

**The Big impact of Small business in India:  
An analysis of performance and prospects of  
SMEs in the new global environment**

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## **The Big impact of Small business in India: An analysis of performance and prospects of SMEs in the new global environment**

### **ABSTRACT**

The SME sector might not have the appeal of larger corporates but it is a place where most remarkable changes are taking place today. The SME sector in India, over the years, has grown steadily and occupied an important place in the economy. The importance of the SME sector is well recognized from its significant contribution to the socio-economic objectives of growth in generation of employment, output, exports and fostering entrepreneurship. It occupies a position of prominence in the Indian economy and contributes over 50 per cent of the industrial production in terms of value-addition. The sector accounts for one-third of exports and employs the largest manpower next to agriculture. In India's present liberalized economy, the survival and growth of SME largely depends on its ability to innovate and improve operational efficiency. It is imperative that in order to attain the desired growth rate of 12 per cent and increase the GDP contribution of this sector to the national economy to above 7 per cent, future focus has to be in areas of cluster development, SME financing, technology and operating environment.

This paper will discuss the role of SME sector in a country like India, performance in terms of their contribution to the economic growth, challenges they encounter and also future prospects.

**Keywords:** Small-scale industries; Small and Medium Enterprises (SMEs); GDP; globalization; clusters; sickness; credit policy.

### **Background**

#### **Introduction**

Small and medium enterprises (SMEs) have always been the engine of growth for every country, in developing as well as in transition economies. Their role in building a solid industrial base can be gauged from the fact that they represent over 80 percent of industrial enterprises of most developing countries. They, along with micro enterprises, have been identified as high potential sector for employment generation and source of livelihood to millions of people in Asian, African, and Latin American countries. Many developed economies owe their industrialization to Small and Medium Enterprises. Around 99 percent of seven million units in Japan are SMEs. They account for about 80 percent of total employment of around 55 million persons. Around 52 percent of the Japanese total exports emerge from this sector. Similarly, SMEs constitute around 99 percent of all businesses, employ over half of the workforce and generate 54 percent of the sales revenues in USA.

The SME has acquired a prominent place in the socio-economic development of India during the past four and a half decades. It has contributed to the overall growth of the GDP as well as in terms of employment generation and export. The performance of the small-scale sector, which forms a part of total industrial sector, therefore, has direct impact on the growth of the national economy. The sector now includes not only SSI units but also small-scale services and business enterprises (SSSBs) and is thus referred to as the small enterprises sector.

In this paper, an attempt has been made to examine the performance of SSIs in the Indian economy during the post liberalized period. This paper is purely conceptual one and entire study is based on secondary sources of data.

#### **Role of SMEs in Indian Economy**

Small units play an important role in the Indian economy, as they are labour intensive and create job opportunities. They offer a higher productivity of capital than capital-intensive enterprises, as they have low investment per worker. They help in dispersal of industries, rural development, and the decentralization of economic power. All this is required to increase and disperse economic growth (B. Yerram Raju 2004)<sup>1</sup>. In addition, SMEs support entrepreneurial talent and skills, stimulate personal savings, and help in developing innovative and appropriate indigenous technology, providing dynamism and contributing to competition, technological innovation, promoting inter-sectoral linkages. Their locational flexibility is an important advantage in reducing regional imbalances. This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification (M H Bala Subramanya 2005)<sup>2</sup>.

The SME is a key to India's growth and alleviation of poverty and unemployment in the country. Therefore, promotion of such enterprises in developing economies like India is of paramount importance since it brings about a great distribution of income and wealth, economic self-dependence, entrepreneurial development employment and a host of other positive, economic uplifting factors<sup>6</sup>. Moreover, in a country like India with an adverse Balance of Payment situation, the growing contribution of the SME sector in India's export portfolio goes a long way in generating forex and smoothening out the adverse BoP situation<sup>4</sup>. Presently, small-scale industries produce about 8,000 products all over the countries, mainly in the hinterland, which contribute 40 per cent of the country's industrial output and offer the largest employment after agriculture. The sector, inclusive of the medium scale units, presents an opportunity to the country to harness its local competitiveness advantages for achieving global dominance<sup>7</sup>.

