A WAY FORWARD FOR INDIAN SMEs - THROUGH ORGANISATIONAL GROWTH

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Abstract

Indian market is growing rapidly and Indian entrepreneurs are making remarkable progress in local and global market. In developing countries like India the manufacturing service, trading functions and service industries are largely dominated by SMEs. SMEs are major player in the Economic development of the country. Due to the features of SMEs they face many problems in particular in their growth aspects. Growth is something for which most companies strive, regardless of their size. Small firms want to get big, big firms want to get bigger. Organizational growth means different things to different organizations. Organizational growth is the best way for making the SMEs more efficient. Indian Economy has to support the organisational growth of SMEs for its Economic Development.

Keywords : SMEs, Indian Economy, Organisational Growth.

1. Introduction to SMEs

SMEs are important to almost all economies in the world, but especially to those in developing countries and especially to those within major employment and income distribution challenges. SMEs contribute to economic development in various ways such as creating employment opportunities for rural and urban population, providing goods & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole. Many firms “grow into” or “grow out of” the SME size range, while both the “grow into” and “grow out of” have something positive.

1.1 SMEs Definition, Structure, Characteristics / Features, Limitations

a) Definition

There are different definitions of SMEs in different countries based on the legal bases of the country and / or based on structure based on the revenues / turnover, manpower employed, capital employed etc. Normally the SMEs are defined based on -

- Carries Non-agriculture activities;
- It is middle of three sizes between the micro and large enterprises;
- SMEs can be defined based on sales, employees employed, capital, turnover, legal aspects.

The definition of India SMEs is as below –

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Manufacturing Sector (if investment in plant &amp; machinery)</th>
<th>Service Sector (engaged in providing and rendering services)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Does not exceed Rs. 25 lakh</td>
<td>Does not exceed Rs. 10 lakh</td>
</tr>
<tr>
<td>Small</td>
<td>More than Rs. 25 lakh but does not exceed Rs. 5 cr.</td>
<td>More than Rs. 10 lakh but does not exceed Rs. 2 cr.</td>
</tr>
<tr>
<td>Medium</td>
<td>More than Rs. 5 cr. but does not exceed Rs. 10 cr.</td>
<td>More than Rs. 2 cr. but does not exceed Rs. 5 cr.</td>
</tr>
</tbody>
</table>

The size and importance of the SME sector varies from country to country. There was unanimous feeling by all speakers in the ITD Global Conference on Taxation of SMEs held on 30th October, 2007 to have uniform definition of SMEs across the globe.

b) Features of SMEs

The major features of SMEs are –

- High contribution to domestic production;
- Low investment required;
- Highly labour incentive technologies;
- Operational flexibility;
- Significant export earning;
- Capacities to develop appropriate indigenous technology;
- Import substitution;
- Technology oriented industries;

The SME sector, of course, includes firms in all of the major types of economic activity outside agriculture, from manufacturing to services.
c) Limitation of SMEs –

SMEs are normally small in size, employing number of employees, management style - one man show / family business / women handling business, normally owners are with fixed mind-set and need of professional approach in running business is missing, owner may be, in majority cases, technically or commercially expert but not in both aspects etc. are the characteristics of SME structure. Terence Gomez from the University of Malaya said “I am keen at looking at the second and third generation as they are more educated and more open to innovation than the first generation”. Few of the fetchers of SMEs limitations are -

- Low capital base;
- Impact of WTO – less or no exposure to international environment;
- Lack of interest in R&D;
- Hardly any division of labour;
- Management or concentration of function in one / two persons – lack of professionalism;

