

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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**SMEs RISING IN INDIA: AN OVERVIEW**

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**ABSTRACT**

*SMEs occupy an important and strategic place in the economic growth and equitable development in all countries. They are viewed upon as a powerhouse of employment, innovation and entrepreneurial spirit. In both industry and service, almost 90% of enterprises are in the SME sector. SMEs are the driving force behind a large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports. The future of SMEs seem to be the driving force to build the industrial sector in a totality with a bonus of the Indian Government help which it has got since independence. The post-liberalization era in the Indian economy has enhanced opportunities and challenges for the SMEs in India where opportunities are high in contribution to domestic production, heavy export earnings with minimum investments, operational flexibility, and location wise mobility. The darker side for SMEs is equally important to understand in this price competitive market. A classic way of dismantling the business of the SME's is the Predatory Pricing Policy. This is the easiest way of killing the profit earned by SMEs by other big established corporate and Brands. Other important factors affecting the growth of the SMEs is the Guerrilla marketing strategies now also being adopted by large corporate and brands. So although there's a lot to cheer for the SME's but it's not always been hanky dory for them. Target marketing of customers were also highlighted as a key issue. SMEs need to overcome their problems and enhance their access to new technologies for increasing their competitiveness in the international market. For this, the Government and Banking sector have an important part to play & take a proactive role of identifying and encouraging new entrepreneurs. They must come forward to remove the bottlenecks faced by the SMEs at National & International level.*

**KEYWORDS**

Guerrilla marketing, Predatory Pricing Policy, Price competitive market, Target marketing, Technological innovation.

**INTRODUCTION**

It has always been a well-debated topic to define the small and medium enterprises as every country has their own definition for a SME, but in India, these issues have been recently ratified. According to the newly enacted Micro, Small and Medium Enterprises Development Act 2006, Small and Medium enterprises are classified according to the following criteria:

- Small enterprises are those undertakings where investment in manufacture or production of goods is within a range of Rs. 25 Lac to Rs. 5 Crore, whereas investment in rendering or providing of services is within Rs. 10 Lac to Rs. 2 Crore.
- Medium enterprises are those undertakings where investment in manufacture or production of goods is within a range of Rs. 5 Crore to Rs. 10 Crore, whereas investment in rendering or providing of services is within Rs. 2 Crore to Rs. 5 Crore.

Now, within the last few years many developed and developing countries have realized the importance of this sector. It has become the driving force behind a large number of innovations and contributes to the growth of the national economy through employment creation, investments and exports. SME plays a very important role in developing the economy of India, generating employment opportunities, raising exports, developing entrepreneurial skills and above all providing various items of daily use at an affordable cost. The future of SMEs seem to be the driving force to build the industrial sector in a totality with a bonus of the Indian Government help which it has been enjoying since independence.

The darker side for SMEs is equally important to understand in this price competitive market. A classic way of dismantling the business of the SME is Predatory Pricing Policy. This is the easiest way to kill the profit earned by SMEs by other big established corporate and Brands. Other important factors affecting the growth of the SMEs is the Guerrilla marketing strategies now being adapted by large corporate and brands. So although there's a lot to cheer for the SME's but it's not always hanky dory for them. Target marketing of customers was also highlighted as a key issue. Deciding who to target, how to attract them and how to deliver them are mentioned as important issues. Recruiting and developing talent and leaders is also seen as vital, followed by the need to become increasingly efficient and drive out costs. But clearly the issue of where to find the necessary talent to sustain and grow the business came out as the top issue. Besides these, SMEs has been facing problems in accessing technology and maintaining competitiveness due to poor adaptability to changing trends, poor financial situations, and non-availability of technically trained human resources.

This paper will discuss about all those opportunities and challenges for the SMEs in the development of Indian economy.