### Analysis of SMEs Performance

#### Parameters of Performance

In this section, an attempt has been made to evaluate the performance of small-scale sector during post liberalization period in terms of absolute critical parameters such as number of units, fixed investments, production, employment and export etc. The relative contribution of these parameters has been analyzed in terms of its share in total exports and total organized sector employment etc. The chronological statistics of the above parameters is stated comprehensively in table provided here below and followed by detailed analysis.

**Table 1: Overall performances of SSI sector during post-liberalized period (1990-2005)**

S. No	Year	Total SSI Units (No. in Lakhs)	% of Change *	Fixed Investment (Rs. in crore)	% of Change *	Production (Rs. Crore)				Employment (lakh persons)	% of Change *	Exports (Rs. Crore)	% of Change *
						Current Prices	% of Change *	Constant Prices (1993-94)	% of Change *				
1	1990-91	67.87		93555		63518		68295		158.34		9664	
2	1991-92	70.63	4.07	100351	7.26	73072	15.04	79180	15.94	165.99	4.83	13883	43.66
3	1992-93	73.51	4.07	109623	9.24	85581	17.12	93523	18.11	174.84	5.33	17784	28.10
4	1993-94	76.49	4.07	115795	5.63	98804	15.45	98804	5.65	182.64	4.46	25307	42.30
5	1994-95	79.6	4.07	123790	6.90	122210	23.69	109116	10.44	191.44	4.82	29068	14.86
6	1995-96	82.84	4.07	125750	1.58	148290	21.34	121649	11.49	197.93	3.39	36470	25.46
7	1997-97	86.21	4.07	130560	3.83	168413	13.57	135380	11.29	205.86	4.01	39248	7.62
8	1997-98	89.71	4.07	133242	2.05	189178	12.33	147824	9.19	213.16	3.55	44442	13.23
9	1998-99	93.36	4.07	135482	1.68	212901	12.54	159407	7.84	220.55	3.47	48979	10.21
10	1999-2000	97.15	4.07	139982	3.32	234255	10.03	170709	7.09	229.1	3.88	54200	10.66
11	2000-01	101.1	4.07	147348	5.26	261289	11.54	184428	8.04	239.09	4.36	69797	28.78
12	2001-02	105.21	4.07	154349	4.75	282270	8.03	195613	6.06	249.09	4.18	71244	2.07
13	2002-								7.68	260.13	4.43	86013	20.73

	03	109.4 9	4.07	162533	5.30	311993	10.53	210636					
14	2003-04	113.9 5	4.07	170726	5.04	357733	14.66	228730	8.59	271.36	4.32	NA	NA
15	2004-05	118.5 3	4.0	NA	NA	399020	10.35	245747	7.4	282.82	4.2	NA	NA

Source: Annual Report 2004-05, Minister of Small Scale Industries, Govt. of India

- Note:
1. \* Shows the percentage growth over the previous year
  2. The production, at constant prices for the year 2003-04, is based on the growth rate achieved in the first three quarters of 2003-04 (ie., April-December, 2003).
  3. The production at current prices is compiled on the basis of average Wholesale Price Index (April-December, 2003) of manufactured products.

It can be observed from the above table that there has been a steady increase in the number of SSI units, their production, employment and exports during post reform period. The number of units has increased from 67.87 units in 1990-91 to 118.53 lakhs units in the year 2004-05 at constant growth rate of 4.7 percent. SSI represents over 90 per cent of total number of industrial units in India. Over the years, the SSI sector has been the beneficiary of a spate of sops, even as the development of the sector remains a State subject.

On the production front also, there has been a steady increase over the previous years ranging between 15%-24% during the period 1990-91 to 1994-95, the increase was 10% and 15% in 1999-00 and 2003-04 respectively. During 2000-01 to 2004-05, the average annual growth in the number of units was around 4.07%, while employment grew by 4.4% annually. Further, the average annual growth in production, at current and constant prices, was 10.6% and 7.6% respectively.

### Employment generation

It has been estimated that a lakh rupees of investment in fixed assets in the small-scale sector generates employment for four persons. A majority of the industrial work force finds employment in SSI sector. The statistics of central government revealed the fact that between 1980 and 1997 about 53.66 lakhs new jobs were created in organized sector including Government while in SSI sector there were about 80.00 lakhs new jobs created during the same period. It is also revealed the fact that percentage increase in jobs per annum in organized sector including Government was 1.59% between 1980 and 1990 and was 0.86% between 1991 and 1997, while in SSI sector it was 6.7% and 3.5% during the same period respectively. From the above fact it is evident that only SSI sector can create more job opportunities at a faster rate than any other sectors in the economy.

