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AN OVERVIEW MODEL ON THE BUSINESS ENVIRONMENT AND GROWTH CHALLENGES OF SMEs IN INDIA

VENKATARAMAN.KK
PROFESSOR
PSG INSTITUTE OF ADVANCED STUDIES
COIMBATORE

ABSTRACT

For any economy, SMEs (Small and Medium Enterprises) and their contribution for GDP (Gross Domestic product) are vital. Not only are the revenue contributions important but also on the human resources front the SMEs have a critical role to play considering a large manpower they employ. SMEs need growth for their success and sustenance. The current scenario in India provides a lot of growth opportunities for the SMEs through globalization. However, the globalisation also brings in challenges to the SMEs in terms of technology, manpower and quality. This paper analyses the need for the growth of SMEs, factors that are crucial for their growth, the alternatives available to overcome the challenges and integrates them into a simplified model which reflects these aspects and a probable solution to the challenges faced by the SMEs for their growth.

KEYWORDS

SMEs (Small and Medium Enterprises), Growth, Challenges, Solutions, Simplified model.

INTRODUCTION

Currently an estimated 26 million SMEs in India employ 60 million people. They contribute 45 per cent of the country's manufactured output and 40 per cent of its exports. "While the contribution to GDP remains 17 per cent, it is expected to touch 22 per cent by 2012 because of investments in technology upgradation" says industry body ASSOCHAM in a report.

The SME sector has over the year's registered faster growth than the gross domestic product (GDP). While GDP grew 6.7 per cent in 2008/09 and eight per cent in 2009/10, the SME sector clocked 11.4 per cent and 11.6 per cent growth, respectively as per report from National Small Industries Corporation (NSIC). Growth is an important aspect of any industry whether small or big. SMEs cannot sustain for a longtime without growth considering the inflation and other cost escalations. The most important factors that decide the growth of SMES in the current environment are Finances, Manpower and Technology.

LITERATURE SURVEY

A literature study from various authors showed the importance of the SMEs on the Indian economy, various factors influencing their growth and their interrelationships, which is elicited in the following:

A study by Rajesh K Singh et al (2010) indicate that the major challenges of the SMEs (in both India and China) are building product quality, reducing costs, and upgrading technology and conclude that human resource development and quality improvement are highly correlated to competitiveness.

Annapurna Dixit and Alok Kumar Pandey (2009) analysed a time series data on GDP and the contribution of SSIs and conclude that the role played by SSIs are significant for the Indian economy and they need to be developed at par with large industries.

Through interviews with SSI units, GP Sahu and Prabhudatt Dwivedi (2008) identified that infrastructure support from government, information technology, globalization, awareness of policy and programs of government and technology influence the growth of small scale industries.

According to the results of the analysis by Zehir et al (2006) it has been found that global capabilities, product and service capabilities, marketing and sales capabilities and technological capabilities of a firm have positive and significant effect on business performance directly.

A study by Norita Ahmad and Robin G Qiu (2009) demonstrates that the performance of the SMEs is affected by the business environment in which they operate. The success and growth of SMES will be enhanced by a more global infrastructure which includes human resources, financial markets, advisory services, information access, intellectual property rights etc.

A tool developed by Banham Heather C (2010) helps SMEs to measure the external environment as a level of turbulence and the factors considered for the measurements are the technology advances, customer expectations, supplier expectations, regulatory environment and the level of competition.

A study by Amitesh Kapoor (2012) indicate that SME have quite a large set of options for raising funds for their operations; however they resort to informal sources to a large extent and also strike a balance between the formal and informal resources, in view of the difficulties with the formal resources.

A RBI circular indicates the necessity of the banks to provide easy and additional credit facilities to the SMEs. The literatures and websites of the various public and private sector banks indicate a focus on the SMEs sector towards various financial packages and supports.

It was found in a study by VK Gokuladas (2010) that the students from urban area are more driven by extrinsic factors like brand image of the company, high remuneration, dream company status etc., while the rural / semi-urban students are driven by intrinsic or interpersonal reasons like working environment, training, opportunities, influence by relative, etc. The SMEs need to leverage the relevant job choice factors to their advantage to attract young talents for their growth strategy.

A survey by Leslie T Szamosi (2006) with 55 university students at Greece who identified SMEs as their best opportunity for their career goals – indicated that they expect respect, workplace involvement, concern for employee welfare and support management as critical factors for the SMEs.

NEED AND IMPORTANCE OF STUDY

SMEs are important to the Indian economy not only due to its contribution to GDP and growth but also because of the huge manpower it employs. The SMEs provide an employment opportunity for the huge population and their survival. It is necessary that the SMEs sustain their operation to support their employees and continue to be the human wing of the industry. The same human strength is the weakness for the SMEs as they find it very difficult to get quality manpower, especially skilled engineers, vis –vis the large scale industries. The study considers the three major resources of any industry – finance, technology and manpower and tries to find a probable solution for the SMEs to tackle these resources

STATEMENT OF THE PROBLEM

The major issues facing an SMEs in India is Finance, Technology and Manpower. Growth is essential for survival and hence it is necessary to manage the finance, technology and human resources efficiently. Getting the right manpower is crucial for the SMEs to grow in the current competitive environment

OBJECTIVES

The objectives of the study was to analyse the various factors associated with the three major resources of the SMEs viz. Finance, Technology and Manpower. Additional emphasis is placed on the manpower issues by combining the study with the student community to ascertain their job choice factors and their willingness to serve a Small scale industry.

