## DRIVERS OF PERFORMANCE OF SME ENTERPRISES: AN EXPLORATORY STUDY OF INDIA

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### ABSTRACT
*A developing country like India, where capital scarcity remains the main issue SME are regarded as a remedy for the economy setbacks like lack of employment, poverty, income disparities etc. In this competitive market, the SME is facing continuous stress for its sustainability. This research focuses on the determinants that affect the performance of the SME in the region of India. The data was collected through an event study which was further analyzed and rated with the help of the panel which included three industrialists, one chartered account and one academician. The results show that Strategy Orientation, People Management, Business Efficiency are the three important factors that that affects the performance of SME in term of the Average Annual Turnover. Out of which People Management turned out to be the most important factor. People experimentation in SME plays is a vital role for the incremental innovation and creativity within the organization. The second important factor is Strategy Orientation and the current need of SME in India is to focus on the structured strategy orientation. This has to be made in alignment with the thinking, designing, formulation and implementation of the strategy within the organization.*

*Keyword: People Management Strategy Orientation Performance SME*

### INTRODUCTION
Business management has always been challenging and with the market becoming more competitive the struggle of Small and Medium Enterprise has multiplied. The challenges come from multiple directions could be from technology disruption in the specified area, or could be from large multinational players who have the strength of supplying material at low cost. The challenge could also come from the substitute product a lot of Companies are continuously working with innovation as a strategy. Direct competition from their own market also creates a lot of challenge which is just unavoidable. Innovation and creativity which are the buzzwords in the industry are constantly bothering the business owners. It is important that SMEs start thinking from a strategic perspective as to how can they survive and perform better in this ever-growing competitive market. The drivers for performance could be many based on the type of industry. Some of the important drivers which are the enablers for the business include good leadership, a strategy, right set of people, efficient system, customer orientation and environmental sustainability.

### LITERATURE REVIEW
Strategy Orientation: Market orientation effect on the performance of the organization is moderated by a competitor's intensity, market instability and technological instability. The market instability does not significantly moderate the market orientation effect on the performance of the organization but a competitor's intensity and technological instability have a significant moderating effect (Andotra and Gupta, 2016). Technological instability inversely moderates the market orientation effect on the performance of the organization. The SSI can grow if they increase their market area by increasing their product line or increasing their customer base. Government plays a significant role in the success of the SSIs. Ability to take risk and innovation affect the performance of the organization (Sarker and Palit, 2015). Incremental innovation provides a competitive advantage to Small Medium Enterprises in respect of sales and marketing.

People Management: Customer orientation, coordination between the various function affect the performance of the organization (Sarker and Palit, 2015). People management helps the organization to have a competitive advantage by two methods. One method is growth at the internal level and other is growth at a competitor level. It is a most important method that forms a backbone to the strategy formulation. It leads to the formulation of quality circles and support by the unions (Schuler and MacMillan, 1984).

Customer Orientation: Customer orientation has a positive and significant effect on the performance of small and medium enterprises (Appiah-Adu and Singh, 1998). Customer orientation is linked with the innovation of the organization and having a competitive advantage.

Environment Orientation: The basic assumption about the small medium enterprises is limited resources investment in environment orientation, therefore, they are able to follow only the regulatory frameworks. But the organization which is proactive in their approach towards the environment shows a significant positive effect on the financial performance of the organizations (Aragon-Correa et. al.).

Business efficiency: Business is regarded to be efficient if it is maximizing its profits by minimizing the inputs. It is basically measured by the profitability of the business and the growth of the business (Steffens et. al., 2009). This can be a hindrance in the path of SME because of lack of resources. Business efficiency, long-term sustainability and profitability of the business has a strong association with each other. If there will be fewer financial resources then the business will not be efficient enough to survive (Sandada and Mangwandi, 2015).

Brand Image: Brand rating and perception are regarded as an intangible asset of the business organization. They act as a value driver for the business performance of SME. In long run, they affect customer loyalty, product and the corporate reputation (Steenkamp and Kashyap, 2010).