### Production

SSI sector contributes almost 40% of the gross industrial value added in the Indian economy. It has been estimated that a million rupees of investment in fixed assets in the small-scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points. From the year 1996-97 this sector has exhibited a comparatively lower growth trend (though positive), which continued during the next two years. However, this has to be viewed in the background of the general recession in the economy. The transition period of the process of economic reforms was also affected for some period by adverse factors such as foreign exchange constraints, credit squeeze, demand recession, high interest rates, shortage of raw material etc. When the performance of this sector is viewed against the growth in the manufacturing and the industry sector as a whole, it instills confidence in the resilience of the SME sector. The estimates of growth for the year 1995-96 have shown an upswing. The growth of SME sector has surpassed overall industrial growth from 1991 onwards.

**Table 2: Performance of SSIs as against Govt. Target**

Year	Target	Achievement	% of Achievement
1991-92	3.0	3.1	103.33
1992-93	5.0	5.6	112.00
1993-94	7.0	7.1	101.43
1994-95	9.1	10.1	110.99
1995-96	9.1	11.4	125.27

1996-97	9.1	11.3	124.18
1997-98	*	8.43	NA
1998-99	*	7.7	NA
1999-00	*	8.16	NA
2000-01	*	8.90	NA

\* Target not fixed at constant prices

Source: <http://www.smallindustryindia.com>

From the above table it is obvious that the performance of SSI sector in the economy is beyond the target set by the government. It can also be noted from the table the rate of percentage achievement of SSIs has also be consistently showing increasing trend over the years.

The table below compares the growth trend of SSI sector with that of the Industrial sector as a whole.

**Table 3: Trends in Growth: SSI and Industrial Sector**

Year	SSI Sector	Index	Industrial Sector	Index
1991-92	3.1	-	0.6	-
1992-93	5.6	180.65	2.3	383.33
1993-94	7.1	229.03	6.0	1000.00
1994-95	10.1	325.81	9.4	1566.67
1995-96	11.4	367.74	12.1	2016.67
1996-97	11.3	364.52	7.1	1183.33
1997-98	8.43	271.94	6.7	1116.67
1998-99	7.7	248.39	4.1	683.33
1999-00	8.16	263.23	6.5	1083.33
2000-01	8.23	265.48	5.2	866.67
2001-02	6.08	196.13	2.7	450.00
2002-03	7.68	247.74	5.7	950.00

Source: <http://www.smallindustryindia.com>

**Comparison of Growth Rate: SSI and Industrial Sector**

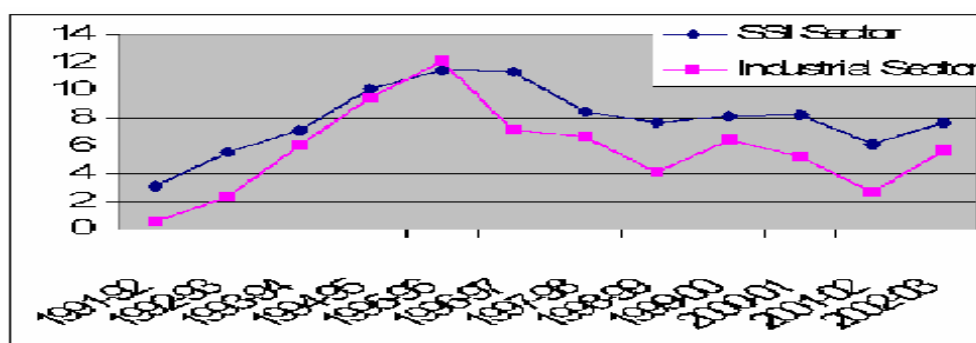


Table 3 indicates trends in growth rate of SSI sector vis-à-vis industrial sector. SSI sector in India has posted impressive growth in the last decade. It has recorded higher growth rate in comparison with the industrial as a whole throughout the period from 1991-02 to 2002-03. Further, growth of SSI sector is higher at the end of the period than a decade earlier. There is a positive correlation (0.9058) in the growth between the above two sectors. Except in the year 2000-01, in rest of the years, the growth of SSI sector is in tune with the industrial sector.