**LITERATURE REVIEW**

There is ample empirical evidence that SMEs are present in all countries across the globe. The contribution of SMEs to GDP in China is 60%, Germany 57%, Japan 55%, Korea 50% & Malaysia 47%<sup>1</sup>. With the advent of planned economy from 1951 and the subsequent industrial policy followed by the Government of India, both planners and Government earmarked a special role for SMEs in the Indian economy. Due support and backup was given to the SMEs till the nation adopted a policy of globalization. Their role is to contribute to the growth of the national economy through employment creation, raising investment and exports, developing entrepreneurial skills and above all providing various items of daily use at an affordable cost. The main problems faced by the SMEs are low technology adoption due to lack of capital, low bargaining power, lack of collaterals, poor credit rating, poor business plan and lack of organizational structure. Despite of these limitations, the SMEs have made significant contributions towards technological development and exports like Food Processing, Agricultural Inputs, Chemicals & Pharmaceuticals, Engineering; Electricals; Electronics, Electro-medical equipment, Textiles and Garments, Plastics products etc. Apart from these, there are many opportunities and challenges lying in the pipeline for SMEs.

**OBJECTIVE OF THE STUDY**

1. To analyze the contribution of SMEs
2. To understand the present scenario of the SMEs
3. To identify the opportunities and challenges for the SMEs
4. To identify their weaknesses and problems & provide them with proper suggestions.

<sup>1</sup> SME World, SEMINARY - Special Supplement, Oct-Dec'2011: "Literature Review of "Innovative Financing for SMEs"

**NEED FOR THE STUDY**

Presently SMEs have undergone major changes but still they are facing lots of problems in operating their business. Their services and contribution towards the economic development and growth cannot be denied. Hence the study was undertaken to identify the weakness, opportunities and challenges for the SMEs & provide them with proper suggestions.

**RESEARCH MEHODOLOGY**

This study is based on secondary data. Data has been collected from books, websites, journals, newspaper and magazines. Data were collected to identify the opportunities and challenges and to give suggestions to the problems of SMEs.

**MAJOR SMES IN INDIA<sup>2</sup>**

The following are some of the major SMEs in India:

Sr. No	Name	City	Rating Assigned	Date Assigned	Constitution
1	G.Sankar Timber Depot	Rajapalayam	SME 4	9-Jan-12	Others
2	Glochem Industries Limited	Hyderabad	SME 4	9-Jan-12	Public Limited
3	Thermal Systems (Hyderabad) Private Limited	Hyderabad	SME 2	9-Jan-12	Private Limited
4	Zeon Lifesciences Limited	New Delhi	SME 4	9-Jan-12	Others
5	Electrical Lines	Secunderabad	SME 4	5-Jan-12	Proprietorship
6	Marketing Times Automobiles Private Limited	New Delhi	SME 3	5-Jan-12	Private Limited
7	Ragunath Exports Private Limited	Kolkata	SME 3	5-Jan-12	Private Limited
8	Rite Developers Private Limited	Mumbai	SME 3	5-Jan-12	Private Limited
9	Swam Pneumatics Private Limited	Noida	SME 1	5-Jan-12	Private Limited
10	Asian Fabricx Private Limited	Karur	SME 1	30-Dec-11	Others

Source: CRISIL SME Ratings - <http://www.crisil.com/ratings/sme-rating-list.html>

The above ratings are entity specific and indicate the SMEs overall performance, credit worthiness, business risk, management risk and financial strength in comparison with other SMEs. It is an Eight-point scale (SME 1 to SME 8) that indicates the credit worthiness of a particular SME in comparison with other SMEs which is valid for one year from the date of being assessed. It is subject to no significant changes/ events occurring during this period that could materially affect the business or financial parameters of the organization. SME 1 symbolizes highest, SME 2 high, SME 3 above average, SME 4 average, SME 5 below average, SME 6 inadequate, SME 7 poor, SME 8 default in terms of credit worthiness and sustainability.

**OPPORTUNITIES & CHALLENGES FOR SMEs****FINANCING SMES IN INDIA**

SMEs are vital and key sources of economic growth for developing countries like India as it plays a key role in creating new jobs. Financing SMEs is critical to help them set up their business, smooth running of their operations, innovating new products & line of business, expansion and diversification, as they often face problems to obtain finance from banks, capital markets or other suppliers of credit.

SIDBI (Small Industries Development Bank of India) was set up to act as the principal financial institution for the promotion, financing, development of SMEs in India. It also co-ordinates with other financial institutions engaged in this type of activities. Over the years SIDBI has supported the SMEs immensely so as to enable them to adapt to the fast changing environment. Further it has also eradicated the problem of lack of financial assistance which had always been a major issue.