1.2 SME Global Picture

The most successful developing countries in last 50 years are the Asian developing countries like Taiwan, Korea who has used SMEs for the success. Also the countries like Malaysia, China, UK, Germany, Europe, India are building their economy on the dynamics of SME sector. Taiwan’s measures adopted like economic development, manpower resources, social stability and public construction have provided SMEs with an excellent environment to grow. Taiwan's SMEs won international acclaim for the way in which they stood up to the impact of the crisis. UK government focus has been on the importance of SMEs as the key to economic recovery in the UK. “Without SMEs Germany wouldn’t be what it is,” said MP Michael Fuchs, who can look back on two decades of experience with SMEs in Germany. A German lawmaker said SMEs have been very important in his country’s economic growth. SMEs, which constitute 30 to 53 per cent of the GDP and 19 to 31 per cent of exports in different Asian countries, are often family-owned and locally oriented. In addition, these companies provide 50 to 95 per cent of employment in the region. The SMEs account for 99% of total enterprises in China. In Malaysia 56% of SMEs depend upon self-finance and almost 67% do not get finance from traditional channels. The importance of efficient collaboration between large firms and SMEs through subcontract has helped Japan, Korea and Taiwan. It is popularly stated that the multinationals in today were SMEs in yester years.

1.3 SME Indian Picture

Indian market is growing rapidly and Indian entrepreneurs are making remarkable progress in local and global market in various industries like manufacturing, automobiles, precision engineering design, food processing, pharmaceutical, textile, information technology and agro based industries etc. In developing countries like India the manufacturing service and trading functions are largely dominated by SMEs. Indian SMEs have also played major role in its economic development. SMEs occupy a position of strategic importance in Indian economy structure due to its significant contribution in terms of output, export and employment. SMEs are the backbone of the Indian Manufacturing sector and have become engine of economic growth. Major SMEs are in Agricultural inputs; Food processing; Meat products; Engineering; Electrical; Electronics; Plastic; Chemicals; Pharmaceuticals; Garments / textiles; Lather goods; Bio-engineering; Computer software / hardware; Sports goods etc.

1.4. SMEs play a vital role for the growth of Indian economy

Industrial policy, socio-economic policies, planned economy from 1951 by Government of India which helped to have a Special Role for SSI and Medium scale industries with a protection from 1951 to 1991. This system had a labour incentive mode of production; employment generation; non-concentration of economic power; discouraging monopolistic practices in production and marketing; low import intensive operations and effective contribution to foreign exchange like features. This continued till the liberalization and globalization policy was introduced in 1990s. The opening of Indian economy in 1991 added problems to SMEs resulting in to survival problem initially. The 1990s was major eventful period due to policy changes nationally, internationally and sectoral level. Globalization, formation of World Trade Organisation brought competitiveness and importance of quality in the SMEs sector. The SMEs sector have transformed to the need of large local manufacturers and suppliers to global manufactories like Auto industry. The advantage of labour intensive manufacturing, lower transport costs, low labour cost etc. have led to major out sourcing in manufacturing and service sector. This phase also brought out sourcing activity an important role in manufacturing. SMEs in India are at a cross-road with intense debate on SMEs future. Today some SMEs are investing in R&D in order to compete globally. Globalization, formation of World Trade Organisation brought competitiveness and importance of quality in the SMEs sector. The advantage of labour intensive manufacturing, lower transport costs, low labour cost etc. have led to major out sourcing in manufacturing and service sector. This phase also brought out sourcing activity an important role in manufacturing. This phase also brought out sourcing activity an important role in manufacturing resulting in bringing change in economic environment favourable to the SMEs.

Many large scale companies adopted Contract manufacturing, OEMs route in which SMEs played a vital role. SMEs exposure to best of manufacturing process, quality and process improvements, market intelligence, international practices is very important. The directives to the Public sector undertakings to ensure procure of their 20% requirements from SMEs from 1st April, 2015. IT plays a key role in all the trust areas of any business cycle like finance, sales & marketing, supply chain management, market research, human resource management and customer feedback for continuous improvement. A study of use of ICT in SMEs show that about 74% have their own web site, ICT tools used by 79% SMEs, awareness about ERP is about 58%, major reasons for non-use of ICT are due to lack of knowledge (68%), lack of funds (23%), the major benefits of use of ICT tools is in the functional area of Finance, Sales &
Marketing. Marketing Research etc. while they benefit the organisations in cost reduction, time saving, increase in overall business productivity etc. These aspects of SMEs have the impact on Indian Economy as below -