However, it is evident from the index of growth rate that the rate of growth of SSI sector is lower than the rate of growth of industrial sector in comparison with year 1991-92.

### Export contribution

Exports from the small-scale sector over a period of time have acquired great significance in India's foreign trade. The SSI Sector today constitutes a very important segment of India's economy and it accounts for nearly about 45%-50% of the total exports from the country. Direct exports from the SSI Sector accounts for 35% of the total exports. The number of small-scale units that undertake direct exports would be more than 8000. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods. Another interesting feature to note is the consistent increase in the percentage share of SSI Exports in the field of electronics and computer software. The percentage share has more than doubled from 5.40% in the year 1999-2000 to 13.12% in 2001-2002.

An idea about the contribution of small scale sector in country's total exports can be had from the table given below:

**Table 4: Year-wise share of SSI Exports(Rs. in crores)**

Year	Total Exports	Share of SSI Exports	% Share
1990-91	32,553.34	9664.15	29.7
1991-92	44,041.81	13883.40	31.5
1992-93	53,350.54	17784.82	33.3
1993-94	69,546.97	25307.09	36.4
1994-95	82,674.11	29068.15	35.1
1995-96	106,464.86	36470.22	34.2
1996-97	117,524.98	39248.54	33.4
1997-98	126,286.00	44442.18	35.2
1998-99	141,604.00	48979.00	34.6
1999-2000	159,561.00	54200.00	33.9

Source: <http://www.smallindustryindia.com>

### Sickness in SSIs

Growing incidence of sickness of SSIs is yet another area of concern. Lately mortality of the SSI units has been showing increasing trend. This has wider implications including locking of funds of the lending institutions, loss of scarce material resources and loss of employment. As per the recent survey of Reserve Bank of India, the number of sick small-scale units came down in 2005 in comparison to 2004. Upto March 2005, the number of sick small-scale units in India were 1,38,041. The number of sick SSI units as a percentage to the total number of SSI units is around 10. The number of units identified as potentially viable as a percentage to total sick SSI units is around 8. The causes of sickness are both internal and external. The major causes are limited financial resources, lack of organizational, financial and management skills and expertise, diversion of funds, diversification/expansion before stabilization, non-availability of power supply shortage of raw materials, marketing difficulties, delayed and inadequate credit, globalization and liberalization of the economy, obsolete technology, inadequate infrastructure, etc.

As per the Table 6, it is evident that 'Lack of demand' and 'Shortage of working capital' were the main reasons for sickness / incipient sickness in both registered and unregistered SSI sectors in India.

**Table 6: Major reasons for sickness / Incipient sickness**

Reasons for sickness / incipient sickness		Proportion of sick / incipient sick unit		
		Total SSI sector (%)	Regd. SSI Sector (%)	Unregd. SSI Sector (%)
1	Lack of demand	66	58	69
2	Shortage of working capital	46	57	43
3	Non-availability of raw material	12	12	12
4	Power shortage	13	17	12
5	Labour Problems	5	6	4

6	Marketing problems	36	37	36
7	Equipment problems	11	9	12
8	Management problems	4	5	3

Source: Annual Report, Ministry of SSI, Govt. of India

### Magnitude of sickness in SSI

The incidence of sickness in Small Scale Industries (SSI) sector has declined from the year 1999 to 2003, as per the data compiled by the RBI from Scheduled Commercial Banks. The number of sick SSI units in the country has come down from 3,06,221 as at the end of March, 1999 to 1,67,980 as at the end of March, 2003. The total sick SSI units, potentially viable and the units under nursing with the amounts outstanding against them for the five years ending March 1999 to 2003 were as under:

**Table 5: Total sick SSIs, Potentially viable and Unit under nursing (Amount in Rs. crore)**

As at end of March	Total sick units		Potentially viable		Viable units under nursing	
	No.	Amount Outstanding	No.	Amount Outstanding	No.	Amount Outstanding
1999	306221	4313.48	18692	376.96	12759	194.91
2000	304235	4608.43	14373	369.45	663	137.69
2001	249630	4505.54	13076	399.17	753	120.29
2002	177336	4818.95	4493	416.41	621	88.98
2003	167980	5706.35	3626	624.71	993	382.32

Source: RBI (P) - Provisional

Note: These units include Village and Cottage industries.