Some major initiatives of SIDBI include:

- Reducing the risk perception of banks in lending collateral free credit to SMEs
- Providing direct and indirect finance that comprises of direct credit scheme, technology up-gradation fund, etc
- Providing assistance in bill financing and refinancing which include Mahila Udyam Nidhi Scheme, National Equity Fund Scheme, technology up gradation fund, etc.
- Helping in microfinance and fixed deposits for setting up new projects, expansion, diversification, modernization, technology up gradation, quality improvement, strengthening marketing capabilities of SMEs.
- Other initiatives include- Equipment Finance Scheme, Venture Capital Scheme, Micro Credit Scheme, ISO 9000 Scheme etc.

The other financial institutions which assist's in the development of the SMEs are commercial banks, Regional Rural Banks, State Financial Corporation (SFC), Small industries and development Corporation (SIDC), National Small Industries Corporation (NSIC), National Bank for Agriculture & Rural Development (NABARD), Industrial Credit and Investment Corporation of India (ICICI), YES bank and Government & RBI. ICICI Bank also bagged the "Best Bank in SME financing (Private Sector)" at the Dun and Bradstreet Banking awards.

**AVAILABILITY AND ACCESS TO FINANCE THE SMES**

SME sector has emerged to be the nation's economic growth engine. To sustain the growth, expansion of delivery of credit is of vital importance. The government is taking various measures to improve the delivery of credit to SMEs. The government has also set up a Credit Guarantee Fund to provide relief to those small entrepreneurs who are unable to pledge collateral security. The various ways of financing the SMEs are Cash Credit, sub-ordinated loans, participation loans or similar, financing instruments, equity, grants or subsidized bank loan, bank loan, trade credit, leasing or hire purchase or factoring, bank overdraft, credit line or credit cards overdraft etc.

**OTHER ASSISTANCE AND SUPPORT SERVICES**

Apart from the above financial assistance for the Indian SMEs, some other support services are also provided to them for their development and expansion to compete with big corporate and brands in the global economy. To name few services like domestic and export business development; entrepreneurship development; promotion branding, design, development and launch of product and service; quality improvement to meet the global standards; assistance and support in revival of sick units; assistance to participate in the international exhibitions, trade fairs and conferences, were included.

According to the CEO of the first SME-focused exchange in the country, Lakshman Gugulothu, "Small and medium enterprises have huge listing potential once the BSE SME Exchange commences operations". He also added in a seminar that "so far, there have been only debt-financing options, without any access to alternate equity options and there is a general lack of awareness among SMEs about equity capital, stock market and funding options other than banks."<sup>3</sup> So a lot of awareness is needed to be created about equity capital and stock market to resolve the serious start-up issue of a lack of initial liquidity which will encourage the innovative and entrepreneurial spirit.

<sup>2</sup> SME Rating List on the basis of date assigned by CRISIL

<sup>3</sup>The Economic Times December 4, 2011 "Huge potential for listing on BSE SME Exchange: Lakshman Gugulothu"



**QUALIFIED WORK FORCE**

There has been a sudden transformation in the scale and scope of activities in the SMEs of India. This growth rate of business needs to be supported with a parallel growth of qualified, skilled and trained manpower. Attracting and retaining talent is a major problem faced by SMEs in all the sectors. There is a need to incorporate a high degree of professionalism in the functioning and approach of SMEs in this business.

In recent years, things have improved with SMEs in this front, as more qualified people are willing to work for them. This change is also noticeable especially in India with growing number of B-schools and more number of people opting for such courses. However, the major problem lies with their retention policy as most of the SMEs do not have any proper HR guidelines to take care of employee retention and welfare. This is one major factor leading to more attrition in SMEs.

A comparative study<sup>4</sup> shows the distribution of workforce in SMEs in respect to their age where it can be safely concluded that most of the employees fall between the age group of 21-30 years. This means that the employees are lacking in motivation to work for these SMEs in turn increasing the overall attrition rate of this industry.

