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### Entrepreneurship in SME sector

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#### ABSTRACT

In India nature and pattern of industrialization has been undergoing complete change in the post reform era. In a market driven economy, survival and growth of entrepreneur will mean continuous up gradation and creation of the competitiveness in a globalised world, challenges of development of competitiveness are many. For this, the new age entrepreneur needs building up core capabilities constantly in order to improve quality of products, penetrate into new markets, creating brand images, sourcing new resources, upgrade skills and innovating new technology. While success of entrepreneurship much depends upon the technical and managerial skills, it also depends on his/her capability to process and organize resources efficiently. At present there are 350 SMEs clusters in India spread over traditional as well as modern sectors. Fast growing industrial states such as Gujarat, Tamilnadu and Delhi and NCR region have witnessed a large number successful SMEs induced by favorable state policies, market growth, both domestic and international market. Yet in vast majority of the areas, SMEs are not viable due to lack of technical knowledge, inability to access changing mood of the market, inability to bear financial and market risks. All these have constrained them to share the benefits of market economy. Due to inherent constraints embedded in size of operation, development of entrepreneurship in the SME sector is conditional to the development of favourable Government policies creating external economic environment.

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#### Introduction

Entrepreneurial development is an essential ingredient as well as consequence of market economy. Growth of large number of entrepreneur creates competitive environment constantly demanding improvement of capabilities and competitiveness. In the age of globalization when multinational companies are visible due to their global economic power, entrepreneurs in small and medium size are assuming vital forces in both developed and emerging economy due to some inherent advantages available at that stage. The small and medium entrepreneur can make use of their personal attributes and decision making power to develop competitiveness by utilizing local resources as well as manpower. Emerging economies are able to make foray into the world market in a big way mainly through the contribution of SMEs. In India SMEs have been playing a significant role in the economy since independence. This sector is able to achieve success in a number of industries in fast growing regions of Indian economy. Yet vast majority of SMEs entrepreneurs are operating under severe constraints. If small and medium units are nursery for the entrepreneurs to have the opportunities to test and develop the acumen they need to be supported with all mechanism. The schematic plan of the paper is to discuss firstly entrepreneurial acumen essential at the stage when unit is small. Secondly examples of successful SME clusters are taken for analysis. Lastly some observation has been made on the problems of SMEs.

#### Entrepreneurship in SME Sector:

As markets for goods and services develop, the economy experiences surge of entrepreneurs to capture the opportunities brought about by the market. While the strength

and competitive spirit of the market economy facilitates emergence of entrepreneurs and the growth of entrepreneurship in turn helps development of market. Own account /owner entrepreneur in small size alongside multinational companies contribute to growth and employment generation in both developed and emerging economies. An entrepreneur starting at a small size can acquire valuable skills while testing his capability as an entrepreneur. In Indonesia, and Japan 99 percent of enterprises are SMEs contributing 99.4 per cent and 88 per cent of employment respectively. In emerging economies such as Korea, China Philippines, Malaysia SMEs constitute between 94 per cent 99.7 per cent of industrial enterprises and contributing between 40 per cent (Malaysia) and 74 in China. SME enterprises are contributing to value addition significantly in these countries. For example, in China, Indonesia and Japan, this sector contributes more than fifty per cent and in India, Korea and Philippines this contribution is more than 40 percent. (Sources: JICA and others, taken from [www.dti.gov.ph/filedirectory/SMEagenda.ppt](http://www.dti.gov.ph/filedirectory/SMEagenda.ppt).)

Small and medium entrepreneurs are organizationally in no way the scale down version of the large entrepreneur through this is a crucial factor for both large operations and the small units. The small and medium entrepreneurs operate in very different situation compared to larger units. They are mostly own account proprietor. In India 78 per cent of SMEs are under single proprietorship, 16 per cent are under partnership, while only 6 per cent are under corporate ownerships. Basic role played by the owner/manager is one of the major determinants of SME competitiveness because of the concentration of decision-making power with the single owner, consequently

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affecting the firm's overall strategy. Studies find importance of human qualities for the success of SMEs. For example, Stoner (1987) finds that the key distinctive features for the success of small firms are experience, knowledge, and skills of the owners. Two of the critical success factors highlighted in the study of Chawla et al. (1997) are the "experience" and "goal orientation" of the small business owners. Slevin and Covin (1995) also suggested that "total competitiveness" is positively influenced by a founder who can pay attention to the detailed operations of the business when the business is small. In sum, all of these studies imply the influential role of the entrepreneur in affecting the performance of the firm particularly when the firm remains small.

