

SMEs in a Globalized Economy

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Abstract- The purpose of this paper is to analyze different challenges for small and medium enterprises (SMEs) in India following globalization. It aims to describe the status of these enterprises and examine the roles of government policies and strategy development for competitiveness.

INTRODUCTION

A large part of the economic system in many countries, whether developed or developing, is formed by micro and small sized enterprises (MSEs). These enterprises are considered an essential for the economic development as they contribute significantly towards gross domestic production (GDP) and creating employment as well as they account for 80 percent of global economic growth (Stel et al., 2005; van Praag and Versloot, 2007; Karadeniz and Gocer, 2007; Acs et al., 2008b; Beck et al., 2005; Acs et al., 2008a) (Jutla et al., 2002). In manufacturing sector, SMEs act as specialist suppliers of components, parts and sub-assemblies to larger companies because these items can be produced by SMEs at a cheaper price compared to the price large companies must pay for in-house production of the same components.

In India, with the promulgation of the Second Industrial Policy 1956, the government laid the foundation of a policy framework for the small-scale industry. The government realized that small-scale industries can provide immediate large scale employments. After that period, 1991-92 marked as the beginning of a new era for industry because of initiation of economic reforms through industrial and trade liberalization which included industrial delicensing, the removal of threshold limits on the assets of large enterprises, the implementation of a liberal policy to facilitate Foreign Direct Investment (FDI), the expansion of the Open General License (OGL) list, reductions in customs duties and similar actions. These initiation made market entry easier

and provided more operational freedom for enterprises. In addition, industries now have cheaper and easier access to imported inputs and capital goods (Bala Subrahmanya, 1999).

Because of the globalization of markets, technological advances and the changing needs and demands of consumers forced the nature of competitive paradigms to change continuously. These changes drive firms to compete along different dimensions such as designing and developing new products, adopting smart approaches to manufacturing, implementing quick-to-market distribution, purchasing cutting-edge communication and developing appropriate marketing strategies. But because of various weaknesses and barriers, such as a high failure rate (Smallbone and Rogut, 2005); internal barriers such as, management and contracting of less qualified labor (Smith and Smith, 2007); funding (Pissarides, 1999; Joubert, 2004); and external barriers such as the availability of access to prime materials, delays in payments of invoices by customers (Smith and Smith, 2007); and by way of regulatory barriers (Bartlett and Bukvic, 2001); slowing down of economy in nation and abroad, particularly USA and European Union, enhanced competition from China creates tough time for SMEs.

INDIAN ECONOMY AND SME'S

A vibrant small and medium size enterprise (SME) sector has been officially and exclusively identified as a promoter of manufacturing sector because of their potential to generate more jobs per unit of capital investment than a large enterprise. It also considered as a source of technological innovations in industrialized economies.

However, there is no uniform definition of a SME in the global economy. Different countries have defined SMEs in different ways. Where as in India, Government has passed "The Micro, Small and Medium Enterprises Development Act 2006" which

defines the SMEs by the level of investment in Plant and Machinery.

TYPES OF ENTERPRISE	Engaged in manufacture or production of goods	Engaged in providing and rendering of services
	Investment in plant and machinery	Investment in equipments
Small enterprise	More than 25 lakh Rs, but does not exceed 5 crore Rs	More than 10 lakh Rs, but does not exceed 2 crore Rs
Medium enterprise	More than 5 crore Rs, but does not exceed 10 crore Rs	More than 2 crore Rs, but does not exceed 5 crore Rs

Today, small and medium industry occupies a strategic importance in the Indian economic structure due to its significant contribution in terms of output, exports and employment. Apart from this, SME has many other benefits like it can be started with relatively less capital; it facilitates nurturing of entrepreneurship, it can be used as an instrument for alleviating regional disparities in development and so forth

Moreover, from Indian context SSI comprise 95 percent of industrial units (3.4 million) with a 40 percent value addition to manufacturing sector and producing about 8000 items, from very basic to highly sophisticated products. It contributes about 8 percent to gross domestic product (GDP) of the country, 45 percent of the manufactured output and about 40 percent of exports. SME provide employment to about 60 million persons (Government of India, 2010) and is the second highest employment provider after agriculture.

In recent years the SME sector has consistently registered higher growth rate compared to the overall industrial sector. The equality argument suggests that the income generated in a large number of small enterprises is dispersed more widely in the community than income generated in a few large enterprises.

Hence, it can be concluded that SMEs potential to generate employment, bolster exports and bring flexibility into India's business environment deserves close attention and support from India's policy makers

SMALL MEDIUM ENTERPRISES AND ITS CHALLENGES

The 2007 report shows that almost 137, 00 SMEs have either closed or have filed for bankruptcy and restructuring in every year, which indicates that SMEs are continuously facing many problems and challenges. (ACCA, 2007; Johnson et al., 2007) has identified that these challenges are associated with social, legal, economic, political and technological (SLEPT) factors which not only unable the SMEs to come up to the expectations to achieve the targeted growth of 8-9% as well as they bring them in a most turbulent e-economic environment (Pavic et al., 2007) where the level of uncertainty and risks is very high (Ritchie and Brindley, 2005). And this represent that this sector is highly unorganized, demands for an urgent attention.