- There are around 13 million SMEs.
- SMEs contribute nearly 45% share of manufactured output,
- Accounting for $100 billion or 40% in overall exports of the country primarily from engineering, gems and jewellery, agricultural, readymade garments and cotton yarn etc.
- Providing employment to about 32 million people. It is biggest employment provider after agriculture sector.
- SME is the foremost employment generating sector i.e. creates 1.3 million jobs every year. 12 million persons are expected to join the workforce in the next 3 years.
- A significant contribution in Indian GDP.
- More than 3.2 million units spread across India producing about 8000 items from basic to highly sophisticated products for the Indian and International markets.
- Contributing 45% of industrial output,
- SMEs contribution towards GDP in 2009 was 17% which is expected to increase to 23% by 2015.
- In Service sector SMEs 35% of registered & 70% of unregistered.
- SMEs have grown at 23% per annum and outstripped the 15% per annum growth of the industrial sector in India. Even after the GDP plummeting to 4.5% the SMEs prevented rampant unemployment.
- The SME sector accounts for 40% of India’s Gross Industrial values and 50% of total manufacturing export.
- More than 55% of the SMEs are located in 6 major states – Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka.
- The development of SMEs speeded up, and enterprises with ten or fewer employees came to account for over 90% of all enterprises. Most of these enterprises are producing for the domestic market. The percentage of enterprises accounted for by enterprises with ten or fewer employees fell to under 70%, while the percentage accounted for by medium-sized enterprises rose to over 25%. Large enterprises accounted for around 5% of the total.
- In India only 4% avail benefits of government schemes,
- In India 51% target exports to European countries, 12% to US and only 3.4% to African nations,
- In India 62% are with less than 50 cr. Turnover,
- In India 44% of technology upgrades are from USA, Japan, China, United Kingdom etc.
- There are 61 SMEs are listed on Bombay Stock Exchange’s BSE SME.

In India many Institutes are there who with their support give a big boost to the SMEs in the organisational growth and development. The institute are both government organisations and the Associations of the industries. They are -
- The trade associations are – Federation of Indian Micro, Small and Medium Enterprises, World Association of Small and Medium Enterprises, Confederation of Indian Industries, Federation of Indian Chamber of Commerce and Industries, Associated Chambers of Commerce and Industry of India, Federation of Indian Exports Organisation etc.

2. Organisational Growth

Organizational growth means different things to different organizations. There are many parameters a company may use to measure its growth. Since the ultimate goal of most companies is profitability, most companies will measure their growth in terms of net profit, revenue, number of employees and other financial data. Organizational growth has the potential to provide small businesses with a myriad of benefits, including things like greater efficiencies from economies of scale, increased power, a greater ability to withstand market fluctuations, an increased survival rate, greater profits, and increased prestige for organizational members. Many small firms desire growth because it is seen generally as a sign of success, progress. Organizational growth is, in fact, used as one indicator of effectiveness for small businesses and is a fundamental concern of many practicing managers.

Growth is something for which most companies strive, regardless of their size. Small firms want to get big, big firms want to get bigger. Organizational growth has the potential to provide small businesses with a myriad of benefits, including things like greater efficiencies from economies of scale, increased power, a greater ability to withstand market fluctuations, an increased survival rate, greater profits, and increased prestige for organizational members. Indeed, companies have to grow at least a bit every year in order to accommodate the increased expenses like salary & wages, material costs, day to day maintenance expense etc. It is not always possible to pass along these increased costs to the customers and clients in the form of higher prices, but to absorb the said increase by use of Organisational growth. Consequently, growth must occur if the business wishes to keep up.