UNDO encourages development of small and medium enterprises for having inclusive and disperse growth. Development of small and medium enterprises also plays an important role in generation of incomes among the economically weaker section through self employment rather than wage employment. This encourages development of industries in accordance to local comparative advantage using local resources and talent. Development of small scale industries can create natural cluster effects generating horizontal and vertical linkage effects. Growth of entrepreneurs reduces the size of the informal economy and integrates the backward region with the market economy. Growth of large number of small enterprises restricts monopolies of few industrial houses and induces competition in the market leading to efficiency of operation. Large number of small enterprises makes market induced R&D, technological innovation viable. Ultimately, generation of disperse and faster growth of income expands market and consequently impulse of economic growth is created in the economy.

Schumpeter (1934) considered Entrepreneurship as inherent capabilities which only selected few can possess. According to Casson (1991) the entrepreneur is someone who takes judgmental decisions about coordinating scarce resource. His role is essential as long as new opportunities come up making existing pattern of allocation of resources for production and distribution obsolete and better allocation is needed. Casson also points out that though entrepreneur's imagination is the most innate qualities, this can only be sharpen and made useful through acquisition of other knowledge and skills. These are business knowledge, practical knowledge, analytical ability, search skills, foresight, communication skills, delegation skills and organizational skills. Casson mentions that these qualities are particularly important when enterprises are small. Basu and Goswami(1999) in their research paper on the basis of multivariate analysis find that entrepreneur's educational attainment is the crucial factor among other for the success of South Asian Entrepreneurs in Britain, In this century alongside expansion of market and market driven opportunities giving rise to requirement of entrepreneurship, countries are attempting to develop entrepreneurship through training and formation of skills that are required for capability built up for potential entrepreneurs. It is recognised that though some entrepreneurial qualities are innate, a lot of skills can be developed through experiences, training and exposures and interactions. Entrepreneurs need to have skills such as communication, accounting, technical knowledge as well as ability to process information and all these can be acquired through training. Thus Govts in both developed and emerging economies with encouragement of organizations such as UNDO have been

taking initiative to develop entrepreneurial skills among SMEs around the world.

The growth of entrepreneurship in many ways depended on environmental factor existing in nation and around the globe. At national level, entrepreneurship can thrive in conducive socio-economic as well as legal systems. Economic and financial infrastructure needs to be supportive to entrepreneurs especially to the small and medium units. Basu and Goswami(1991) in their research paper on South Asian Entrepreneur in Britain found that small entrepreneur of South Asian origin depended mostly on own source for financing business at initial stage. These research findings suggested that institutional finance in the form of equity capital was called for. Proactive financial policy to support SMEs is an essential ingredient for entrepreneurial growth in this sector. Development of insurance market again another factor which facilitates entrepreneurial growth. Also long term economic environment is created through compatible industrial policy while short term adjustments to cyclical changes are brought about through monetary and fiscal policy in order to support SMEs. Creation of scientific knowledge, managerial skills, and capabilities of adopting and creating technology encourage entrepreneurship in the economy. Environment of technological innovation needs well defined Intellectual Property Rights (IP).

Small and medium enterprises are not uniform in their characteristics. Characteristics of enterprises in SMEs in developed and developing countries are different. While in the developed countries SME enterprises are developed to rejuvenate industrial sector. in the developing countries objectives are creation of employment, generation and dispersion of incomes to bring about equality of income distribution. and inclusive growth. SMEs in the developing countries emerged in industries ranging from hi-tech, high value RMG to small and tiny enterprises making use of rural craftsmanship producing for domestic and international markets. Problems of SME enterprises are specific to the industrial cluster they belong.

