

EMPIRICAL STUDY ON STRATEGY MANAGEMENT AND FINANCIAL PERFORMANCE: INDIAN FOOD SMES

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Abstract: *Rationale:* Every business organization strives for superior performance, improved competitive edge and better return; the implementation of strategy management concept is one of the most important process to pave the way for survival, development, and growth. The government of India has given much attention to Small and Medium Enterprises (SME) under "Make in India" initiative but strategy management is one of the core ingredients for sustainability and better financial performance.

Objective: The primary objective of the study is to investigate the impact of strategy management on financial performance in Indian food SMEs. The secondary objective is to study the difference in practices of strategy management and financial performance with type of food SMEs-manufacturing verses service.

Methodology: Descriptive research design has been used. Data were collected from 262 entrepreneurs of food SMEs across the National Capital Region of India using well designed pretested questionnaire. Data were analyzed using appropriate tools of SPSS 21 and Amos 21.

Finding: The results of study revealed that there is significant positive impact of strategy management on financial performance of food SMEs. There is no significant difference in practices of strategy management and financial performance with type of food SMEs.

Implications: The present study recommends the owner or manager of food SMEs to pay more attention to understand the present business scenario through strategy; and to make safe strides towards sustainability of the organization and to encounter the challenges for better financial performance.

Keywords: Strategy Management, Financial Performance, Food SMEs

INTRODUCTION

In the era of globalization, every business organization is facing tough competition from domestic as well as global organization, and even food SMEs are not an exception. Today's business environment is very unpredictable and changing at fast pace. In such situation, every business organization strives for superior performance, improved competitive edge and better return; the implementation of strategy management concept is one of the most important process to pave the way for survival, development, and growth (Huynh, Gong, & Tran, 2013).

Grant (2002) advised that long term strategy can help an organization to have competitive advantages. Without strategies, any organization cannot explore and optimize market opportunities fully and hence it gets failed in long

run. Competitive strategies help an organization to serve better quality of product/service to its customers with special attention and sensitivity for which customer is ready to pay high price that will lead an organization to improved financial performance.

In the process of analyzing prospective future of an organization, it is very important to explore the internal and external environment which is appropriately done by strategic management, as this is a holistic tool for the development of the organization (Pirtea, Nicolescu, & Botoc, 2009). The difference in organizational performance between two organizations lies in the extent of application and practices of strategy management by the concerned organization (Serra & Ferreira, 2010).

Hatif and Sadik (2012) remarked that the application and use of methods of strategic management paves the way for the

organization to achieve its goals and objectives that will lead to achieve several benefits, features, and performance of its different functions in long run.

Rhee and Mehra (2013) confirmed that there is a close linkage between competitive strategy and activities of strategic functions, it is one of the important prerequisites for any organization to attain, achieve, and maintain optimal business performance.

UNDP (2008) reported that strategic management is being constrained with ineffective monitoring and evaluation by the system. As a result of this, decision making has become one of the biggest challenge for any organization. This report recommends to have quantitative and qualitative exploration of environment by the use of strategy management tools. This study concluded that it is essential to analyze, evaluate, and manage the organization's strategy in order to improve organization's performance in the current highly competitive market. Therefore, this study is an attempt to explore and establish the relationship between strategy management and organizational financial performance with the reference to Indian food SMEs.

Significance of the Study

In food processing industry, food SMEs have dominant role and cater to small or big organizations. In this highly demanding environment, the SMEs of India encountered highs and lows in the past couple of years. One of the biggest objective of current government is to push economic development through SMEs and to achieve this objective many reforms are made and implemented that seemed moderately bullish in 2016 however not really elated. These incorporate re-execution of 'Public Procurement Policy', 'Pradhan Mantri MUDRA Yojana', 'Make in India', 'Startup India', and 'Skill India'.

The status of an organization is described by its technological advances, updating as per changes in the market, and meeting needs of customers, which is extremely unstable and important for organizations to be focused over the long period of time. Firms are putting more emphasis on the utilization of assets to creation and utilization of cumulative information, which is helpful in order to bring new matters and management. In this way, the SMEs need to be more attentive towards the execution of the present advances and innovate new product and services for future so that they could compete. Management experts have found that strategy management can help organizations to be focused and sustainable in the market. Strategy management is that fundamental components for maintaining achievement

which is driven by substantial and elusive resources of the firm against unfavorable circumstances in business.

