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# **INDIAN SMEs AND THEIR UNIQUENESS IN THE COUNTRY**

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## **Abstract**

The singular contribution of SMEs is on account of their unique characteristics .Their role in economic activity is manifest in both tangible and intangible ways. If this contribution is to be sustained, then their uniqueness needs to be nurtured in an overt and explicit manner. The Indian experience has shown that it is possible to design targeted interventions, be they area specific like in clusters or be they sector/Sub- sector or product specific. Other countries, be they Asian or OCED, also have policies which aim at similar support. The need of the hour is for us to learn from each other , drawing upon experiences and identify “best practice policies”. These in turn have to meet local conditions and circumstance. A “one size fits all” approach will not work. Nevertheless , there can be no two opinions about the priority that SME policies deserve for achieving the socio justice, along with the individual’s aspirations.

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# **INDIAN SMEs AND THEIR UNIQUENESS IN**

## **THE COUNTRY**

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The Country has been witnessing the transformation from a centrally planned and highly directed economy to a market friendly economy and in pockets to e- economy .But the growth – oriented structural changes engineered through the economic reform agenda are yet to cover the small and medium enterprises (SME). Although Small and Medium Enterprises (SMEs) are today recognized as a priority in almost all countries. It is estimated that half to two -third of businesses , all over the world are SMEs . They comprise a widely divergent spectrum of establishments, engaged in economic activities ranging from engaged in economic from micro and rural enterprise to modern industrial units using sophisticated technologies. Such enterprises exist in the form of factories , workshops, trading and service organizations. Ownership patterns range from proprietorship and partnership to companies and co-operatives. Due to their contribution to their respective national economies, the importance and emphasis on SMEs has been accentuated in the minds of policy makers. Planners and the industry in the recent past . This is a consequence of the recognition that the shift from agrarian to industrial and to post industrial knowledge based societies shall not be through the large industrial houses but through individual and small initiatives by visionaries the SMEs.

SMEs may be defined in different ways by different countries .Most countries have adopted the benchmarks of employment . Some define them in terms of assets, a few in terms of sales and yet others, in terms of shareholders fund. In a few countries , a hybrid definition is used such as employment as well as assets. In India , the term SSI (Small Scale Industries) is used far more often than SME and is based upon investment in assets . Although definition differ across countries, they have one thing in common ; the vast majority of SMEs are relatively small and over 95% of SMEs in

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Asia employ less than 100 people . Based on this , broad comparisons of the nature and role of SMEs is still possible even with differing definitions.

### **Characteristics of SMEs**

Born out of individual initiatives & skills

Greater operational flexibility

Low cost of production

High propensity to adapt technology

High capacity to innovate & export

High employment orientation

Utilization of locally available human & material resources

Reduction of regional imbalances

### **Contribution of SMEs**

Small businesses today are being variously described as the backbone of the industrial economy or as the drivers of the economy or even as the drivers of the economy or as the drivers of the economy or even as the drivers of the economy or even as the engine of the growth for industry . Though individually small . Collectively the small sector has emerged as a dominant player in most economies , be they developing or developed . Performance of the small sector therefore, has a direct multiplier impact upon the growth of the national economy. The sector has been consolidating over the years . What is new is the articulation and recognition of this process and its pump priming role.

The table indicates the contribution of SMEs across diverse economies .(Table-1)

The survival and growth of SMEs are therefore valid concerns of policy makers. These concerns are sought to be addressed through promotion programmes , positive discrimination hand holding and advocacy . Policy initiatives seek

Table 1 : Contribution of SMEs

Country	Share of total establishment	Share of output	Share of Employment	Share of exports	Criteria for recognition
India	95%	40%	45%	35%	Fixed assets
U.S.A.	98%	n.a.	53%	n.a.	Employment
Japan	99%	52%	72%	13%	Employment
Taiwan	97%	81%	79%	48%	Paid up capital, assets & sales
Singapore	97%	32%	58%	16%	Fixed assets & employment
Korea	90%	33%	51%	40%	Employment
Malasia	92%	13%	17%	15%	Shareholders funds & employment
Indonesia	99%	36%	45%	11%	Employment

To accentuate basic SME skills in low cost production, an ability to profitability manufacture low volumes, meet niche requirements, capitalize on local skills and resources, provide outsourcing opportunities and most importantly create jobs.