This paper using Dan and Bradsheet survey reports will briefly make an overview of the enterprises that are situated in NCR regions. NCR region is experiencing rapid growth of large number of companies among regions such as Gujarat, Chennai, Maharashtra. Opportunities of growth in this region occurred due to its proximity to the Delhi, provision of dry ports linking with international market, developed transport facilities connecting the region with all part of India and abroad. Concerned state Govts belonging to this region have introduced proactive industrial policies, policies for development of human resources, invested on both financial and physical infrastructure. They have introduces favourable FDI policies and have opened the door for foreign investors in certain sectors.

#### **High technology based high value SMEs:**

##### **(a) IT and IT enabling Enterprises -**

Technological break through has reduced cost and increased the speed of global transportation and communication. This opened up opportunities to disperse the growth entrepreneurs connected with networks of production all over the world. While TNCs operate across nations and their operative scale is large, they also are creating opportunities for the local manufacturing and service entrepreneurs. Opportunities are created through linkage effects for the requirement of supply of inputs such as innovating technology and providing technology services, skilled labour, machine tools components,

housing, financial and physical infrastructures. A whole host of service entrepreneurs have been developing to support these sectors. The success of Indian IT software and services sector (including the domestic and exports segments and excluding hardware) in SME segment has been phenomenal over the last two decades for last two decades. For example looking at the emergence of SMES around NCR, 68 per cent of the companies in this region have turn over between Rs 5 m to Rs 25 m. Here most of the entrepreneurs in this segment are under partnership which in the last two years, recorded a revenue growth of 42%. 22% Private limited companies earn more than 50% of their revenue from exports. The high growth of the industry has been induced through domestic and international expansion of IT spending. Expansion of this industry has helped creating backward and forward linkage effects in whole host of industries in India. IT sector has contributed to innovation across various industries such as Automobile, Aviation, Consumer electronics and Telecommunication brings in efficiency in these sectors. 53% of the companies were established between 1990 & 2000. 42% of the companies from the turnover bracket of Rs 25 – 100 mn registered a revenue growth of more than 40% in the past two years. The success of entrepreneurship in this industry was due to robust new technological break through and potentiality of innovation of technology in different industrial and service units in the domestic and international market. Due to major break through in Information and Communication Technology, industries such as Telecom, retail, construction of utilities, airlines and transportation, BFSI (Bank, financial service and insurance) underwent modernization. Indian IT industry was supported by proactive Govt policies such as tax concession, favourable terms and conditions of credits and facilities for exporting. Challenges for this sector are coping with shortages of skilled human resources, uncertainty arising out of recession both in domestic and export markets.

#### **(b) SMEs in Auto Component Industry:**

Low cost sourcing spree of MNC has given India an edge to nurture the fast-growing auto component enterprises, over its global competitors. Indian auto components industry posted a turnover of around US\$ 15 billion in FY07. The industry has exported goods worth almost US\$ 2.9 billion in FY07. It grew at a rate of 27% (CAGR) from 2001-06 and was estimated to grow at 13% (CAGR) in 2006-14, while the exports of auto components is expected to grow at 24.4% (CAGR) in 2006-15. These estimates were all done before present global recession was perceived. Economic trends both in domestic market as well as international market have favored growth of medium and small entrepreneurs in this sector.

- Human resources with strong engineering skills of high quality available in the country at relatively low costs and their ability to adapt modern technology.
- Increased competitive pressures on global automakers which prompted them to diversify to countries like India with cheap resources and infrastructure.
- Opening up of the Indian economy, liberalizations of import-export policy, government initiatives such as setting up of NATRIP, reduction of peak rate duty, reduction of custom and excise duty on small cars, etc.
- Increased per capita income of Indian people as well as easy financing options is resulting in an increase in the domestic demand for automobiles.

In NCR , 59 per cent of ownership of companies of this segment are private limited, 30 per cent are under proprietary

and partnership and rest is public limited. Small and medium enterprises are predominant in this segment. Around 47% of the private limited companies belong to the turnover range of Rs 10 - 100 mn. In the last two years, private limited companies showed the revenue growth of 33%. Around 32% of the companies were established between 1990s & 2000 while 63% of the companies were relatively older companies with operations started prior to 1990. 27% companies manufacture and market branded products. 46% of the companies cater to the OEMs whereas 21% of the companies cater to both, i.e., OEMs and replacement market. The companies operated at an average capacity utilisation of 80%. 80% of the companies possess quality certifications like ISO 9001: 2000 or TS 16949. 66% of the companies are involved in exports. 23% of the companies earn more than 50% of their revenue form the overseas market.