Indian food market estimated at 9.1 lakhs Crore covering two third of whole Indian retail food market. With the growing concern also of govt. of India for manufacturing units, it has become very important and crucial to study the food SMEs along with strategy management and its relationship with financial performance.

Strategy Management

The strategic components of any business are – vision, mission, values, objectives, and plans (Price, 2006).

Mackie (2008) remarked that strategy management is continuous and cyclic process, and defined that, "strategic management refers to a set of processes comprising strategy formulation, strategy implementation, monitoring and control."

Pathak (2009) defined, "strategic management is a stream of decisions and actions, which leads to the development of an effective strategy or strategies to help achieve corporate objectives in a competitive way."

Financial Performance

Organizational performance is involved with the general productiveness of an organization in terms of stock turnover, customers, profitability, and market proportion. The concept of organizational performance is core to companies because the foremost goal of businesses is to make earnings. Kiragu (2005) highlighted performance in terms of four perspectives which are the financial, consumer, internal approaches and innovativeness. The monetary attitude identifies the key financial drivers of improving overall performance which can be earnings margin, asset turnover, leverage, cash glide, and operating capital. Therefore, Financial Performance is measured in terms of return on assets (ROA, %), market share price is increasing with time, productivity of employees, reduction in work costs per employee, value added by employee, and maintains and sustain profit margin.

REVIEW OF LITERATURE

Olanipekun, Abioro, Akanni, Arulogun, and Rabiun (2015) concluded that certainly strategic management does not simply gives a firm competitive advantage which makes it outperform competition but moreover crosses a protracted manner in improving organizational performance.

Husnah, Aisjah, and Djumahir (2013) explored the relationship between financial performance of an organization with competitive strategy; and selection of competitive strategy with human capital as intangible assets. It concluded that selection of competitive strategy influenced by differences in intangible assets and resulting difference in financial performance. Human capital directly affects the competitive strategy selection. Financial performance increased at maximum as reinforced with competitive strategy adopted by owner/manager of organization.

Arasa and K'Obonyo (2012) conducted a study to examine the relationship between strategic planning and firm performance, and concluded that there is a strong relationship between strategic planning and firm performance based on the results of correlation analysis.

Owolabi and Makinde (2012) conducted a study on Babcock University Nigeria to examine the influence of strategic planning on corporate performance and the result revealed that there was a significant positive correlation between strategic planning and corporate performance.

Ridwan and Marti (2012) conducted a study on regional government-owned banks in Indonesia in order to establish the relationship between strategic planning practices and performance of the banks. The findings of this study confirmed that there is positive significant relationship between strategic planning and performance in government-owned banks of Indonesia.

Ren, Xie, and Krabbendam (2009) suggested that a firm could obtain sustainable competitive advantages over its competitors by making use of internal strength as a strategy, by being able to retort to environmental prospect and minimize on internal costs.

METHODOLOGY

Population and Research Sample

The population of this study is manufacturing and service food SMEs of India. The random and convenient sampling techniques is used for this study. Almost 317 respondent were contacted and 279 responses had been collected. After filtering incompleteness 262 responses were recorded. The respondents were either owner or manager of food SME firm.

Data Collection and Analysis Methods

The geographical area of study was National Capital Region (Delhi, Noida, Greater Noida, Ghaziabad, Faridabad and

Gurugram). The data was collected by survey method using self-designed pretested questionnaire based on 5-point Likert scale (1- strongly disagree, 2- disagree, 3- neutral, 4- agree and 5- strongly agree) was used to collect data.

Research Objective and Hypothesis

- To find the impact of strategy management on organizational financial performance.
- To study the difference in strategy management and financial performance in service with manufacturing food SMEs.

Research Hypothesis

H₁: There is significant positive impact of strategy management on organizational financial performance.

H₂: There is significant difference in strategy management and financial performance in service with manufacturing food SMEs.