While the comparative advantage of SMEs are well acknowledged, it is also a fact that SMEs across the world encounter similar problems which prevent them from realising their fullest potential. The need for a mentor in the initial period , finance /credit at critical times access to technology , avenues in marketing , unequal competition and infrastructure support are problems which plaque this sector . World wide as new SMEs emerging there is also a very rapid rate at which SMEs emerging , there is also a very rapid rate at which SMEs close down as come up each year . Further there is something a misconception organizations. In fact they have an

impressive presence as service organizations, ranging from the simple and traditional to the most modern and hi-tech. In no case, one can miss the point that, as the twin forces of globalization and WTO led free trade become stronger, the SME sector is required to reorient, indeed, reinvent itself to meet these challenges. This involves restructuring and at times closure. For economies in early stages of their development, closure of units is often seen as undesirable and a traumatic experience rather than being seen as a more efficient way of resource allocation. Viewed dispassionately, the high rate of entry and exit reflect the dynamism in the sector and indicates why it is often seen as an industrial incubator. SME contribution should be seen not only in terms of output, employment, income, investment or exports but also in terms of the more qualitative indicators such as the synergies they promote with large industry, their contribution towards balanced regional growth, their contribution in nurturing entrepreneurial spirit, innovation and in providing a nation wide pool of skilled and trained manpower.

### **The Indian Small Scale Sector- An Overview**

In India, a SSI unit is defined as one where investment in plant and machinery whether held on ownership terms or on lease or by hire purchase does not exceed Rs 10 million (1USD =Rs 49). There also exist a definition for micro- enterprises, which are popularly known as 'Tiny Units'. A tiny unit is one where investment in plant & machinery does not exceed Rs 2.5 million. The Indian small scale sector has been fortunate to build upon a heritage of enterprise, dynamism and renewal. Despite two centuries of colonial rule and total lack of external support, the sector has been fortunate to build upon a heritage of enterprise, dynamism and renewal. Despite two centuries of colonial rule and total lack of external support, the sector has reestablished itself and consolidated over the last 50 years. From about 80,000 units in the late 1940s to over 3.3 million units today, the sector has been proving its mettle time and again. The last decade of the 20<sup>th</sup> Century has seen this sector has been

proving its steady growth .The SSI sector in India alone contributes 7% to India's GDP. The performance of the Indian small scale sector in terms of critical economic parameters such as number of units , production , employment and export during the last decade is indicated below .(Table2)

Table 2: Performance of Small Scale Sector

Year	No of Units ( Million Nos)	Production (Billion Rs) (at current prices)	Employment (Million nos)	Exports (Billion Rs) (at current prices)
1993-94	2.38	2416.48	13.93	253.07
1994-95	2.57	2998.86	14.65	290.68
1995-96	2.65	3626.56	15.26	364.70
1996-97	2.80	4118.58	16.00	392.48
1997-98	2.94	4626.41	16.72	444.42
1998-99	3.08	5206.50	17.15	489.79
1999-2000	3.21	5728.87	17.85	542.00
2000-01	3.37	6454.96	18.56	599.78
2001-02	3.46	6905.22	19.22	712.44
2002-03	3.67	8243.63	20.07	861.03
2003-04	3.83	9323.54	20.90	N.A.
2004-05	4.00	10600.87	21.78	N.A.
2005-06	4.18	1213.800	22.78	N.A.
2006-07	4.37	14019.39	22.17	N.A.