### Issues of SME financing

#### Bank Lending to SSI

The credit is one of the critical inputs for the promotion and development of small-scale industries. Small-scale industries, which account for 40 per cent of value added in manufacturing, too have been starved of credit. In the National Sample Survey (2000-01) shortage of capital was most frequently named by small-scale industrialists as the principal problem faced by them. To ensure timely and adequate credit to the SSI sector the Government is implementing several schemes. In recognition of the contribution and the vast potential of the SSI sector as well as its inherent infirmities, provision of adequate credit to this sector has continued to be an important element of banking policy, even though economic and financial policies themselves have undergone significant transformation, particularly after the initiation of structural reforms in 1991. Bank credit to the SSI sector increased from Rs.168 billion in March 1991 to Rs.583 billion in March 2004. As per the announcement made by the government in 2003-04, Indian Banks' Association has advised the banks to adopt the interest band of 2% above and below their prime lending rates for secured advances.

The following table indicates the flow of credit to SSI sector from all public sector banks since 2000 and bank lending to SSIs as percentage of net bank credit.

**Table 7: Flow of Bank Credit to SSIs (As at the end of March; Amount in Crore)**

	2000	2001	2002	2003	2004
<b>Net Bank Credit</b>	2,92,943	3,40,888	3,96,954	4,77,899	5,58,608
<b>Credit to SSI</b>	45,788	48,445	49,743	52,988	58,277
<b>No. of SSI Account (in lakh)</b>	22.72	22.80	22.23	16.95	16.33
<b>SSI credit as % of Net Bank Credit</b>	15.6	14.2	12.5	11.1	10.1
<b>Net bank credit to tiny sector</b>	24,742	26,019	27,030	26,937	30,826
<b>Tiny credit as % of Net SSI credit</b>	54.0	53.7	54.3	50.8	52.9

Source: Annual Report 2004-05, Minister of Small Scale Industries, Govt. of India

It is obvious from the above table that in recent years, credit to the small-scale sector as percentage of net bank credit from the public sector banks declined from 15.6 per cent in March 2000 to 10.1 per cent in March 2004.

Not only this, the number of SSI accounts also plummeted from 22.72 lakh in 2000 to 16.33 lakh in 2004. While credit outstanding to agriculture grew by 35.2 per cent from Rs 90,541 crore as on March 2004 to Rs 1,22,370 crore on March 2005, that to small scale industries grew only by 15.6 per cent from Rs 65,855 crore to Rs 76,114 crore during the same period. Various factors, such as a high risk perception, higher transaction cost in processing SSI loan application, and the lack of credit rating facilities for SSI units led to the lamentable decline in flow of credit to the SSI sector.

The huge resources available with the transnational financial institutions controlled by the developed economies are not adequately serving the needs of the SME sector. Even national financial institutions are not sufficiently responsive to the needs of this sector. In India, Small and Medium Enterprises today pay the highest rates of interest on the moneys that they borrow, and which only the banks can give them. It is somewhat ironical that individuals who want to borrow to buy a house today pay around 10 per cent interest; many big companies can get money from the market directly at less than 10 percent; but a small business has to pay 13 percent or more.

At present, the Indian banking system is not fully equipped to promote small-scale enterprises around the country. The key issue is that banking institutions must be enabled to improve their credit assessment capabilities with regard to small-scale enterprises so that they can distinguish adequately between good and bad credit. Small-scale must not be equated with high risk. If the inflation rate is as low as 4 per cent and the interest rates charged to SMEs are much higher than normal good credit risk to large-sized industries, there is an implicit adverse selection in the credit appraisal process. Bank economists need to give focused attention to risk assessment to this sector so that there are no errors of high interest rate to low risk borrowers in the SME sector and *vice-versa*.

The SMEs, like the farmers in the country, do not have access to bank funds. They rely on expensive funds from unorganized financial sector. The main reason for the bank credit being denied to small units even though they have repayment capacity is because the lenders do not have the capability to assess their risk. The provision for Credit Information Bureaus and better exchange of information on credit risk between banks and financial institutions is also necessary to enable these institutions to recognize higher risk without excessive costs. Furthermore, the cost of credit assessment of small and medium enterprises can be reduced by a focused recognition of clusters of like small-scale industries that exist around the country. Such financial assistance programmes also need to be devised to provide assistance to those industries that are in the reserved list to enable them to expand and upgrade technology. This should be done both at the individual and group level.