A model depicting the set backs and probable solutions is to be developed for a better understanding.

RESEARCH METHODOLOGY

The study is based on the literature surveys, interviews with the owners of SMEs using questionnaire and discussions with students with a structured questionnaire. Most of the SMEs owners were not comfortable with a written questionnaire and hence an informal chat was done to extract the details.

RESULTS AND DISCUSSIONS

GROWTH CONCERNS OF SMEs

Growth is an important aspect of any industry whether small or big. SMEs cannot sustain for a longtime without growth considering the inflation and other cost escalations. Leveraging every factor in the environment is vital for the growth of the organizations. The most important factors that decide the growth of SMEs in the current environment are Finances, Manpower and Technology.

FINANCES AND GROWTH

There are number of measures and initiatives from the Government to support SMEs from the financial front. Banks have separate departments to handle SMEs accounts which have focused attention on the financials of the SMEs. However, the overall cost of doing business has gone up considering the increase in cost of borrowing, delayed payments from customers, raw material and labour cost increases. This increase in costs can be offset only by showing growth in business volumes and expansion programs.

TECHNOLOGY AND GROWTH

Technology is another factor to be considered for growth, taking into account the obsolescence of the technology within very short time. Hence the SMEs need to be up-to-date with the latest technologies that go into products as well as processes. As per ministry of MSME, the Government is setting up a defence technology fund worth Rs. 100 crores. However, the SMEs have to acquire and maintain their own technology in order to have self-sustenance and growth both in product and process.

Some of the SMEs manage to upgrade their technology by serving big companies and manage to use a part of them for their own benefits. However, technology absorption and upgradation is directly related to the availability of engineering manpower in the organization.

MANPOWER FOR GROWTH

The other important factor for growth is manpower and its capabilities. SMEs rely on the human factor much more than larger organizations. Manpower is one of the core assets of SMEs which dominate the activities of the organization to a larger extent including the absorption of new technologies. The global trends indicate a shortage of skilled manpower in every industry, and the most affected are SMEs. The situation is worsened by the IT industry luring most of the talented manpower, with its high salaries and perks. The shortage of the manpower in the SMEs harms their growth due to globalization and tough market competitions, which need newer and versatile products. Sometimes survival of a SME itself becomes a question mark due to the shortage of a engineering skills

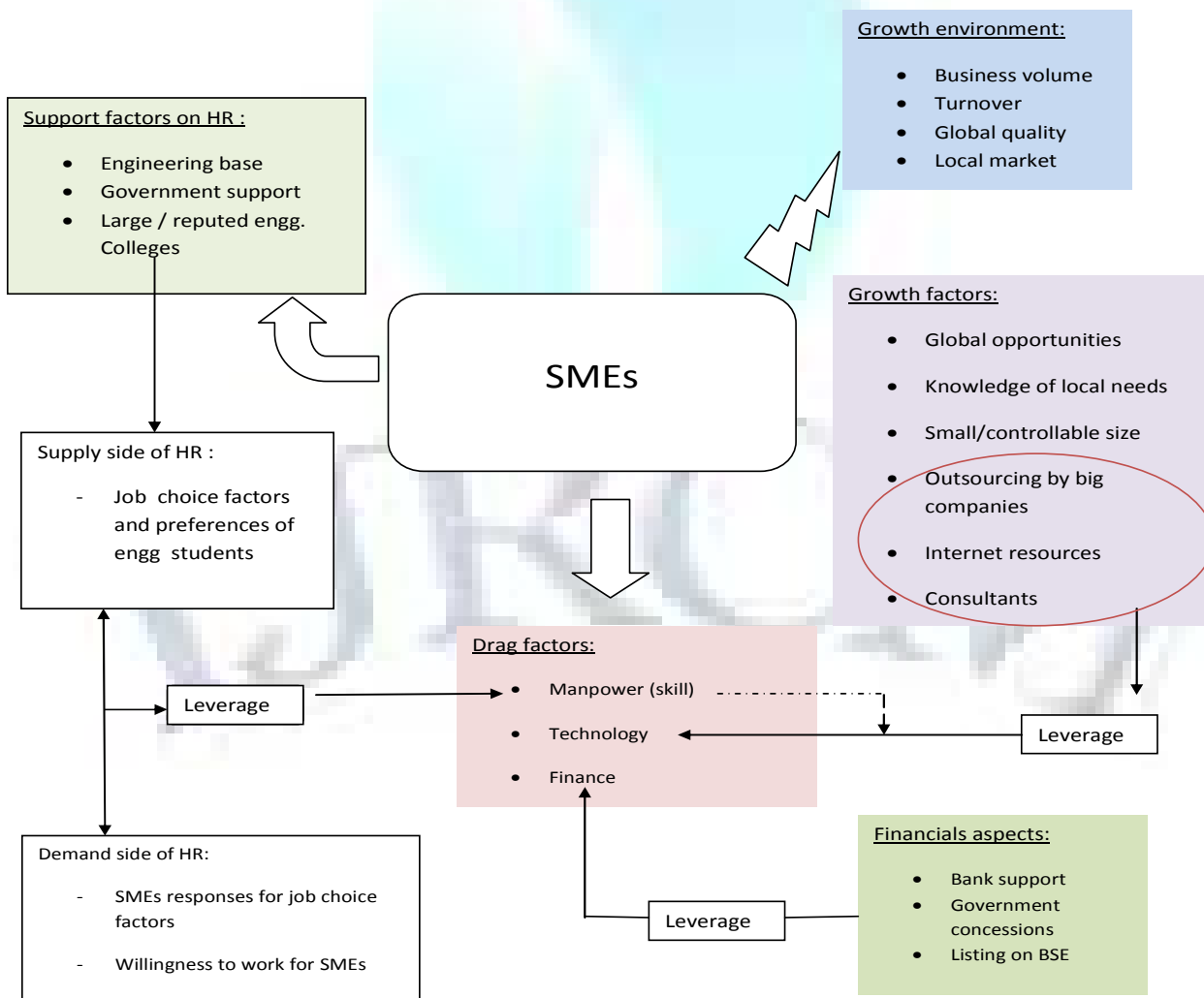
According to a survey by MA FOI RANDSTAD organization, the job seekers, apart from high salary and pleasant working atmosphere, consider job security, work life balance, financial health of the organizations as other factors for choosing a company to work with.