**GROWTH OF SMEs OVER THE YEARS & ITS CONTRIBUTION TO THE INDIAN ECONOMY**

SMEs sector has emerged as a dynamic and vibrant sector of the economy. Today, it accounts for nearly 35% of the gross value of output in the manufacturing sector and over 40% of the total exports from the country. In terms of value added, this sector accounts for about 40% of the value added in the manufacturing sector. The sector's contribution to employment is the second highest, next to agriculture.

The SMEs sector has grown rapidly over the years. The growth rates during the various plan periods have been impressive. The numbers of small-scale units have increased from an estimated 6.79 million units in the year 1990-91 to over 13 million in the year 2007-08. 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 SMEs sector.

**Source:** <http://www.smeworld.org/story/features/role-of-smes-sector-in-the-emerging-indian-economy.php>

**AVERAGE TURNOVER OF SMEs**

Over 55% of the companies have an annual turnover of less than Rs. 100 million, with investments of less than Rs 20 million. 35% are earning over Rs 100 million but less than Rs 500 million. Of the remaining 10% companies which have an annual turnover between Rs 500 million and Rs 1,000 million, the public limited and private limited companies dominate with a share of 52% and 26% respectively.

REGION WISE COMPANY LISTING - EAST REGION				
Sr no	Company Name	City/District	No of Employees	Turnover Range
1	Samarth Engineering Company Private Limited	Jamshedpur	76	Upto Rs 100 Mn
2	Arvind Engineering Industries Limited	Kolkata	200	Rs 100.1 to 250 Mn
3	Baldeo Das Gajanand Auto Spares Private Limited	Kolkata	12	Upto Rs 100 Mn
4	Coventry Spring & Engineering Company Limited	Kolkata	145	Rs 100.1 to 250 Mn
5	Dey's Engineering Works	Kolkata	NA	Upto Rs 100 Mn
6	Kejriwal Alloys & Metals Private Limited	Kolkata	NA	Rs 250.1 to 500 Mn
7	Marco Polo Products Private Limited	Kolkata	20	Upto Rs 100 Mn
8	Paracoat Products Limited	Kolkata	200	Upto Rs 100 Mn
9	Ramkrishna Forgings Limited	Kolkata	790	Rs 500.1 to 1000Mn
10	Vijayshree Industries Private Limited	Kolkata	200	Upto Rs 100 Mn
11	Vikrant Forge Limited	Kolkata	120	Rs 100.1 to 250 Mn
12	West Bengal Corporation	Kolkata	20	Upto Rs 100 Mn

Source: [http://www.dnb.co.in/smes/company\\_listing.asp?q=region&rgname=East Region](http://www.dnb.co.in/smes/company_listing.asp?q=region&rgname=East Region)

REGION WISE REVENUE LISTING - WEST REGION				
Sr no	Company Name	City/District	No of Employees	Turnover Range
1	Bhagwati Autocast Limited	Ahmedabad	186	Rs 250.1 to 500 Mn
2	Precision Autowares Limited	Ahmedabad	115	Rs 100.1 to 250 Mn
3	Varun Radiators Private Limited	Ahmedabad	43	Upto Rs 100 Mn
4	Acey Engineering Private Limited	Bilimora	NA	Rs 100.1 to 250 Mn
5	C M Smith & Sons Limited	Nadiad	412	Rs 250.1 to 500 Mn
6	Amul Industries Private Limited	Rajkot	378	Rs 500.1 to 1000Mn
7	Bhavani Industries	Rajkot	180	Rs 500.1 to 1000Mn
8	Durga Forge Private Limited	Rajkot	34	Upto Rs 100 Mn
9	Fine Brakes	Rajkot	25	Upto Rs 100 Mn
10	Forge and Forge Private Limited	Rajkot	200	Rs 250.1 to 500 Mn
11	K S Diesels Limited	Rajkot	300	Upto Rs 100 Mn
12	Silver Forge Private Limited	Rajkot	45	Upto Rs 100 Mn
13	BIL Metal Industries Limited	Vadodara	300	Rs 250.1 to 500 Mn
14	Standard Radiators Private Limited	Vadodara	150	Rs 250.1 to 500 Mn
15	Vikrant Auto Suspensions	Vadodara	250	Rs 250.1 to 500 Mn
16	Klassic Wheels Private Limited	Ahmednagar	150	Rs 100.1 to 250 Mn

