

Failure Analysis of Strategic Diversification Plans of a Small Business Enterprise

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Abstract

Most of the Small & Medium Business Enterprises (SMBE) are limited to their size and scale of operations by virtue of their ancillary type of role in the products. These industries are dependent on the main product promoted by the bigger industries. In order to diversify into new field or set of products, they need to come out of the cocoon they are living in. Some of the companies try this and succeed, but there are many which fail. The companies plan to expand, diversify and modify their product line but are not able to cope up with the change. This paper is an analysis about SMBEs trying spread their wings based on personal experiences.

Keywords: Strategic agility, Diversification, Strategic resonance, Enlightenment, Failure analysis.

Introduction

By the end of the 18th century, world had experienced a new revolution that changed the ways the world operated and produced its goods. It changed the societies from agricultural society to the industrial one where manufacturing came in control. This was an Industrial Revolution, which first started in Great Britain and then spread to other European countries such as Germany and France and further to the United States. Industrialization brought in new technological advancements and changes in world's

socioeconomic and cultural status (Nef 1954). This also affected the way nations acquired their wealth. Small Scale Businesses help every economy to achieve industrial growth and industrial diversification. Small and Medium Business Enterprises (SMBE) are mainly independent small investment units that are not owned, controlled or subsidiary of any other industrial undertaking. SMBE could be ancillary industrial undertakings that are engaged in manufacturing and supplying of parts, components and intermediaries or is engaged in providing services limited to some part. The SMBE sector had been instrumental in accelerated industrial growth and in creating productive employment potential mainly in rural and backward areas. In fact SMBE contribute significantly in the national economy and are the mechanism of growth in most of the developed and industrialized countries.

In order to grow further in size and/or be independent from the survival point of view, it is required for the SMBE to diversify into new technology area by launching new products and/or services. This requires planning, organising, staffing, raising funds in a manner that would aid and support the new vision of growth. The companies need to revisit policies for marketing, manufacturing and R&D. Success will be achievable only when one balances the needs of the core business with the growing needs of the new business. It is also required to balance the conflicts between

the core unit and the diversified business. This is feasible by creating absolutely new assumptions & biases, by making judicious use of resources from the core unit and by way of strategic agility in the organization (Govindarajan et al. 2007). Plant enlightenment and strategic resonance are other two necessary aspects for the SMBEs that want to spread their wings. Most of the companies fail to become enlightened because they stick to their past approaches for operations, old fashioned top-down hierarchical strategy- making process. The key to becoming enlightened is the ability to create and sustain strategic resonance. SMBEs do face difficulty in doing this (Brown 2000).

When a SMBE is in such diversification phase, it is in a very critical stage. Even a short dose of over stress can be fatal to them as compared to larger organizations that have the internal resources to ply through stressful situations. Therefore, it is necessary to look into all those aspects that may create a situation where the diversifying plans of the SMBE get killed. Most of the Companies have traditionally responded to change through strategic planning and the foresight offered by scenarios, or through corporate ventures and an entrepreneurial drive. In present scenario change is twofold. It is fast, where ventures can provide an answer but is also complex, where strategic planning is no longer applicable because change is fast and unpredictable (Pathak et al. 2009). This paper focuses on these issues, not exactly as a case study but, presenting analysis based on his first hand experience with a Small Business Enterprise. This analysis can be easily extended in international scenario since the analysis presented is based on the global criterion.

Strategic Development Plan

A company, which we will name as A India Ltd (AIL) is Small Business Enterprise was

started by technocrats, scientists coming out from various research organisations. AIL has customer base mainly in defence research organisations and industries. Their product range covered electronic and mechatronics equipment. The company came into existence way back in 1996 and had very slow growth of just 2 to 4% per annum. It was therefore decided by its management to diversify into new technology areas, new products and new customer base to grow both horizontally and vertically with a strong view of strategic agility for its survival and growth. In order to achieve explosive growth of AIL, two new verticals and an addition of new dimension to the product line were suggested to be added to the existing line of business by the author. The first vertical was IT enabled service (ITES) in the area of upcoming technology of RFID and the other was a meteorological instrumentation product (MIP) with large scale production requirement. The third dimension suggested was establishing large scale production (LSP) of a specific defence product. The investment profile for both the verticals i.e. ITES & MIP put together, was not very heavy and was to the tune of just 8 to 10% of the then existing turnover of AIL. Whereas, investment profile for the third dimension of LSP was quite heavy and bold enough for the existing capacity of AIL. It was expected that with launch of new verticals the turnover of the company would become three times and with the launch of new dimension it would become six times the existing turnover in a period of three to four years.

In spite of having done minute planning the strategic diversification plans, the company was unsuccessful to launch the new verticals and add the new dimension and achieve any growth over a period of three years. The reasons of failure were multi-fold and are presented here in the form of an analysis. This analysis will be applicable to any type of culture across the word as the

attributes chosen, are defined by world renowned management gurus.