Under these circumstances it becomes much more important for SMEs to understand the Job choice factors of the engineers and device a new strategy to attract talented manpower since the engineering manpower is important for its growth and sustenance.

A MODEL ON THE GROWTH OF SMEs

Integrating all the above inputs, a simplified model has been developed as shown in fig.1.

FIG.1 – MODEL ON THE BUSINESS ENVIRONMENT AND GROWTH CHALLENGES OF SMEs IN INDIA



The model is centered around the SMEs (Small and Medium Enterprises), more specifically Indian SMEs, which are faced by growth factors on one side and the growth challenges on the other side. The growth factors are in the form of Global opportunities, providing a growth environment (volume, new products, quality output) due to globalization of business. At the same time the SMEs need to overcome the challenges like (new) technology, (skilled) manpower and difficult finance (due to economy slow down).

Following are the support factors that are in favour of the SMEs to overcome the challenges:

1. Government and banks on financials (soft loans, grants for special projects etc). There are special counters and branches to serve the SMEs. Tailor made financial assistance and packages from the public sector as well as private sector banks like SBI, Bank of Baroda etc. An informal interview with SMEs owners indicated that the financial supports from the banks are difficult only in start ups. Once the SME is established it is easy to get funding, both for operations as well as expansion and growth.
2. The technology for both product development and process development can be derived from MNCs and Large organizations which outsource jobs to SMEs. Also there is a vast amount of knowledge available on the Internet like patents, ideas etc which can be leveraged to acquire the required technology. Further, SMEs can take the help of freelance technologists and consultants for a relatively small payment.
3. For expansion and support SMEs need quality human resources. Even to handle the acquired technology as above needs a skilled manpower. The lack in the engineering human resources can be tackled by attracting young talents from numerous engineering colleges by understanding and leveraging their job choice factors. A study through questionnaire with around 126 engineering students indicated that around 18% of them are interested in serving the SMEs – they also indicated that salary is not a major concern but the major thrust is on learning and growth in the core area of engineering.

CONCLUSION

The major challenging factors for growth of the SMEs in India are the finance, technology and manpower. The model developed depicts the inter-relationship between these challenging factors viz. financials, technology and the human resources towards growth in SMEs.

The financial supports come from Government and Banks through focused schemes, tax concessions, listing in BSE etc. The technology support is acquired from big industries, consultants and internet resources, and through some training programs from government organizations for the skilled workers. However, it is the human resources front which is a weak link and hence need to be the main focus of the SMEs to run the current system efficiently in the current competitive environment (to absorb new technologies and take the SMEs towards growth). The SMEs should plan a strategy to market their positive aspects (considering the choice factors of the engineering graduates) and take advantage of a large number of engineering graduates from a sizable engineering colleges in India.

LIMITATION

Though the literature study covers all Indian as well as global scenario, the basic questionnaire on students and the interviews with SMEs owners were done within a small region (Coimbatore, Tamilnadu) and with a small population sample. The results may become more focused if taken through large samples as well as cover various regions. However, some of the issues like students' interests in small industries and their job choice factors may have higher variation depending on the region.

SCOPE FOR FURTHER RESEARCH

The study can be enhanced with a region based orientation and with a higher sample of students and the owners of SMEs. The research may be more regionalised due to the characteristic differences in the cultures between different regions in India and their approaches to problems may be different.

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