Source: [http://www.dnb.co.in/smes/company\\_listing.asp?q=region&rgname=West Region](http://www.dnb.co.in/smes/company_listing.asp?q=region&rgname=West Region)

<sup>4</sup> Source: [www.zenithresearch.org.in](http://www.zenithresearch.org.in) International Journal of Multidisciplinary Research Vol. 2 Issue-1, Jan 2012

REGION WISE REVENUE LISTING - NORTH REGION				
Sr no	Company Name	City/District	No of Employees	Turnover Range
1	Beta Industrial Products	Delhi	NA	Upto Rs 100 Mn
2	Car International	Delhi	35	Upto Rs 100 Mn
3	Jagdish Sethi Welding & Engineering Works	Delhi	6	Upto Rs 100 Mn
4	Luman Auto Light Private Limited	Delhi	34	Rs 100.1 to 250 Mn
5	Luminous Auto Light Private Limited	Delhi	NA	Rs 500.1 to 1000Mn
6	Meko Auto Private Limited	Delhi	100	Upto Rs 100 Mn
7	Anubhav Auto Parts	New Delhi	70	Upto Rs 100 Mn
8	ARB Bearings Limited	New Delhi	60	Rs 250.1 to 500 Mn
9	Aspee Springs Limited	New Delhi	300	Rs 250.1 to 500 Mn
10	AVS Brake Linings Private Limited	New Delhi	85	Upto Rs 100 Mn
11	BIC Auto Private Limited	New Delhi	300	Rs 250.1 to 500 Mn
12	Bruk Electrical Products Private Limited	New Delhi	250	Rs 100.1 to 250 Mn
13	D D Industries Limited	New Delhi	800	Rs 100.1 to 250 Mn
14	Diamond Dynamics (India) Pvt. Limited	New Delhi	227	Rs 100.1 to 250 Mn
15	Dogma Auto Industries	New Delhi	60	Rs 100.1 to 250 Mn
16	DRDB Industries	New Delhi	120	Upto Rs 100 Mn

Source: [http://www.dnb.co.in/smes/company\\_listing.asp?q=region&rgname=North Region](http://www.dnb.co.in/smes/company_listing.asp?q=region&rgname=North Region)

REGION WISE REVENUE LISTING - SOUTH REGION				
Sr no	Company Name	City/District	No of Employees	Turnover Range
1	General Auto Spares Company	Hyderabad	12	Upto Rs 100 Mn
2	Mikroflo Filters Limited	Hyderabad	225	Upto Rs 100 Mn
3	Sri Bhavani Castings Limited	Kakinada	250	Rs 100.1 to 250 Mn
4	Sri Ramadas Motor Transport Limited	Kakinada	1500	Rs 250.1 to 500 Mn
5	Fourh Gen Engineering Private Limited	Secunderabad	25	Upto Rs 100 Mn
6	Kusalava International Limited	Vijayawada	NA	Rs 500.1 to 1000Mn
7	Ace Tools & Components	Bangalore	10	Upto Rs 100 Mn
8	Aditya Auto Components	Bangalore	110	Rs 250.1 to 500 Mn
9	Aditya Auto Products & Engineering (India) Pvt. Limited	Bangalore	160	Rs 500.1 to 1000Mn
10	Ashwin Precision Products Pvt. Limited	Bangalore	22	Rs 100.1 to 250 Mn
11	Aspa Auto Lamps Private Limited	Bangalore	105	Upto Rs 100 Mn
12	Avanti Components	Bangalore	15	Upto Rs 100 Mn
13	Bill Forge Private Limited	Bangalore	310	Rs 250.1 to 500 Mn
14	Ceebros Automation Private Limited	Bangalore	26	Rs 100.1 to 250 Mn
15	Classic Engineering Industries	Bangalore	24	Upto Rs 100 Mn
16	Demantik Enterprises	Bangalore	40	Upto Rs 100 Mn

Source: [http://www.dnb.co.in/smes/company\\_listing.asp?q=region&rgname=South Region](http://www.dnb.co.in/smes/company_listing.asp?q=region&rgname=South Region)

## THE MAJOR CHALLENGES

### RETENTION OF EMPLOYEES THROUGH MOTIVATION

The payment of regular salary and other scheme benefits are always important factors, which motivates an employee. Other monetary benefits also include that of sales incentive and commission over and above his/her base pay. These incentive schemes should be made in a realistic manner so that an employee actually strives to meet the target. Thus the increase in his/her performance will be noticeable.