#### **(c) Engineering Industries:**

Small and medium enterprises encompassing wide range of heavy to light manufacturing have been flourishing in Indian economy since reform the average revenue growth of the engineering companies in the last two years has been around 30%, 60% of the companies were involved in exports. 25% expect more than 40% revenue growth in the next two years. This industry grew both a part of supply chain networks as well as independent brand 47% of the companies manufactured and marketed branded products.

Marketing initiatives, proper infrastructure, technology and availability of raw materials were the key benefits sighted for the companies in the sector. Most of the companies have envisaged future plans that include capacity expansion, entering into new markets and diversification. Around 35% of the companies are planning for capacity expansion while 25% willing to enter into new markets.

Since heavy manufacturing requires high-end technology and are capital intensive in nature, most of the leading entrepreneurs in the sector are engaged in the production of high-value heavy engineering products. On the other hand the light engineering goods segment uses medium to low-end technology. Being mostly labour intensive, the segment generates employment opportunities for skilled and semi-skilled labors. 55% of the total sample were engaged in light manufacturing, 34 were producing heavy high value products while 11 % were carrying out both. This segment is characterised by the dominance of small and unorganised players which manufacture low-value added products with small capacities. Most of the enterprises are under private limited while proprietorship is the second largest ownership pattern. Private limited companies experienced faster growth compared to those under proprietorship The companies operated at an average capacity utilisation of 77%. 55% of the companies possess quality certifications like ISO 9001: 2000 or TS 16949.

#### **(d) Textile Sectors**

The Indian textile industry is one of the largest and key sectors of the Indian economy. It plays a very important role in the economic development of India in terms of industrial output, employment and export earnings. It has witnessed phenomenal growth in recent years and attracted fair amount of foreign direct investment (FDI). It is the largest foreign exchange earner, contributing to approximately 16.63% of India's exports, 4% to GDP and 14% of industrial output. India's solid performance and growth in textile sector is fuelled by several key advantages that the country enjoys in terms of abundant availability of raw material and cheap labour, large domestic market, presence of

supportive industries and supportive policy initiatives by the government. India is the third largest cotton producer in the world which contributes to 14% of the global production. The country is the seventh largest producer of wool and second largest producer of silk.

In the sample of D&B for NCR region in this segment, 68 per cent of enterprises are either proprietorship or partnership. 29 % are private limited companies covered, of which 56% of them fall in the turnover bracket of Rs 10 - 100 mn. 20% of proprietary concerns were involved in both in manufacturing and trading activities.

Growth of small and medium enterprises has been impressive in recent years in textile segment. The average revenue growth of the textile companies in the last two years was around 27%. The companies operated at an average capacity utilisation of 82%. Around 42% of the companies were relatively older and started operations prior to 1990s while 16% were established post- 2000. Garmenting is the most preferred service in the textiles in the NCR region. 26% of the companies operated with two or more manufacturing facilities. Around 26% of the companies manufacture and market branded products. 66% of the companies are involved in exports. Around 56% of the companies generated more than 50% of their revenue from exports. In the last two years, private limited companies showed a revenue growth of 33% while the proprietary concerns reported 27% growth.

#### **Problems and prospects of SMEs:**

At present there are three Crores of MSMEs. Enterprises in this sector are growing at the rate of 4.07 % annually; the rate of growth employment, production and exports of this sector is 4.5%, 10% and 33 % respectively. Though globalization provided wider opportunities for some SME entrepreneurs, this has also posed challenges for other segments due unequal competition these enterprises are exposed from foreign producers.

An enterprise in this sector, despite their contribution to Indian economy, has some basic problems for which full potentialities could not be utilized. Except for few growth oriented centers such as NCR, Gujarat, Chennai, success of SME enterprises is not at all satisfactory. Out three crores of SMEs in India, average success rate of this sector is only between 12-13 per cent. States having weak infrastructural facilities have success rates as low as 3-7 per cent (Table 1). Bihar, west Bengal, Orissa and Jammu and Kashmir have very poor below average rate of success of SME enterprises.