In some export segments, the contribution of SMEs is overwhelming . The table below indicates these segments and the corresponding SME contribution. (Table 3)

The Indian small sector has been consistently

Table 3: % of SSI in total Export

Product	% of SSI in total export
Sport goods	100
Ready garments	90
Woollen garments, knitwear	35
Processed foods	65
Marine products	29
Leather products	80
Plastic products	45
Cosmetics , basic chemicals &	55
Pharmaceutical products	
Engineering goods	30

Outperforming the organised sector on crucial parameters such as growth in production and parameters such as growth in production and growth in employment . This is indicated by Table 4.

As the knowledge economy gains ascendance over the traditional smoke – stack economy far better opportunities are emerging for the Indian small units in the service sector . In India , such

Period	GDP Growth per Annum	Growth per Annum		Increase in jobs per annum	
		Large Industry	SSI Sector	Organised Sector including Government	SSI Sector
1980-1990	5.7%	7.0%	10%	1.59%	6.7%
1991-1997	5.7%	6.2%	7.5%	0.86%	3.5%

Units are generally referred to as Small Scale service and business Establishment (SSSBs). Presently SSSBs upto Rs1 million investment are considered as small



units in India . The sector is showing very rapid growth and is able to build up on its basic skills helping it to emerge as a leader in respect of software , servicing and communication . Various activities recognized as SSSBE include Cable TV services , rope – ways marketing and industrial consultancy , auto –repair , servicing of equipment , long distance telecommunication kiosks , photographic labs etc. Increasingly the service sector is helping to utilize the skills of a vast number of educated youth of the country .

### **Developing SMEs in India**

Government's development strategy for small business enterprises in India has evolved around the following :-

- (i) Protective discrimination e.g. Reservation, Priority Sector Lending ,etc.
- (ii) Integration between large and small e.g. subcontracting ancillarisation and vendor development.
- (iii) Institutional support through a network of testing centers , tool rooms, entrepreneurship development institutes etc.

While the first two decades after Independence focused on institutional support, the third decade saw the use of reservation of products or exclusive manufacture in the small sector as th preferred policy intervention . In the fourth decade, the endeavour was to promote linkages of SMEs with large units, specially the Public sector units(PSUs). In 1991, industrial reform was initiated in a big way , liberalization of the domestic economy made it easy for fresh capacity came up in the form of large units across industry segments. Despite substantial increase in the number of players in each industry segment, the small scale sector has managed to hold on to its own and withstand the onslaught of competition . In certain cases , they have proved themselves to be extremely adept to beating large industrial houses which were unable to respond promptly to changing market needs or innovative in time . With the removal of QRs from all items imported

into India w.e.f. 1<sup>st</sup> April, 2001, the small sector is facing much greater competition. Government of India has responded to the situation . It announced a Comprehensive Policy Package in August 2000 to strengthen the Small Scale Sector and enhance its competitiveness both domestically and globally .The policy package provides for enhance its competitiveness both domestically and globally. The policy package provides for easier access to credit, availability of collateral free composite loans upto Rs. 2.5 million capital subsidy for technology upgradation and improved infrastructure . This package alongwith other initiative aim to address the concerns of the sector which are highlight below .

#### Mentoring & Advocacy

Even today , most small businesses in India are set up by first generation entrepreneurs. They often have a product or service idea, some money a zest to work hard but limited knowledge about markets, Government or bank procedures , cash flows or how to manage labour. This is where mentoring or hand holding support becomes crucial .At times , this comes from an individual such as a friend, an NGO or a parent unit. This is episodic and unable to meet the vast requirement which the country has. This is sought to be institutionalised through extension/ out reach efforts of central and State Governments. The Central Government's agency for the task .The Small Industry Development Organisation , has accordingly moved away from its pre-reform regulatory role to a direct promotional role of hand holding , advocacy and facilitation. This encompasses the legislative support put in place, fiscal incentives and protection from unequal competition.