**Figure-1: Theoretical Framework**
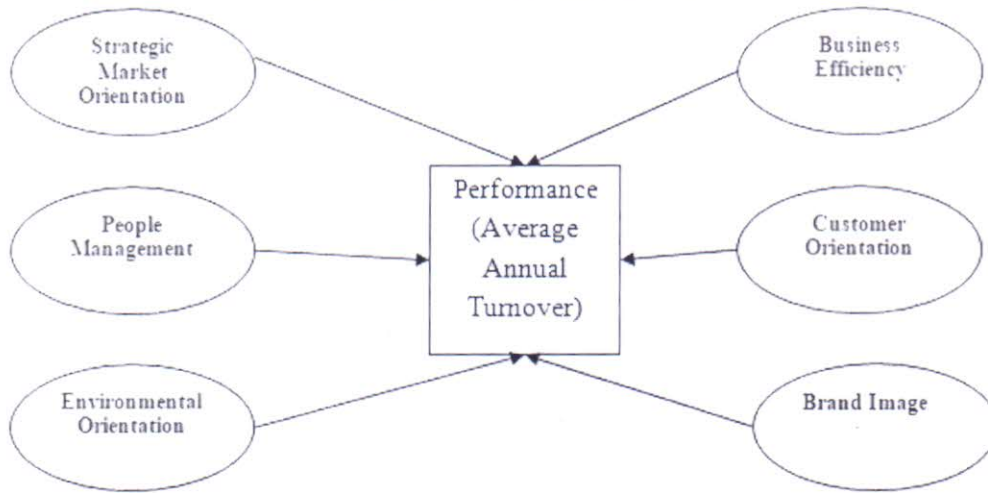


Source: Authors' compilation

## HYPOTHESIS

The model of this study is as follow:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon_t$$

where Y is the Value of Average Annual Turnover is dependent variable and the independent components are

$X_1$ Strategy Orientation

$X_2$ People Management

$X_3$ Business Efficiency

$X_4$ Environment Orientation

$X_5$ Customer Orientation

$X_6$ Brand Image

Hypotheses used for the study are.

$H_1$:     The Strategy Orientation is significantly related to the Value of Average Annual     Turnover.

$H_2$:     The People Management is significantly related to the Value of Average Annual Turnover.

$H_3$:     The Business Efficiency is significantly related to the Value of Average Annual Turnover.

$H_4$:     The Environment Orientation is significantly related to the Value of Average Annual Turnover.

$H_5$:     The Customer Orientation is significantly related to the Value of Average Annual Turnover.

$H_6$:     The Brand Image is significantly related to the Value of Average Annual Turnover.

## RATIONALE OF THE STUDY

SME is one of the most important support systems for large industries especially the automobile industry or appliances industry wherein SME provides most of the product and assembly is done in the main plain. Also, some of the sectors do not require huge volumes as these products have niche markets. Therefore, it is important to measure their performance and create the structural framework which will enable them to improve their

performance. In the absence of diversification, they are under the constant stress of substitute material. With the technological disruption and with the advent of new technology-driven business model the job market may be adversely affected and hence India seems to have the big potential of youth starting their own SME. This research focuses on the determinants that affect the performance of SME and identifying the most important factor so that they can rationalize their recourses towards it.

## RESEARCH METHODOLOGY

The primary source of information for the study was collected through event study. There was an event for the best entrepreneur and for this questionnaire was designed and circulated to the mature SME. Mature SME means who are operating for more than 5 years. The data collected from the SME was scored in the Likert scale with the help of the analyst which comprised of 3 industrialists, 1 chartered account and 1 Academician. The final questionnaire was basically divided into two parts. The first part gathered information about the demographic profile of the organization and the second part was based on the questions designed from the construct of the theoretical framework. For the second part, the final questionnaire was in five-point Likert scale where 5 signified to strongly agree and 1 signified to strongly disagree. The questions were developed by brainstorming with the scholars and extensive literature review. Literature review used for construct included Andotra and Gupta (2016), Steenkamp and Kashyap (2010) and Schuler and MacMillan, 1984. The performance was measured by using objective indicator Average Annual Turnover of the organization. Sources of secondary data include journals, the internet, books etc. The normality of the data was checked using Q plots and the outliers were removed. The constructs were identified with the help of factor analysis. The reliability was checked by Cronbach's alpha and the hypothesis was tested using multiple regressions.

### Table-1: KMO and Bartlett's Test

| KMO and Bartlett's Test | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | 0.692 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 425.878 |
| | Df | 153 |
| | Sig. | 0 |

The value of Kaiser-Meyer-Olkin Measure of Sampling Adequacy value is greater than 0.06 and Bartlett's Test of Sphericity significance value is lea than 0.05 therefore the data is suitable for the factor analysis (Kaiser & Rice, 1974).

## DATA ANALYSIS AND INTERPRETATION

For the confirmation of the factor Principle Component Analysis and Varimax is being used. Maximum of the variables that have been included meets the criteria of greater than or equal to 0.5 for factor loading. Factor analysis showed that there are 6 important factors which affect the performance of the SME. SPSS 21 was used for performing the factor analysis to identify the items that are related with each other. The six factors are Strategy Orientation, People Management, Business Efficiency, Environment Orientation, Customer Orientation and Brand Image.