But above all, non-monetary benefits also matter a lot. In many cases it has been noted that the quality of work culture and the work environment play a major role in motivating an employee. SMEs must note that the workforces they are having are its assets and for any successful companies it is true that the sales force act as the eyes and ears of the company. So in this scenario, it must be taken care that the employees must not be compared on the basis of monetary return he/she is bringing into the company. Other ways of motivating an employee can be, by giving additional responsibility to an employee, recognizing an employee's good work and acknowledging the same. Career progression/designation of an employee always plays an important role in motivating them. A proper HR policy must not only be set to, but also to be adhered.

### SCOPE FOR CSR ACTIVITY

Corporate Social Responsibility is something which is best related to big corporate. Nevertheless SMEs are not in the back foot regarding CSR activities. It has been noticed that increasing CSR activities have led to enhanced branding and publicity for the company.

In some parts of India it has been noticed that, SMEs have come up with CSR activities related to air and water pollution, awareness of AIDS programme etc. Majorly CSR activity shouldn't turn out to be a source of a separate income but as a value addition to the society, thereby increasing its own public image.

### THE OTHER CHALLENGING FACTORS ARE

1. Stiff competition from other developing economies like China poses a serious threat as they manufacture in bulk quantities and that also in cheap labour cost.
2. Price competition is one of the major problems faced by SMEs not only through other SMEs but also by other big corporate.
3. International labour laws and other environmental laws also pose as a challenge to them mainly in the recruiting process.
4. Merger and acquisition is now a growing trend of business. While it's true that entrepreneurship is on the high and there are many new promising entrepreneurs coming up with fresh ideas, but only very few in 100 new businesses succeed to make it in the next year. In this scenario, it seems that buying an old business is always more promising than to start a new business afresh.
5. The darker side for SMEs is equally important to understand in this price competitive market. A classic way of dismantling the business of the SME's is Predatory Pricing Policy. This is the easiest way to kill the profit earned by SMEs by other big established corporate and Brands.
6. Other important factors affecting the growth of the SMEs is the Guerrilla marketing strategies now being adapted by large corporate and brands. Advertising in multiple ways so as to reach to the masses is now the mantra for any advertising house. Although some SMEs have started to think in the same tune, but it will take time to make it a common practice for all.
7. E-commerce gives tremendous opportunities as well as challenges for both large and small sectors, but it has been widely noticed that the larger companies are generally better in terms of response to this challenge. They have greater expertise in comparison to smaller companies to gain significant benefits from ITCs; whereas SMEs are the slowest to embrace E-commerce.

**SUGGESTIONS**

1. They can form a strong accounting system by appointing an efficient accountant.
2. They can take assistance from the experts and experienced professionals in forming a good business plan.
3. There should be a strong organization structure comprising of efficient people and excluding the family members from the business.
4. Mandatory disclosure of the company information should be given.
5. Proper reserves and provisions should be kept for future contingencies.
6. There should be full utilization of Micro-credit.
7. Credit Rating agencies and banks' systems should be transparent. They should clearly state what they are looking for, how they will be convinced and what information SMEs can provide to ensure that the rating is favourable.
8. There should be customized lending mechanisms with or without collaterals which suits the need of the SMEs.

**CONCLUSION**

SMEs are ideally suited to build on the strengths of traditional skills/knowledge/fresh ideas/innovative market practices. The overall outlook is very positive. The sector having a share of 34%-40% market share in national exports is definitely one of the pillars contributing to the Indian economy. The protective and helping policies of the Government of India have ensured grooming of this sector in an astonishing range of products, mainly in consumer goods. The SMEs now just have to fight its bottlenecks like inadequacies of capital in some cases, technological innovations and dynamic marketing strategies to march its way to further success.

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