### **Debt Restructuring**

In case of debt restructuring of SMEs the situation is typical: delayed payments of bills, obsolescence of technology, inadequate working capital availability, lack of suitable infrastructure, insufficient export credit and marketing inadequacies which lead to sluggish business and reduced revenue generation. According to the CII, the operational guidelines for debt restructuring have been bifurcated into direct and indirect measures that will facilitate in rebalancing debt for medium enterprises. The direct measures are venture financing, creation of special purpose vehicles for SMEs, setting up factoring companies dedicated to SMEs, various schemes for Bill discounting by banks and selling non-core unprofitable operations. The indirect measures to debt restructuring are those that will help in reducing the debt component of SMEs by restricting their access to the credit available or by reducing their credit requirements. The indirect measures include credit rating, annual reporting be made mandatory for SMEs, interest charged and collateral for loans be linked to the credit rating, restructuring of state finance corporations, developing industry best practices, bring in transparency in sharing information, encourage collaboration between medium and large scale units, quarterly compounding of working capital loans and availability of forex facility.

### **Emerging Issues**

#### **Impact of Globalization**

SSI sector today is at a crossroads in India and the world over. The opening up of national economies, the coming down of trade barriers, the constant arrival of new range of products, and the introduction of ever new processes of production and service provision etc., have transformed the business operations of Small and Medium Enterprises. The unprecedented strides in information and communication technologies have also necessitated readjustments. The process of liberalization and globalization has opened up new vistas for various sectors of the economy as also posed certain challenges. While on the one hand, it expands the scope of cross-border transactions, on the other, the new order holds different perception about protection and safeguards that a global trading system should provide to its members. Both these aspects have significant implications for the Indian economy as a whole and the SSI sector in particular. True, it has the flexibility to adapt to the changes much better than its larger



counterparts. But it is also true that the process of globalization has impacted Small and Medium Enterprises much more than larger business enterprises.

As a major part of our industry comprises of SMEs, impact of WTO on the SME sector will not basically be very different from its impact on Indian industry as a whole. Positive factor are that the WTO regime allows the SME sector to avail of MFN and national Treatment for its exportable items the world over. There are unquantifiable benefits, which India enjoys as a founder member of GATT and the WTO and to gain which benefits, at least 30 countries are willing to make numerous concessions in return for accession to WTO. Tariff standstill on Electronic Commerce is one new area agreed to through the Geneva Ministerial Conference in 1998, major beneficiaries of which would be the small-scale sector, which is steadily gaining better market access through Internet.

There are certain areas in which larger corporations may not be able to supply goods. The SSI can manufacture products for niche market. MNCs are increasingly outsourcing their components. Our SSI units have a very good opportunity to ancillaries.

Therefore, a major portion of our exports would have to gear up to the new regime ushered in by WTO, for which some strategies are identified:

- Up-gradation and modernization of SSI units
- De-reservation for certain selected products produced by SSI sector likely to be specially affected by removal of quantitative restrictions
- Persisting with the efforts for getting acceptance of proposals on implementation issues in the WTO to suit the conditions prevailing in the industrial set up of developing countries like India, which mainly comprise SMEs.

### **Today's Challenges in SMEs**

Presently the SMEs in India are encountering the following major challenges:

Today, margins across industries are rather thin and a slight change in costs abroad, or even within a nation, can undercut one's competitiveness. Small and Medium Enterprises are particularly vulnerable to such volatile developments because of their low resource base. Frequently, this causes sickness in the sector and sometimes leads to closure of units<sup>8</sup>.

The turbulence is both in terms of new start-ups and closures. Globally, it has been estimated that up to 50 percent of SME start-ups in most economies do not survive the first 5 years of operation. India is no exception and we too have our share of sick industries<sup>7</sup>.

While fifteen years of liberalization have given big businesses much more freedom to operate, the *Inspector Raj* still stifles small businesses. While the big can still afford to deal with a myriad of rules and rulings, those whose whole business often comprises only a dozen people (or less) cannot afford to have even one of them tied down in filling forms and "managing" the governmental system<sup>8</sup>.