### Table-2: Results of Factor Loading and Variance Explained after Scale Purification (rotated component method)

| Factor | | Factor Loading | Eigen Value | % of total variance | Cumulative Variance % |
|---|---|---|---|---|---|
| Strategy Orientation | Innovation | 0.769 | 4.242 | 23.569 | 23.569 |
| | Stakeholder Involvement | 0.67 | | | |
| | Impact on the community | 0.507 | | | |
| | Export | 0.632 | | | |
| People Management | No. Of Employees | 0.816 | 1.75 | 9.721 | 33.291 |
| | Training provided to the staff | 0.582 | | | |
| | Employee welfare | 0.644 | | | |
| Environmental Orientation | Energy Conservation Techniques | 0.786 | 1.395 | 7.75 | 49.348 |
| | Pollution control Measures | 0.616 | | | |
| | Safety | 0.462 | | | |
| Business Efficiency | Drivers of Business | 0.607 | 1.495 | 8.307 | 41.598 |
| | Challenges | 0.764 | | | |
| | Leadership | 0.756 | | | |
| Brand Image | Brand Rating | 0.8 | 1.091 | 6.061 | 62.73 |

| | Customer Perception of the brand | 0.876 | | | |
|---|---|---|---|---|---|
| Customer Orientation | No. of Customers | 0.678 | 1.318 | 7.321 | 56.669 |
| | Customer Satisfaction | 0.653 | | | |
| | Complaint Management System | 0.751 | | | |

Source: Authors' compilation

For further analysis multiple regression was used to find the effect of independent variable on dependent variable. For this purpose, dependent variable was performance of the organization in term of Average Annual Turnover and the independent variable were Strategy Orientation, People Management, Business Efficiency, Environment Orientation, Customer Orientation and Brand Image.

**Table-4: Multiple Regression**

| Coefficients(a) | | | | | |
|---|---|---|---|---|---|
| | Unstandardized Coefficients | | Standardized Coefficients | | |
| | B | Std. Error | Beta | t | Sig. |
| (Constant) | 2.125 | 0.177 | | 12.017 | 0 |
| Strategy Orientation | 0.776 | 0.178 | 0.32 | 4.364 | 0 |
| People Management | 1.458 | 0.178 | 0.602 | 8.205 | 0 |
| Business Efficiency | 0.551 | 0.178 | 0.227 | 3.099 | 0.003 |
| Environment Orientation | 0.013 | 0.178 | 0.005 | 0.071 | 0.943 |
| Customer Orientation | 0.185 | 0.178 | 0.076 | 1.04 | 0.301 |
| Brand Image | 0.011 | 0.178 | 0.004 | 0.06 | 0.952 |

a. Dependent Variable: Value of Average Annual Turnover

Source: Authors' compilation

**Table-5: Model Summary**

| Model Summary(b) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Change Statistics | | | |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | R Square Change | F Change | df1 | df2 | Sig. F Change | Durbin-Watson |
| 1 | .722a | 0.522 | 0.489 | 1.733 | 0.522 | 16.176 | 6 | 89 | 0 | 2.107 |

a. Predictors: (Constant), Strategy Orientation, People Management, Business Efficiency, Environment Orientation, Customer Orientation, Brand Image.

b. Dependent Variable: Value of Average Annual Turnover

Source: Authors' compilation

There is a significant regression equation with $R^2$ value 0.522 showing that variance in the performance is explained by 52.2% of the independent variables. Strategy orientation ($p<0.05$), People Management($p<0.05$) and Business Efficiency($p<0.05$) were significant predictors of Performance of the organization with $\alpha=.05$. Strategy orientation (B= 0.776), People Management (B= 1.458) and Business Efficiency (B= 0.551) have a positive effect on the Performance of the organization. Therefore, the hypothesis H1, H2 and H3 are supported. People Management is the most important predictors of performance of the organization.

## DISCUSSION AND FUTURE IMPLICATION

In the overall growth of India SME hold an important position. According to the analysis of the first aspect that the organization should work on is people management. They should provide proper training and employee welfare scheme to the employee. Secondly, the strategy of the business organization plays an important role. They have to show the innovation which will show their difference from the other organizations.

As per the study out of the six factors people in the organization are the most important determinant which contributes towards the increasing performance of the SME. In view of the good SME will have to create an environment which allows progressive measurable growth of the people along with the organization. SME will also have to allow people to experiment so that incremental innovation can be explored within the organization and the benefits of the innovation and creativity can boast both the employee and the employer. Incremental innovation also allows the marketing to expand their market base and increase the product life cycle which is so very important for creating long-term value for SME.

The need of the day is that the country needs to expand its manufacturing base to create opportunities for wealth creation along with constructive utilization of energy of the youth. SME in India needs to focus on the structured strategy orientation. There is a need for strategic thinking, strategy design, strategy formulation and implementation. The strategy design will allow the owners to expand their horizon form local suppliers to global suppliers. It will create new USP's for the product which allows them to create a unique differentiation in the marketplace thereby creating a good positioning input in the mind of the customers and allowing them for a good sustainable model. This research can be further extended in building the model that will affect the performance of the business organization. In performance average annual turnover has been used as an indicator of the performance of the organization but future research can further extend the factor. Moreover, innovation and strategy can be further divided into different determinants for analysis.

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