIDE NETWORKING OPPORTUNITIES FOR SMES**

The lack of networking an opportunity hampers the growth of SMEs, especially those in need of capital and a wider sales network, and for whom forming partnerships is critical to success. Face-to-face networkings are valuable tools for facilitating business transactions of SMEs. The promotion of wide networking opportunities should enable SMEs to access regional markets through direct familiarization and contacts.

Networking opportunities bring other benefits such as promoting technology-sharing and exchanges among firms, production subcontracting and access to financing. The Network should facilitate and promote such opportunities.

#### **SME Financing: Strengthening Credit Programs**

Access to financing remains a major concern for SMEs . The problem has a supply and demand component. From the supply side, for example, exporters of goods and services face difficulties in obtaining loans against their export receivables due to banks' perceptions of the risks entailed or their lack of experience in making such loans.

On the demand side, SMEs often lack the necessary knowledge to present their business case in a realistic and favorable light and are not able to meet requirements such as collateral.

There is therefore a need for better information flows between providers of finance, SMEs and concerned government agencies to address this problem. In pursuit of this objective, we ask the Economic Leaders to:

- Hold initial Roundtables in their respective economies to bring together all relevant government agencies, banks, venture capital and credit facilities, associations, and SME representatives to address the growth and export financing needs of SMEs, with the recommendations from the Roundtable reinforced by government policy.

The Roundtable discussions would give rise to concrete actions such as a program to familiarize credit providers and concerned government officials with the financing needs of SMEs and with a more realistic appraisal of the risks associated with such lending. In addition, the Network could provide training for SMEs to enhance their ability to present a credible business case for financing.

#### **SME Statistical Indicators**

- Policy measures geared towards promoting SME development need to be accompanied by vigorous implementation efforts. Assessing the success of these

efforts depends on ability to measure progress, which in turn requires baseline data. The collection and reporting of these data and the development of the statistical indicators are needed .

#### **IV. SUPPORT FROM APPROPRIATE GOVERNMENT AGENCIES:**

Lastly, in order for any SME's to give birth, rise and grow it should have the support from the local, federal governments to support and all the resources to be allocated for the growth of the organization and also to the Nation as a whole.

#### ***GROWTH & DEVELOPMENT OF SME'S***

The growth and development of organizations has been an area of interest for organizational theorists for decades, multiple models have been postulated, ranging from three to ten stages in composition. A number of models have been developed to apply only to small firms; while others have been developed to describe large organizations. Organizational researchers have proposed various models of an organizational life cycle. Some models have applied only to small to medium-sized enterprises, while other has focused on large, corporate entities.

Borrowing a universally accepted concept from the biological sciences, management researchers have developed various models to depict the life cycle of organizations. The impetus behind this stream of research is that organizations seem to take on a "life" that can be compared to living organisms. To better articulate this organizational life, the whole has been broken down into steps or stages.

A life cycle stage can be defined as a loose set of organizational activities and structures. These activities include *decision-making, information processing, and operational procedures.*

Structural issues include reporting relationships, the distribution of power, and department or divisional organization. Life cycle stages are needed for description because these activities and structures change over time .They are also interdependent, becoming reconfigured from one cycle to the next.

There is no debate as to the validity of applying the biological concept of life cycle to organizations. It is clear that organizations are at some point "born", they grow to one size or another, and eventually they all "die". Two points about life cycle research have been debated, however. The first is how many stages of development are appropriate to adequately describe the construct. The second debate concerns the deterministic nature of life cycle research. If the biological version is to be adhered to, why do some organizations renew themselves, move backwards from maturity to growth , or escape the paralysis of decline by re-entering the growth, maturity, or renewal stages?

Managers who recognize the need for strategic change in their organizations for long term competitiveness may also recognize the need to alter other organizational functions

that determine life cycle.

***Stage One: Existence .....***

Known as the entrepreneurial or birth stage , Existence marks the beginning of organizational development. The focus is on viability, or simply identifying a sufficient number of customers to warrant the support the existence of the organization. Decision making and ownership are in the hands of one, or a few, and the organizational structure is very simple. Organizations in this stage tend to enact or create their own environments.

***Stage Two: Survival.....***

As firms move into the Survival stage they seek to grow, develop some formalization of structure, and establish their own distinctive competencies. Goals are formulated routinely in this stage, with the primary goal being the generation of enough revenue to continue operations and finance sufficient growth to stay competitive. The Survival stage provides several interesting alternatives: Some organizations grow large and prosper well enough to enter the next stage, some “hit and miss,” earning marginal returns in some fiscal cycles, and others fail to generate sufficient revenue to survive. Most organizations in this stage are structured in a functional manner, and decision-making is more decentralized than the Existence stage.