The limit for collateral free loans to tiny sector is Rs. 0.5 million and that for other SSI units was Rs. 0.1 million. This limit has since been raised to Rs. 0.5 million for other SSI units also. Many small-scale entrepreneurs are facing difficulties in providing collateral security as per the requirements of the financing banks. The limit of 0.5 million has been further increased to Rs.1.5 million in respects of SSI units with good track record and financial position. The problem is addressed to a certain extent with the introduction of the Credit Guarantee Fund Trust Scheme under which collateral free loans up to a limit of Rs. 2.5 million are guaranteed<sup>5</sup>.

Considerable delay in settlement of dues or payment of bills by the large-scale buyers to the SSI units adversely affected the recycling of funds and business operation of SSI units. Though the Government has enacted the Delayed Payments Act, many of the SSI units are reluctant to pursue cases against major buyers. The Act since amended in 1998 has made it compulsory that the payment of SSI suppliers should be made within 120 days. But there has been no perceptible change in the attitude of the large buyers as the government does not see to be inclined to resolve the issues. To improve the plight of SSI entrepreneurs due to delayed payments, steps for strengthening and popularizing factoring services, without recourse to the SSI suppliers may have to be thought of seriously<sup>4</sup>.

Marketing remains the most critical area for the SSI Sector as some of the units are very small and so is their output individually<sup>7</sup>.

Entrepreneurs are typically risk-taking individuals who take the help of family and friends to set up and run their businesses, despite ever-present financial constraints. They also rarely have access to sound professional advice. Unlike large businesses, the entrepreneurs tend to rely more upon personal networking in many key dealings. The key success factors of small businesses appear to be related to their flexibility in changing with the environment. This is possible due to the high 'content' of informal transactions and tacit agreements in their dealings.

However, these entities are susceptible to single shocks because of their small size and the environment they operate in<sup>10</sup>.

In the increasingly knowledge driven economy, intellectual property is a key consideration in day-to-day business decisions. New products, brands and creative designs appear almost daily on the market and are the result of continuous human innovation and creativity. SMEs are often the driving force behind such innovations. Their innovative and creative capacity, however, is not always fully exploited as many SMEs are not aware of the intellectual property system or the protection it can provide for their inventions, brands and designs. Insufficient information on the relevance of IP in day-to-day business, high costs associated with obtaining and enforcing IP rights, perceptions that the IP system is esoteric, too cumbersome and time-consuming, these are among the reasons why many SMEs are sometimes slow to protect their intellectual property<sup>11</sup>.

### **Opportunities ahead**

It is not that globalization process has only created problems for SMEs. It has also opened up boundless new opportunities to innovative enterprises. It has practically reduced the entire world to a boundary-less single large market. The challenge before SMEs is how to capture these opportunities and, at the same time, to reduce the chances of failure. This expectation is based on an essential feature of the Indian industry and the demand structures. The diversity in production systems and demand structures will ensure long term co-existence of many layers of demand for consumer products / technologies / processes. There will be flourishing and well grounded markets for the same product /process, differentiated by quality, value added and sophistication. This characteristic of the Indian economy will allow complementary existence for various diverse types of units.

The SSI sector has a limited presence in most sunrise industries. Yet, opportunities exist for them within the value chain. The Ministry of SSI has encouraged the setting up of more SSIs in these industry sectors. The establishment of a Biotechnology Cell at SIDO and the conduct of Sensitization Workshops on Biotechnology in the SSI sector in collaboration with the Department of Biotechnology are steps in that direction. A number of IT enabled services have been recognized as SSIs /SSSBes. The investment ceiling for reserved items in the pharmaceutical sector has been enhanced to Rs.5 crores. However, much more needs to be done. SSI pharmaceutical units need to adopt Good Manufacturing Practices. SSI units in software and software related services often find themselves helpless in the face of predatory pricing by large competitors. A focused Action Plan which is industry specific is, therefore needed to promote these sunrise industries which have the potential to be the winners of tomorrow.

Now that India is being looked upon as a supplier to retail giants for a range of goods for sale abroad, the SSI units should gear themselves to take the opportunity head-on instead of living in the past and whining about the lack of a facilitating environment.