Many SMEs enterprises were unable to face the challenges of global competition, need for modernization in marketing, management and technology. Most of SME enterprises have inherent constraint to avail finance from the organized financial intermediaries. In India 90% SMEs are self financed. Study shows that in Poland successful SMEs depended on their own source of finance. Lack of credit worthiness of the SMEs is attributed to limited or lack of possession of tangible assets, inability to cope up with market uncertainties. Their inability to access institutional credit is aggravated because of the fact that micro and tiny units of this sector have severe problems of realizing receivables. Average time taken for realizing receivable from the markets is two to three months. For this reason, micro and tiny units suffer from severe problems of cash crunch.

Small and medium enterprises encounter huge problems when it comes about settling monetary issues with big scales of buyers Working Committee Report on the Sickness of SMEs by

RBI (2008) based on the Census of SMES (2002-03) finds that though micro, small and medium enterprises are providing employment opportunities to rural population alternative to agriculture, they were mostly excluded from the organized financial market. The Ministry of MSME has estimated that more than 128 lakh units contributing Rs. 5.87 lakh crores by way of production and providing employment to more than 312 lakh at the end of 2006-07. But a large number of them units were outside the banking fold. While 4.78 lakh units had access to institutional finance, almost 3 lakh units relied upon non-institutional sources and more than 97 lakh units had no access to finance.

Though access to institutional finance is a crucial constraint, there other serious problems which have been hindering growth of the SME sector. Census on SMEs shows that problems related to marketing and demand as the main reason for sickness of SMEs. Though enterprises using labour intensive technique can be viable and efficient in small scale, yet access to the modern competitive market is not feasible for the small units. Developing brand, entering into distant and unknown markets needs specialized skills and these are subject to economies of large scale. Logistics and creation of supply chain with the markets also are specialized process and are perceived to be beyond the scope of small entrepreneurs.

Competitiveness of SMEs can be improved through introduction of Information and Communication Technology. According to Confederation of Indian Industry (CII). At the moment the penetration of this technology is only 17-20 percent in the MSME segment while total size is estimated to be 35 million by the same source. According to CII source, the biggest hurdle to implement the technology is cost which is Rs 2 lakh for the equipment. Cost effectiveness can be brought about through introduction of IT solution for cluster use. In a cluster there are many systems that MSMEs can share, for example, HR and accounting systems.

#### **SME Clusters**

Studies show that efficiency of SME enterprises improves to a great extent when they operate in cluster. Cluster provides solution for many of their problems such as marketing, brand and product developments. This helps creating supply chain and logistic operation infrastructures. Cluster creates backward and forward linkage effects thus developing markets of inputs and finish products. It makes human resource development as well as R & D viable. Thus cluster formation in the SMEs sector can help induce some of the economies of scales as well as external economies which are missing due to smallness of the unit. A cluster may be defined as a local agglomeration of enterprises (mainly SMEs, but often also including some large enterprises), which are producing and selling a range of related and complementary products and services. For example, the cluster of leather, textile and component industries comprise of industries coming up due to forward and backward linkages of the main leather tanning units or textile industries. The central cluster also induces trading activities attracts financial intermediaries. Industrial clusters can be formed in two different ways namely vertical and horizontal.

Cluster can also formed due to linkage effects of large operations. Auto component segment in NCR and Chennai emerged as a Horizontal cluster is characterized by units which process the raw material to produce and subsequently market the finished product themselves. In this cluster, a large number of SMEs producing the same product are located in the same

geographical area. In vertical clusters the operations required in producing the finished product are divided and are carried out separately by different units, most of which are essentially SMEs, in order to distinguish from the large unit based clusters. This type of cluster operate effectively in the case of hosiery, textile processing and metal products when the production process can be divided into separate units in order to avoid diseconomies of large scale such as labour management and labour laws. Second, this becomes feasible if it requires a degree of specialization for each of the processes.

It has been estimated that there exist about 350 SME clusters in India. These clusters are overwhelmingly predominant with small industries and the share of medium and large industries in the sales turnover, production and employment is nominal. The size in terms of number of units and the quantum of output of clusters may vary significantly. Some of them are so big that they produce up to 70 to 80% of the total volume of that particular product produced in India. For example, the cluster of Panipat township produces 75% of the total blankets produced in the country. Similarly Tirupur, a small township in the Coimbatore district of Tamilnadu contributes 80% of the country's cotton hosiery exports.