The Analysis

The main reason of failure was flouting the basic fundamentals of strategic agility that were required for the diversification. The strategic agility is the ability of a company to relentlessly adapt strategic direction in core business, to adjust as a function of strategic ambitions and to the changing circumstances. It also calls for creation of not just new products and services, but also new business models and innovative ways to create value for a company (Doz & Kosonen 2008). AIL failed to pursue some of the key enabling issues of strategic agility to its full capacity. The first one is the *Strategic Sensitivity*, where it requires developing capability of sharpness of perception, intensity of awareness and attention. The second one is *Resource Fluidity*, where internal capability to recognise the need and reconfigure business systems and redeployment of resources quickly. The third one is the *Collective Commitment*, where the ability of the top management to quickly make and take bold decisions without heeding to “win-lose” politics in the top management. The Company, AIL was fairly good at the Strategic Sensitivity but was worst in the Resource Fluidity and Collective Commitment. It miserably failed to allot the proper and required resources in time. The company also botched in getting the top management’s commitment owing to the internal politics. This resulted in lack of direction, not gaining of momentum for both the verticals and the third dimension. AIL could not gather the required financial and manpower related resources for the development of vertical on MIP. The project did not move further beyond the project appraisal phase and initial development due lack of clear-cut priority definition. The project would have seen the light of the day, if

proper pace for the development of product would have been maintained and chased by the top management. The vertical on RFID-ITES did not gather the momentum because initial investment made was too low. Moreover, the corporate strategy was not at all up to the mark and hence the company was unsuccessful to fetch any large order, which other companies could manage. The top management was entangled in the internal politics of resource allotment and in defining proper commitment. Thus in spite of having very good insight and strategic sensitivity brought in by the advisor, the strategic diversification plans proved to be futile due to lack of resource fluidity and collective commitment from the top management.

The other important reasons that are normally attributed to failure of company growth are (Collison 2009) –

- Inadequate planning of business,
- Insufficient initial capital for the start-up period and development stages due to inadequate financial planning,
- Lack of managing capability,
- wrong estimate of market demand for the product/ service,
- Inappropriate professional advisor/ consultant,
- Inefficient way to market the product or service,
- Dependence on a single individual,
- Waiting for predicted specific event/ opportunity,
- Inappropriate timing of expenditure,
- Being expedient rather than reasoned decision making,
- Failure to understand capital requirement for the growing business

In view of above reasons, although company had hired an appropriate advisor who had done minute business planning for AIL giving correct estimates for the market of the products and services, it failed for following reasons –

AIL could not gather sufficient capital for the start up period and did not allot the required finances and manpower during the developmental stages of MIP. The company had very inefficient way to market the new products/ services in the RFID-ITES sector. It also failed to explore and grab the new opportunities in the RFID-ITES sector due to lack of top management's commitment and good marketing team. The company diverted funds to some other venture which was not really related to the growth of AIL or was not part of the diversification plans. The top management kept on waiting for happening of a specific event and abstained from taking bold decisions from time to time. AIL also delayed the expenditure required at the crucial period of the project launch for MIP. The top management of AIL lacked in the reasoned decision making. The company was also unsuccessful in understanding the requirement of huge capital for the launch of third dimension. The company could not set priorities for the adopting newer methods of financing such as venture capital investment. Owing to the above mentioned reasons, the company was grappling for the launch of initiatives for the period of more than two years.

The important point to be noted here is that the simplistic formulas for strategy, finance & leadership are not effective anymore. Although for SMBE Credit crunch exposes fatal weakness in finance. Today's scenario is revolution of power. Customers are fragmenting and globalizing. The modern management promises growth through science, efficiency and insight. It is necessary to ride on the third wave of management. It is required to bury older concepts of management. What is now required is moving from 'command and control' to 'commitment and cooperation' (Owen 2009). We need to have surplus of information, knowledge & communication. Therefore survival of the fittest is true for the companies that are

reconfiguring, accounting, keeping vigil where capital is floundering and identifying the need for change to manage value shifts from tangible to intangible.

Conclusions

The paper has discussed the failure analysis for a SMBE, which was looking for an explosive growth through launch of two new verticals and addition of a third dimension. This analysis can be easily generalised in the international scenario owing to the global criterion taken into consideration while doing the analysis. Although SMBE play an important role in the industrial development of the country, these industries face difficulty in getting access to adequate finance, which is only one of the causes of failure. The company failed to initiate the programs due to lack of Resource Fluidity and Collective Commitment in spite of having a vision created by their advisor. It was also unsuccessful due to inappropriate strategy for marketing, funding and prioritising. There is strong need to put in new management-concepts of commitment and cooperation, reconfiguration and management of information. This Analysis should become a guideline for SMBE wishing high growth and diversification to come out of the cocoon.

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Biography

Dr. BP Joshi is a BE (Hons.) in Electrical Electronics Engineering from BITS, Pilani, India, ME (Mech.) in Guided Missiles and Doctorate in MEMS technology from Pune University, India. He also has Diploma in Business Management and Master of Management Sciences degree in Finance. He has 25 years of experience in design and development of critical mechatronics systems for variety of armaments and weapon systems. He has worked as a Group Director at ARDE, a leading establishment of DRDO, Ministry of Defence; handling variety of projects for defence R&D. Thirteen armament systems developed by him are in production. He also works as a consultant/ advisor on operations, production, system design and strategic business development for defence products industry & Defence PSUs. He has more than 13 publications in various national/ international conferences and journals. Presently he is a Director/ Principal at Alard College of Engineering and Management, Pune India.