### **Future Focus**

The attention of policy makers may need to focus on the following three broad issues, viz., creating a conducive business environment, development of clusters, and enhancing credit flows to SMEs as these are widely debated in the contemporary discussions.

Governments need to take initiatives to ensure that the overall policy environment encourages industrial activity in general, and SME activity, in particular. This apart, initiatives would need to be taken, wherever necessary, to remove outdated and anomalous restrictions on domestic production, bring about a reduction in tariff and tax rates to internationally competitive levels, create a competitive environment through appropriate legislation, if necessary provide public infrastructure support, reduce inflexibilities in the labour market with due cognizance to the need for appropriate social safety nets and invoke necessary reforms in bankruptcy and exit procedures.

Newer forms of SME financing like venture capital and leasing need to be fostered.

The idea of SME credit rating enmated from the chronic problem faced by the sector that is the credit inadequacy. There are several reasons for low SME credit penetration, key among them being insufficient credit information on SMEs, low market credibility of SMEs and constraints in analysis. The credit rating provides an opinion on the financial strengths and performance capability of the SME's. There has to be more awareness created on the win-win situation of credit ratings, for all the interested parties – the banks, the SMEs and the cluster.

## Suggestions & Conclusion

### Suggestions

In the light of this study, the following are the major suggestions for strengthening SMEs in India in the globalized environment:

1. SME sector is basically promoter-driven and has little professional management. The decisions are saturated at the promoter level and scale up is a problem. It might have fast decision making if the decision-making is saturated at the top.
2. There is a discrepancy in the labor law. According to the law made in 1942, units with less than 50 workers do not have to abide by the labour law. This discrepancy should be removed as the number of workers should not decide the right of the labour.
3. The SMEs face the problem of inspections from various governmental agencies like tax department, local municipalities etc. Self-regulation and self-certification authenticated by the authority must be introduced to stop the *inspector raj*.
4. For each industry in the SME sector there should be a facilitation centre, which is set up by the state government and which arbitrate in the issue of delayed payment by the large buyers.
5. SMEs have little access to technology and product innovation is negligible. There has to be awareness of global best practices.
6. SMEs, particularly the tiny sector, have inadequate access to finance due to lack of financial information and non-formal business practices. SMEs also lack access to private equity and venture capital and have little access to secondary market instruments. There should be innovative schemes of financing and mitigating risk by bringing together the stakeholders- small industry, the financial institutions and the government and the regulators.
7. The need of the hour is an approach to debt restructuring for the SMEs. There is lack of adequate funds, which leads to a debt strapped situation and debt restructuring become imperative.
8. FDI to be encouraged in SSIs for better technology transfer within the ceiling of equity participation by large-scale units in the equity of SSI units.
9. SMEs has to build a competitive advantage through clustering of resources, providing common infrastructure such as tool rooms, etc and also cluster marketing. The probable areas where clusters interventions for growth may be required are: non availability of low cost finance, delays in availability of finance, lack of cost competitiveness, lack of appropriate technology, product quality, quality management, old equipment and machinery, marketing linkages, competition amongst the SMEs, focus on prevention of thin profit margin and lack of poor shared national vision
10. It is always advantages to adopt consortium approach to solve the marketing problems of the SSI sector. Besides finance for marketing related activities, dissemination of requisite information on demand pattern, futuristic trend, etc. could be made available by the Development Institutions / SSI Associations, etc.

### Conclusion

The sustained growth of the small industry sector will be critical importance in the coming years due to the problems being faced by the Indian economy in terms of slow down in employment generation activity combined with a severe on-going crisis in the agricultural sector. Employment opportunities for the fast growing population in both rural and urban areas are closely tied up with the future development and dispersal of small industries throughout the country. To achieve the targeted expansion in India's share in world trade from the present 0.7 per cent to one per cent would require India's export to grow by 12 per cent annually up to 2007. The SME sector will contribute significantly in this respect to achieve this targeted growth. More focused and sustained interventions are needed to prepare the SME sector for the challenges ahead and to take full advantages of the liberalized trade environment. Employment intensity, low factor costs, and even spreads will be the best balancing factors in the reform agenda of developing economies. It is also vital that the outlook has to be more global and less domestic if the competitive forces have to be addressed in a planned, phased and time-bound manner. In the next five years there should be a concerted effort to move Indian SMEs among developed group of SMEs around the globe.

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