Data Analysis Tool

For correlation and differential statistics, SPSS 21 was used. Amos 21 is used Structural equation model.

DATA ANALYSIS AND INTERPRETATION

Sample Description

The food SME sample is divided into two parts – manufacturing food SMEs and service food SMEs. There are 145 manufacturing food SMEs while 117 servicing food SMEs as the result is presented in Table 1.

Table 1: Sample Description

Industry Type	Frequency	Percent	Cumulative Percent
Service	117	44.7	44.7
Manufacturing	145	55.3	100.0
Total	262	100.0	

Reliability Analysis

The reliability of variables is calculated with the values of 'Cronbach Alpha' and the results in presented in Table 2.

Table 2: Reliability Results

S. N.	Variable	No. of items	Cronbach's Alpha
1.	Strategy Management	8	0.716
2.	Financial Performance	6	0.728

The Cronbach Alpha value higher than 0.7 is considered as good scale (Cronbach, 1951). So, it is interpreted here that the reliability of both variables are above acceptable limit.

Descriptive Analysis

In the descriptive analysis, the mean and standard deviation of variables were calculated first and then comparative means of variables with type of industry using independent sample t-test calculated.

Mean and Standard Deviation of Variables

This is conducted to study the overall mean and standard deviation of sample with respect variables taken under study and results is presented in Table 3.

Table 3: Descriptive Statistics

Descriptive Statistics			
Variables	N	Mean	Std. Deviation
Strategic Management	262	3.122	.626
Financial Performance	262	3.136	.667
Valid N (list wise)	262		

The results presented in Table 3 revealed that the mean of dimensions and variables are just above average because each dimension and variable mean score is above 3.

Comparative Mean of Variables with Type of SMEs

Independent sample t-test is conducted to study the difference of study variables between the types of food SMEs that is manufacturing and service. There are two tables for the results – Table 4 is presented to study the numerical difference of variables with respect to type of food SMEs, while Table 5 is presented to study the statistical significant differences.

Table 4: Group Statistics

Group Statistics					
Type of food SMEs		N	Mean	Std. Deviation	Std. Error Mean
SM	Service	117	3.205	.686	.063
	Manufacturing	145	3.055	.567	.047
FP	Service	117	3.178	.676	.062
	Manufacturing	145	3.102	.659	.054

The results of Table 4 revealed that there is numerical difference in study variables with respect to type of food SMEs. The mean value of financial performance is almost same in service and manufacturing while there is slight difference in strategy management.

Table 5: Independent Samples Test Result

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	Df	Sig. (2-tailed)	M. D.	S. E. D.	95% Confidence Interval of the Difference	
									L	U
SM	Equal variances assumed	9.140	.003	1.936	260	.054	.149	.077	-.002	.302
	Equal variances not assumed			1.897	224.119	.059	.149	.079	-.005	.305
FP	Equal variances assumed	.891	.346	.913	260	.362	.075	.082	-.087	.239
	Equal variances not assumed			.911	245.696	.363	.075	.083	-.088	.239

The independent sample t-test result is presented in Table 5 and the value of t and corresponding p {Sig. (2-tailed)}

revealed that there is no statistical significant difference strategy management and financial performance with respect

to type of food SMEs. Therefore, the alternate hypothesis H_2 is rejected.

Correlation Analysis

The correlation matrix provides preliminary support for some of the hypotheses of the study. This is conducted for initial assessment and purification of scale used for study and for examination of multi co-linearity among the dimensions.

The correlation result presented in Table 6 revealed that the values of correlation coefficient is less than .80 with another factor, then it can be interpreted that they are independent in nature and case of multi co-linearity does not exist in this study. The purpose of inter dimensional analysis is to support other hypothesis of the study too.

Table 6: Correlation Results

	SM	FP
SM	1	.702**
FP		1

[**. Correlation is significant at the 0.01 level (2-tailed). N=262, r = Pearson Correlation]

The result of correlation analysis shows that strategy management is having significant and positive relationship with financial performance. This is the basic support for the proposed hypothesis H_1 .