Coupled with these issues which one also present in Indian SMEs, policy of globalization and liberalization has made business resources more mobile and transferable beyond borders which is somewhere increasing the level of competition for purely domestic SMEs, whose products and sales are extremely localized. Hence, they are facing difficulty to sell their products in the domestic as well as International markets So, it is very important that SMEs should be given proper attention with regards to building awareness about adoption of new technologies, equipments machineries etc. Together with this skill development of human resource is need for hour and should be given proper emphasis specially from Indian context as most lower level manpower in these SMEs comes from rural background, are largely illiterates and unskilled. They posses low wisdom to cope up with fast changing technological up gradation to produce world quality products In order to maintain their presence in global market SMEs should have knowledge on legal matters, specific requirements or controls imposed by foreign governments (Aziz, 2000) and international rules and regulations. Teoh & Chong (2008) states that SMEs entrepreneur facing the barrier of lack of access to gain management experience and exposure in regards with international rules and regulations.

GOVERNMENT INITIATIVES FOR SMES

Promotional policies for SMEs by Indian Government India has evolved as an extensive institutional network over time for the promotion of

small scale industries (SSI). This network extends from the national to state and district levels. Different institutions are Small Industries Development Organization, Small Industries Service Institutes (SISIs), National Small Industries Corporation, National Institute of Small Industries Extension Training, Small Industries Development Corporation and State Financial Corporation and District Industries Centers. These institutions assist small firms across several functions including marketing, exporting, importing, adopting technology and the like. To meet the challenges of international competition and to promote exports of SSI products, the following promotional schemes are being implemented. Small Industries Development Bank of India implements schemes for technology development and modernization of SSI units.

- SISIs organize workshops on ISO-9000 certification and awareness about quality.
- Establishment of tool rooms helps in providing tooling, dies, moulds and fixtures to small-scale units at a very low price to enable SMEs to produce quality goods to meet the requirements of the markets.
- Process-cum-Product Development Centers take up jobs from SSIs for specific product development as well process development to improve the quality of products, reduce cost of product and enhance marketability of goods.
- The government helps SMEs in marketing their products by organizing international exhibitions, sponsoring delegation from different SSI sectors to various countries and providing pertinent information related to sales opportunities available in international markets.
- Export promotion from small-scale sector has received utmost priority of the government – every policy formulated for achieving growth in exports have a number of incentives available to small-scale exporters.
- With a view to encouraging the small-scale units to produce “quality goods”, National Awards for Quality Products are given to outstanding small-scale units.
- A new scheme for technology upgrading for industrial clusters has recently commenced. The scheme includes a diagnostic study of the

clusters, the identification of technological needs, types of technological interventions and the wider dissemination of information and technology within the clusters. Recently, the Indian Government raises the capital subsidy given to SMEs by 15 percent for technological upgrades.

PUBLIC-PRIVATE PARTNERSHIP

As already presented that SMEs are facing numerous problems and which demands for an urgent alternative solution. In this similar vein, one collaborative mechanism which is enjoying a global resurgence in popularity and gaining attention is “PUBLIC-PRIVATE PARTNERSHIP”. Van Ham and Koppenjan (2001, 598) states that PPP is “a some sort of cooperation between public sector and private sector in which they jointly develop products and services and share risks, costs, and resources which are connected with these products”. PPPs reflect a unique relationship between the government and a private firm. While the government retains ultimate responsibility for the delivery of the good or service, it becomes a partner with the private sector in decision making and delivery (Grimsey and Lewis 2004; Yescombe 2007).

In this partnership, government & private sectors are two main actors and both have some negative and positive aspects. As given below:

	Government	Private	
Positive	Negative	Positive	Negative
1.Focus on public welfare not on profit	1.Poor utilization of resources like capital,labour,machinery 2.problem of personnel, management 3.problem related to planning &construction of projects 4.lack of trust 5.Not able to cope up with rising demand of citizens, civil society 6.unequal distribution of wealth and health 7.Redtapism	1.Necessary expertise 2.Know-how 3.Managerial adeptness to carry out any responsibility 4. creativity and innovative	1.Focus on recouping their investments and on generating a profit

This mechanism is the way through which both sectors can overcome with their weaknesses. Rosenau (2000, 1) argue that PPPs are established as they can benefit both the public and private sectors. The line of reasoning is simple-both the public and private sectors have specific qualities and if these qualities are combined, the end result will be better. It has been observed that both Central as well as various State Government has already initiated adoption of this model in area viz., Railways, Education, Infrastructure, Health care, Electricity, Water distribution etc. The outcomes of the partnership at the primary level are encouraging. This partnership has resulted in bringing more convenience, speedy work, completion of mega projects in time and so on.

CONCLUSION

SMEs in India today face tough and challenging times in improving performance. Factors of cost, quality, product range and delivery of services are important areas for development and improvement. To sustain a fair level of competitiveness in both the domestic and global markets, SMEs must strive to utilize information and communication technologies to reach the right markets in cost effective ways. SMEs of both countries should concentrate on developing HR initiatives and implementing quality improvement techniques.

Part of this process involves improving management talent and techniques as well as improving the level of equipment, technology and innovation capabilities within Indian SMEs. In addition, cultivating existing relationships and building new ones with public and private sector as well as stakeholders up and down the supply chain will help improve the competitiveness of SMEs and enhance their sustainability. Improving upon management styles, developing new sales strategies and using cutting-edge marketing methods will also improve the competitiveness of SMEs in India.

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