

Growth Of SMEs In Manufacturing

This article attempts to trace the performance of SMEs, their endeavour towards achieving manufacturing excellence and what the future could possibly hold

THE contribution of SMEs to our national economy in terms of creating a vibrant manufacturing sector, winning the global market through increased exports, employment generation, etc. has been highlighted on many occasions. This sector manufactures around 8,000 products, accounts for 95% of the industrial units and contributes about 39% of the value-addition in the manufacturing sector, nearly 80% of the manufacturing employment and about 35% of exports. India's SME sector contains as many as some 12.8 million units employing almost 31.2 million people.

Problems Faced by SMEs

The expectations from the SMEs to contribute towards achieving India's targeted economic growth rates of 9-10% are huge. Today's highly globalised environment with competition from across the globe has thrown a multitude of challenges to the Indian Industry. Although the SMEs have overcome crunch situations and demonstrated resilience over time, they are plagued by innumerable problems. The major problems include:

- Lack of information & awareness
- Lack of adequate and timely credit
- Non-availability of funds for upgradation
- Minimal or no access to modern management practices
- Absence of structured trade information
- Technological obsolescence & low levels of innovation
- Liquidity crunch and high rate of interest
- Skilled manpower shortage.

Need for diversification in the export basket: SMEs require the much needed international exposure and outlook, which is vital for successful penetration in global markets. Although they account for 35% of total exports, the fraction of exports of their total output is a frugal 10%, which is very small compared to other competing countries. The SME export basket is also very small, with just five items (garments, leather goods, basic chemicals, marine & processed foods, and engineering products) forming 3/4th of the total exports.

Need for raising levels of innovation: Today's market dynamics leave no choice for the Indian SMEs but to jostle with global players and this implies raising the product quality and lowering prices manifold. With very little emphasis on innovation, this poses a serious threat to the SME sector. On this count, India lags far behind China and it is pertinent for India to increase the number of patent filings to stay ahead of competition.

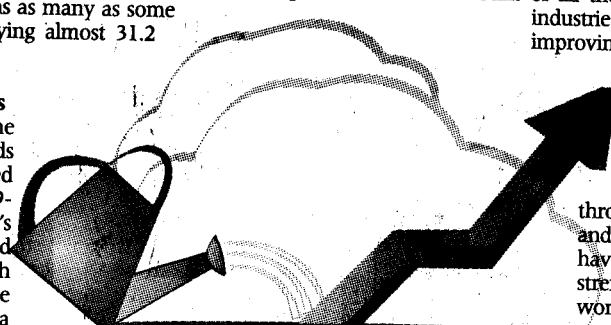
Support required from the policy makers: Under intense pressure, the SME sector is looking forward to the Government creating a flexible combination of policies and market freedom, together with a fine tuned mix of macro and micro policies for ensuring their vibrancy.

Support and Assistance to SMEs

The position and importance of SMEs in the manufacturing sector and their contribution towards the economy growth has been acknowledged by the Government and the industrial fraternity. Both the Government and industry are contributing towards developing the SMEs and making them competitive.

Contributions from large Industries: Intense competition and demanding quality management systems have necessitated that large industries review their outlook of their supply bases, primarily the SMEs.

The large industries are looking at their vendors not just as suppliers but as partners. Regular and rigorous system and process audits from customers have contributed in instilling discipline, commitment and more importantly knowledge in the SME sector. The SMEs have benefited through trainings and vendor development programs sponsored by their larger customers. This not only develops the employees of the SMEs but also improves their morale. While the SMEs improve their operational performance on account of all these inputs the large industries encourage them by improving business through increased orders or diversifying the range of products supplied.



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Self help through associations and clusters: Most SMEs have recognised the strength of collective working and this has resulted in the mushrooming of

innumerable associations and clusters. Groups are diverse and companies associate themselves into meaningful clusters based on either similar products manufactured or geographical proximity or the industry to which they cater. The cluster style of working has provided many benefits to member companies. These include:

- Collective bargaining
- Awareness of current economic & market situations
- Trainings on latest manufacturing and technological concepts
- Collective problem solving.

India has approximately 400 modern small-scale clusters. About 80% of the cotton hosiery exports are from Tirupur (Tamil Nadu). Ludhiana (Punjab) contributes 95% of the country's woollen knitwear and 85% of the country's sewing machines.

Aid from the Government and government bodies: The Indian Government has also introduced a slew of policy reforms and works as a facilitator to uplift the SMEs and bring them on par with international competition. The high growth in this sector owes much to the policies designed for this sector. The Small Industries Development Organisation (SIDO) and National Small Industries Corporation (NSIC) assist the Ministry of Micro, Small and Medium Enterprises in implementing its policies and monitoring progress.

With a fast growing economy and vast opportunities, SMEs are poised to raise the bar and challenge international competition. In the future, we may see many of the SMEs grow and challenge the larger industries in terms of growth as well as manufacturing excellence. The natural process of growth would see many of the industries in the SME sector graduating to the large industry sector and many more enthusiastic new entrepreneurs entering the SME sector. We could also expect more encouraging schemes and assistance from the Government to make the SMEs more competitive.

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