Regression Analysis

Regression analysis had been conducted to examine the proposed hypotheses H_1 in order to check the impact of independent variable strategy management on dependent variable financial performance.

In this regression analysis strategy management is taken as independent variable and organizational financial performance as dependent variable and results are presented in Table 7, 8 and 9 followed by discussion of the results.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.702a	.492	.490	.47635
a. Predictors: (Constant), SM				

In Table 7, the value of $R = 0.702$ indicates a strong relationship between strategy management and financial performance. The value of $R^2 = 0.492$ explains that 49.2% of the variation in financial performance is explained by strategy management, while 50.8% remain unexplained. Thus, the predictive ability of the model is strong.

Table 8: ANOVA results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	57.204	1	57.204	252.102	.000 ^b
	Residual	58.996	260	.227		
	Total	116.200	261			

a. Dependent Variable: FP
 b. Predictors: (Constant), SM

The results in Table 8 describe the overall variance accounted for in the model. The value of significance level ($<.05$) indicates that the strategy management is predictor of organizational financial performance and have an effect on organizational financial performance as indicated by the F (252.102) statistics.

Table 9: Standardized Coefficients

Model B		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		Std. Error	Beta			
1	(Constant)	.803	.150		5.361	.000
	SM	.747	.047	.702	15.878	.000

a. Dependent Variable: FP

The result in the Table 9 shows the standardized coefficient beta value indicates the change in one unit of independent variable has corresponding change in dependent variable. It means that one unit change in strategy management will have

.702 unit changes in financial performance. It is interpreted that strategy management is having significant impact on financial performance. Thus, the alternate hypothesis H_1 is accepted.

Structural Equation Model

The usefulness of the analysis of a model through the SEM procedure is that it allows for simultaneous determination of a measurement model as well as a structural model. The measurement model deals with the relationships between the latent and the manifest variables. Thus, it allows the estimation of the factor loading of the indicators on the latent construct.

According to Anderson and Gerbing (1988), estimation models ought to be assessed and re-determined before the structural equation models are analyzed. Therefore, this section deals with the factor structure of the study variables in detail. The analysis of the factor structure was based on the standardized regression estimate of the latent on the manifest variables. The acceptability of measurement model was different fit indices. The most common way of evaluating a model fit is Chi-square (χ^2) value. A low and insignificant χ^2 is reasonably a good indicator of model fit. (Hair, Black, Babin, Anderson, & Tatham, 2006). However, Chi-square test suffers from a limitation because of its high sensitivity to sample size especially if the observations are greater than 200. An alternate evaluation of the χ^2 statistics is to examine the *normed- χ^2* i.e. the ratio of χ^2 value to the degree of freedom (*df*) for the model (Joreskog & Sorbom, 1993). Kline (1998) suggested that *normed- χ^2* (χ^2/df) of value 3 or less is a reasonable good indicator of model fit.

According to the above guidelines, model fit for the study was examined using multiple indices such as *normed- χ^2* (χ^2/df), *GFI*, *CFI*, and *RMSEA*. Following the common practices, acceptable model fit is indicated by value greater than .90 for *GFI* and *CFI*, and a value less than 3 for *normed- χ^2* and value less than .08 for *RMSEA*.

The validity of the qualitative instrument was tested through structural equation modeling through AMOS software. The factor loading value is used to retain the items. The value of factor loading above .5 has been taken as standards as recommended by number of researcher and considered for further research in the study.

Measurement Model

Strategy Management: This was one-dimensional construct with 8 items. The results of the CFA indicated that the hypothesized model did not fit the data well. Improvement of the model could be obtained by using co-variance with high modification indices and residuals recommended by Hair et al. (2006). The fit indices of revised model were as follows: *GFI* = .958, *CFI* = .924, χ^2/df = 3.773, $p < .05$ and *RMSEA* = .089. The standardized beta estimates of the 8 items were considered as the factor loadings of the indicator on the construct. The standardized beta estimates of the 8 items were .553 ($p < .01$), .607 ($p < .01$), .549 ($p < .01$), .604 ($p < .01$), .696 ($p < .01$), .539 ($p < .01$), .561 ($p < .01$) and .822 ($p < .01$) respectively.