Organizational growth, however, means different things to different organizations. There are many parameters a company may use to measure its growth. Since the ultimate goal of most companies is profitability, most companies will measure their growth in terms of net profit, revenue, and other financial data. Other business owners may use one of the following criteria for assessing their growth: sales, number of employees, physical expansion, success of a product line, or increased market share. Ultimately, success and growth will be gauged by how well a firm does relative to the goals it has set for itself. Organizational growth has obvious upsides. But organizational growth is quite different from personal growth. With personal growth to have a lot you only have one person to be concerned about: You. With an organization you must be concerned with several others, the number depending on how big your organization is. The Organisational
Growth leads to increase employment by increased job creation bring the healthy organisational climate resulting in to have better working environment for achieving various management demands for business results. It creates opportunities for the business founder and others in the company to become wealthy. It is like each drop of water helps to have a pond created. Similarly it happens in the small day to day decisions which change the organisation climate. While most executives look at organizational growth as the big decisions do but that is not really true in all cases. Growth is a step by step process and it rarely happens overnight. Therefore, in order to be committed to organizational growth, the small day to day stuff needs to be analysed, taken into consideration, and developed to create a growth oriented atmosphere.

Many academic models have been created that depict possible growth stages / directions of a company.

- Alliance / Joint Venture – SMEs must try to have an alliance with other expert which may be technical through technological knowhow or through a joint venture. The international celebration of two experts benefits both partners. The best example can be sited is of Nilons Enterprises of India & Patak Foods of UK in food industry.
- Sole vendor / Licensing – We see such examples in the cosmetics, confectionery and food processing like industries. For example the Active Wheel is a product of Hindustan Unilever Ltd but manufactured at Naga Ltd in Tamil Nadu or the Sunfeast Nice is a product of ITC Sunfeast but manufactured at Vell Biscuits Pvt. Ltd in Pondicherry. This new trend is seen in many big companies including the MNC’s as a contract manufacturing. India is developing as a big successful auto ancillary supplier in global auto industry by providing quality products.
- New Markets – The SMEs are trying to find the international market by finding new areas of business through the exporting. Natu plastics and meatless is one of such successful implementer of such thinking and can be a very good example to follow by others.
- New Products – Innovation is an important aspect for SMEs. The recent good example is of the development of chapatti making robot which has become a great success by demand by mass chapatti makers from India and abroad.

3. Problems encountered with Organisational growth

Any action has both positive and negative aspects like the coin has two sides. Organisational Growth is also no exception to this principle.

With rapid growth of the SMEs there will be chaos which can prevail in certain SMEs, for example with increase in sales or revenue the result may find a shrinking of margins or reduction in profits. This may also result where the business grows but the skills of its managers, employees and other stake holders. Though the organisation has grown the stake holders have not opened their thinking to accept the reality of organisational growth and hence they stress out. When a firm is small in size, the entrepreneur who founded it and usually serves as its primary strategic and operational leaders can often easily direct and monitor the various aspects of daily business. The growth brings complexities in the organisational management. Expanding a company doesn't just mean grappling with the same problems on a larger scale.

It means understanding, adjusting to, and managing a whole new set of challenges. It often means building and managing a very different sort of business. Organizational growth almost always produces a company that's much more complex—one that needs a much more sophisticated management team, and one that may well need a new infrastructure.

Organizational growth, then, may well require as much planning, effort, and work as did starting a company in the first place. Establishing and improving standard practices is often a key element of organizational growth as well. Indeed, a small business that undergoes a significant burst of growth will find its operations transformed in any number of ways. And often, it will be the owner's advance planning and management skills that will determine whether that growth is sustained, or whether internal constraints rein in that growth prematurely. The need in the delegation of responsibilities, better use of all resources – men, material, machinery, money, have a authority and responsibility matrix, use of Management Information System etc. can help to reduce the effects of the complexities arose. Small business owners seeking to guide their organizations through periods of growth—whether that growth is dramatic or incremental—must plan to deal with both the upsides and downsides of growth. There are both the upsides and downsides of growths in business and one has to deal in such situations by using the proper planning and using “PDCA” process i.e. Plan, Do, Check and Act. This can help them to assertion the situation well in advance and take the steps to face the situation with an action plan.