***Stage Three: Success .....***

Commonly called maturity, the Success stage represents an organizational form where formalization and control through bureaucracy are the norm. A common problem in this stage is what many businesses have long referred to as “red tape” (Miller & Friesen, 1984), a condition of wading through layers of organizational structure to get anything accomplished. Job descriptions, policies and procedures, and hierarchical reporting relationships have become much more formal. Such organizations have passed the survival test, growing to a point that, at times, they may seek to protect what they have gained instead of targeting new territory. The top management team focuses on planning and strategy, leaving daily operations to middle managers. Organizational structure is varied, but many firms tend to be organized by product or geographic divisions due to the need to serve wide markets.

#### ***Stage Four: Renewal .....***

The renewing organization displays a desire to return to a leaner time where collaboration and teamwork foster innovation and creativity. This creativity is sometimes facilitated through the use of a matrix structure, and decision making is very much decentralized. The organization is still large and bureaucratic, but organizational members are encouraged to work within the bureaucracy without adding to it. The needs of customers are placed above those of organizational members. Some organizations utilize the matrix structure to assure the success of collaboration and teamwork.

#### ***Stage Five: Decline .....***

Although firms may exit the life cycle at any stage, the Decline stage can trigger the demise. The Decline stage is characterized by politics and power, as organizational members become more concerned with personal goals than they are with organizational goals. For some organizations, the inability to meet the external demands of a former stage has led them to a period of decline where they experience a lack of profit and a loss of market share. Control and decision making tend to return to a handful of people, as the desire for power and influence in earlier stages has eroded the viability of the organization.

### **DETERMINANTS OF LIFE CYCLE**

Past researchers have based life cycle identification on four primary factors, which are situation, structure, decision-making style, and strategy.

The term **situation** refers to the make-up of the firm, including its size, heterogeneity of markets, number of employees, and diversity of ownership.

**Structure** is the determination of reporting relationships, varying from simple to complex, departmental to divisional, and centralized to decentralized.

**Decision-making style** varies from the one-person authoritarian perspective to an open participative model.

**Strategy**, the fourth component of life cycle determination, can be approached from more than one angle. A six-factor scale developed by Parnell and Carraher (2002) served as the strategy type basis. These factors included whether a firm was a first or second mover, the degree of market segmentation, the breadth of product/service lines,

uniqueness, and efficiency. In addition, a three-item scale measuring satisfaction with firm performance, also validated by Parnell and Carraher (2002), was included as a surrogate of performance. This was necessary because the sample of managers used in the study represented a variety of industries, and not all of them had access to specific, up-to-date financial performance data. Satisfaction with performance, therefore, was the surrogate measure.

If a five-stage life cycle model such as the one presented above is to be valid for all organizations, it is necessary to articulate where small businesses fit within the model. Our contention is that small businesses never progress past the second, or Survival stage, of the life cycle. This contention is grounded in the definitions of the stages themselves. For example, the Success stage, or maturity, is characterized by large, formal organizations with wide markets, multiple owners, and generally decentralized management.

The Survival stage, the second stage on the life cycle ladder, is characterized by growth, very fast growth for some organizations. Yet, we know from the research of Churchill and Lewis (1983) that some firms tend to stagnate in this stage, not growing or maturing to their potential but also not declining or reverting back to an existence state.

The Existence stage, of course, is populated only with fairly small organizations, since that is the essential definition of the stage. Firms come into existence and test the water to see if they can be viable in the market.

Hence, if Existence is represented only by small organizations, and firms transition from small to large in the Survival stage, no small business, by definition, can be in the Success stage of the life cycle. And, since Renewal firms are mature firms that sense a need for innovation and teamwork to secure new markets, they are also by definition large businesses. Lastly, firms that sink into Decline would naturally be large firms that had lost market share due to poor management or a reactionary approach to market conditions rather than a proactive approach.

**Conclusion** : Most researches have established a life cycle scale that measured a five-stage approach to the construct, whether small firms progress past the first two stages of the life cycle, and is the five-stage model appropriate for all firms. The surprise finding was that organizations in the Decline stage actually behaved like small businesses. This result may be a clue for future research into organizational decline and the need for turnaround. If researchers can understand that firms in decline are actually operating in a manner similar to small businesses, perhaps some new prescriptions for action can be ascertained to save declining and dying organizations and how to develop the same.

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