Financial Performance: This was one-dimensional construct with 6 items. The results of the CFA indicated that the hypothesized model did not fit the data well. Improvement of the model could be obtained by using co-variance with high modification indices and residuals recommended by Hair et al. (2006). The fit indices of revised model were as follows: *GFI* = .975, *CFI* = .957, χ^2/df = 2.171, $p < .05$ and *RMSEA* = .067. The standardized beta estimates of the 6 items were considered as the factor loadings of the indicator on the construct. The standardized beta estimates of the 6 items were .603 ($p < .01$), .577 ($p < .01$), .531 ($p < .01$), .503 ($p < .01$), .540 ($p < .01$) and .669 ($p < .01$) respectively.

Structural Model

The structural model is established between strategy management and financial performance as presented in Diagram 1. The results of the CFA indicated that the hypothesized model did not fit the data well. Improvement of the model could be obtained by using co-variance with high modification indices and residuals recommended by Hair et al. (2006). The fit indices of revised model were as follows: *GFI* = .954, *CFI* = .904, χ^2/df = 2.676, $p < .05$ and *RMSEA* = .081.

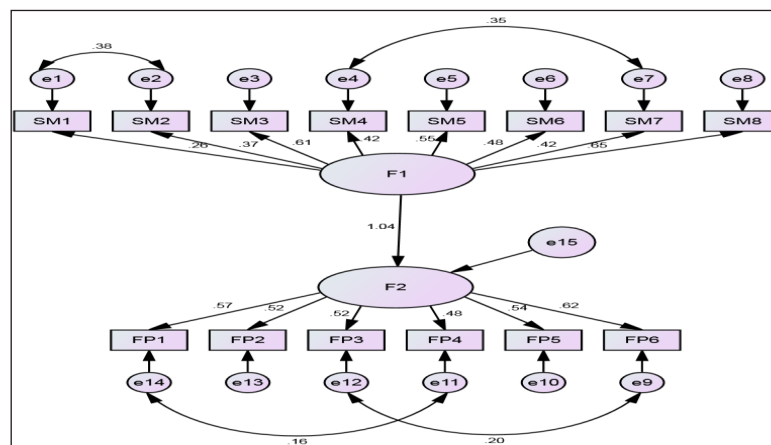


Diagram 1: Strategy Management and Financial Performance

CONCLUSION AND RECOMMENDATION

The first objective of this study is to explore the impact of strategy management on financial performance of food SMEs. The results have revealed that there is significant impact of strategy management on financial performance in food SMEs. It is concluded that strategic management concept is used in continuous exploration of external environment for incremental improvements, stimulus-response changes, coping with dramatically changes, strategic redirection and regeneration, identifying competitors and reshaping competition, following proactive approach for competitiveness, handling regulations of regulatory bodies and trade, and study market situation. It has positive and significant impact on financial performance which is measured in terms of return on assets (ROA, %), market share price, productivity of employees, reduction in work costs per employee, value added by employee, and sustain profit margin. This result is supported by similar study conducted in Malaysia for SMEs by Luen, Yong, and Fook in 2013 and reported that strategic planning has a positive significant relationship with business performances of SMEs over the long run.

The second objective of the study is to study the difference in practices of strategy management and corresponding financial performance with reference to manufacturing and service food SMEs. The results has revealed that there is no significant difference in practices of strategy management and indicators of financial performance. So, it is concluded here that practices of strategy management and associated financial indicators are being perceived same in manufacturing and service of food SMEs.

Recommendation

It is recommended to food SMEs to follow strategy management practices without any difference. It is also advised to conduct such study to understand and articulate financial performance of food SMEs which would help the decision makers to attain competitive advantage, long term return and associated benefits.

The findings of the study help the academicians, researcher, and entrepreneurs or managers to understand the components of strategy management and implement it in the organizations for better financial performance. It gives more insight about different financial indicator of performance.

Limitations and Future Scope

This study is based on food SMEs of India with study variables strategy management and financial performance.

It can used for large organization and others sector SMEs by incorporation of more variables to get more insight into it. The non-financial performance indicator can also studies in association with strategy management and financial performance as well.

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