4. Leading / Benchmarking Cases of Organisational Growth from Indian SMEs

Let us understand the ways and means through which few enterprises have achieved the organisational growth. Few of such case studies are listed below who have achieved the Organisational growth.

- **Sofetech Engineers** Pvt. Ltd. Started in 1996. Developed software required for the construction business. Introduced to India Structural analysis and design software, this became one of the major software in construction business. Innovation was the base used by the company for organisational growth.

- **Natu Plastics and Metals** Pvt. Ltd. started as third party manufacturing in 1991 to a large reputed company but went in to problems as the said company stopped the tie-up. Then the company decided to start exports and started exports DC Motors to U.S. as OEM. Doing very well as the delivery is on ex-factory terms with good margins. The in house R&D and the tie up for design, technology etc. helped. The Natu Plastic took the decision of immediate correction steps in its strategy of exporting and focusing on increasing the revenue through finding alternative market and achieved the organisational growth.

- **Indiana Sugro Tech (Pune)** Pvt. Ltd. Started as partnership firm in 1989. The company developed a new system in sugar industry with continuous vacuum pan system and replaced it with batch operation process system. Till now implemented 130 projects. The products are now exported. Now they are in process of introducing new product in...
the energy sector which will save steam. The innovation, new product, new markets are the strategies used by this company for organizational development.

- **Kangaroo Leather Pvt. Ltd.** Manufacturer of men’s leather belts focused its business on export to Middle East rather than competing in domestic market. The organizational growth was achieved through better returns through exports. The advantages of duty drawback schemes and EPCG licenses were taken for this purpose by Kangaroo Leather.

- **SV Enterprises** started by a female who was helping her sick husband in his medical supply business. While doing this work in absence of her sick husband she found the market requirement of wet tissues. She developed these wet tissues and today with the Fresh-Q and Vigro brand and has achieved a turnover of 75 lac per annum with 8 female workers.

- **Manorama Info-solutions Pvt. Ltd.** started in 2002 as a trading company and introduced Hospital Information System. Today the company is in software and hardware area for health care business successfully with a business plan ready for next 5 years.

- **Nilons’ Enterprises Pvt. Ltd.** is the largest producer and marketer of pickles in the world and largest manufacturer of Roasted Vermicelli in India. It exports its products to France, Japan, Dubai, Singapore, Malaysia, South Africa, New Zealand and Australia. It partnered with UK’s Patak Foods who are leaders in Europe for Indian curry pastes and spices. The two parties took food JV in to a great success in India by increasing the sales, employees employed, capital, turnover, financial aspects etc. for organisational growth.

- **Integrated Electronics Technology Pvt. Ltd.** from 2001 exports precision resistors and resister network. The strategy adopted by the company was to produce lower quantity but ensure fast assured delivery with only 23 employees. The company got good reputation with established local clients like HAL, BHEL, Yokogawa and exports to USA, Germany, China and South Korea despite of steep competition from Taiwan, Korea and European countries. The company has achieved 15 fold increase turnover. The organisational growth was achieved through the effective marketing and prompt delivery of quality product by Integrated Electronics Technology.

5. Suggestions

The SMEs and the agencies supporting Indian SMEs have to think out of box and help the Indian SMEs who are on the age of cross road for progress. Few of the successful SMEs have done out of thinking which can be seen in the way they can thing for their organisational growth - the examples given above can be seen as best learning examples. There should be more and more research in the area of SME sector and how they can be helped through the Organisational growth. Organisational Growth is a way forward for Indian SMEs and the success of Indian Economy.

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