#### Credit

Credit is the lifeline of business. Small businesses lack access to capital and money markets. Investors are unwilling to invest in proprietorship,

partnerships or unlisted companies. As risk perception about small businesses is high, so is the cost of capital. In India, many of the small manufacturing enterprises do not access bank finance and only about 16% of total bank credit finds its way to the sector. Despite being a priority sector for lending, small manufacturing enterprises get just about 8% of their annual turnover as working capital requirements of 20%. Even for this cost of credit is high. The problem is recognized and is sought to be addressed through various ways:-

- Establishment of ISO 9000 certified specialized SSI bank branches in districts/clusters.
- Directive for working capital finance @ 20% of annual normative turnover.
- Waiver of collateral requirement upto Rs 0.5 million.
- Setting up of a Credit Guarantee Trust to cover loans upto Rs 2.5 million.
- Composite loans from a single agency upto Rs 2.5 million.
- A national Equity Fund for equity to SSI units at 5 percent service Charge.

## Technology

Small enterprises are often regarded for their labour intensity and the capability to work for their labour intensity and the capability to work with local resources. In the past, this has often led to small sector products being labeled as being of poor or substandard quality. This has a cascading impact on competitiveness. As small enterprises realize the need to link up with large ones, they are having a relook at technology options which would improve productivity, effectiveness and competitiveness. While

sourcing technology small businesses need to concentrate on the following essential issues:-

- (i) Information about Technology
- (ii) Actual procurement of technology
- (iii) Finance of technology upgradation

### **Market Access**

In today's world, small enterprises can hardly match the advertising support or distribution reach of a large corporation. Increasingly, now endeavour is to build the marketing activity of small units around their competitive advantage i.e., products which are labour intensive, items which cater to niche markets, low volume high margin products, sub assembly tasks, outsourcing jobs and ancillarisation. Sub-contracting exchanges are being established through Government and Industry Association to promote such interface.

### **Infrastructure**

Small units have traditionally operated from homes or a neighborhood workshop. Slowly they began moving out and clustering together wherever electricity, water, raw materials, market, markets or labour were easier to access. Later in the post reform period, the problem was sought to be addressed by setting up of Industrial exclusively for small business. A concerned move has also now been initiated for upgrading existing estates.

### **Globalisation**

The globalization of trade & commerce has given a push by the agreements in the WTO and changed the business environment.

In India , a number of steps have been taken in this regard.

Workshops have also been held on Intellectual Property Rights (IPRs) and Bar Coding.

### **Procedures**

Government and bank procedures coupled with inspections remain a major hurdle in growth of small units.

The Central Government has initiated a study to enact a single law for small businesses.

### **Strategy Interventions for Revitalisation and Growth**

Significant changes in the economic environment are being heralded in by the WTO. The removal of QRs has led to increased competition with imports. Many sectors of industry are facing competition from Chinese or Taiwanese imports within the country or from Bangladesh, Sri Lanka or Nepal in export markets. It is the belief of the Indian Government that promotion and not protection is the answer to the issues of survival and growth. Thus while reservation of items for exclusive production continues , the focus must now be on strengthening capabilities.

The Indian Government therefore, is working on a new vision for the SSI sector through a flexible approach and motivated team. Alongwith improving quality they are being given the opportunity of overseas travel , conducting market surveys, test marketing etc. The existing industrial centers are being revamped by involving industry associations with some Government assistance and finally a migration from sunset industrial to sunrise industries being encouraged through a comprehensive and graceful exit policy, which balances interest of labour with those of the owners.

## **Conclusion**

The singular contribution of SMEs is on account of their unique characteristics .Their role in economic activity is manifest in both tangible and intangible ways. If this contribution is to be sustained, then their uniqueness needs to be nurtured in an overt and explicit manner . The Indian experience has shown that it is possible to design targeted interventions, be they area specific like in clusters or be they sector/Sub-sector or product specific. Other countries, be they Asian or OCED, also have policies which aim at similar support. The need of the hour is for us to learn from each other , drawing upon experiences and identify “best practice policies”. These in turn have to meet local conditions and circumstances . A “one size fits all” approach will not work. Nevertheless , there can be no two opinions about the priority that SME policies deserve for achieving the socio justice, along with the individual’s aspirations.