Yet another example would be of the city of Agra, virtually a Footwear City with 800 registered and 6,000 unregistered small and cottage footwear production units, making 1.5 lakh pairs of shoes per day with a production value of 1.3 million dollars per day and exporting shoes worth US \$ 57.14 million per year. Similarly Ludhiana in Punjab produces 95% of the country's woolen knitwear, 85% of the country's sewing machines and 60% of the nation's bicycle and bicycle parts. A finding of a study on 138 industrial clusters, on the basis of two digit NIC highlights characteristics of industrial cluster formation in India. Clusters are formed in Machinery & Parts except electrical, Cotton Textiles, Chemical & Chemical Products Hosiery & Garments Food Products Non-metallic Mineral Products Electrical Machinery & Parts, Wool, Silk & Synthetic Fibre Textiles Transport Equipment & Parts. These clusters mainly have emerged in the cities and townships and most of them are formed in natural process. UNIDO and International Trade Centre have taken a number of initiatives for supporting SMEs such as creating SME development fund, creating training facilities, supervision and monitoring facilities. Yet it is observed that supports do not reach large number of small rural clusters which are estimated to be 2000 odd. These are mainly skill based clusters which have grown in size with the passage of time. These clusters consist of unorganized tiny units with very little access to market, information and technology. The existing linkages with the market economy are more in the form of economic exploitation by ones having financial muscle power. In spite of all these problems, rural clusters contribute to a large share of the exports from the SME sector and 40% of the total work force employed in SMEs is in the rural and artisan based industries.

#### Conclusion:

Entrepreneurs in the small and medium size industrial units play a key role for the success and development of competitiveness in this sector. Though basic entrepreneurial acumen is innate, this can be developed and sharpened through training. Attributes such as business knowledge, practical knowledge, analytical ability, search skills, foresight, communication skills, delegation skills and organizational skills are to be acquired for an entrepreneurial success. Since there

arises necessity of constantly reallocating resources to adjust with market forces, market economy creates needs for entrepreneurs. Development of SMEs creates competitive spirits and drive to excel. Small entrepreneurship are the nursery for development entrepreneurial acumen to tread in larger and complex corporate sector.

India has been witnessing entrepreneurial growth since liberalization and globalization. Currently there are three crores MSMEs. Successful SMEs have emerged in IT and ITies Sector, Auto component industries, Heavy and Light engineering industries and Textile sector They are contributing to the growth of GDP, modernization of industries , inducing technological development and export growth. Yet growth of a large number of small and tiny units is under severe constraints of finance, marketing ability and adaptability of appropriate technology. Average success rate of SSI is only 12-13 per cent. Cluster development is found to be useful for MSMEs. In India there are localized and product based 350 clusters. Again a large number of rural clusters are unconnected with system. The existing linkages with the market economy are more in the form of economic exploitation by ones having financial muscle power. The analysis of the paper suggests policy intervention for supporting SMEs from all aspects training, finance inducing cluster formation, educating prospective entrepreneur and helping them to access new technology as well as market.

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#### Success rate of SMES in different States in India

Sl	Selected States	Percentage
1	Andhra Pradesh	7-8
2	Karnataka	9-10
3	Orissa	6-7
4	West Bengal	5-6
5	Bihar	3-4
6	Maharashtra	10-12
7	Uttar Pradesh	8-9
8	Punjab	11-12
9	Jammu and Kashmir	6-7
10	All India	12-13

Source: Table 2.2: Summary result of third Census of SSI 2001-02  
Ministry of MSME

**Table 2**

SN	Reasons for Sickness	Proportion of sick/ incipient sick units		
		Total SSI	Registered SSI	Unrgtd SSI
1	Lack of demand	66%	58%	69%
2	Lack of working Capital	46%	57%	43%
3	Non-availability raw materials	12%	12%	12%
4	Power shortage	13%	17%	12%
5	Labour Problems	5%	6%	4%
6	Marketing Problems	36%	37%	36%
7	Equipment problems	11%	9%	12%
8	Management Problems	4%	5%	3%