Chapter- 3

NEED, OBJECTIVE, ORGANISATION AND SCOPE OF STUDY

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steps supporting the advantages as well as over bridges the most common disadvantages for SMEs. The significant advantages on behalf of SMEs, loose structure, informal operating practices and lack of bureaucracy are reinforced by integrating the project and especially the output such as specification of requirements, new routines, improvement groups and forums within the organization and in turn over bridge the disadvantages of limited resources and lack of formal planning.

Nartlada Kumlungsua, (2009) conducted a detailed study on the SMEs Internationalisation Process via Strategic Alliances. As per the findings of the study, understanding the internationalization of Small Firms is important to enhance knowledge of how they could develop their business activities in international markets. Moreover a strategic alliance perspective gives a critical insight of firm’s strategy to challenge in global competition. The findings reveal that internal factors and external factors strongly influence the Small Company’s strategy. Using a strategic alliance can enable the firm to gain resources market power and leverage competencies.

Ramayah, Thurasamy, Osman Mohamad, Azizah Omar and Malliga Marimuthu (2009) proposed to develop an integrated model to explain technology adoption of SMEs in Malaysia. SMEs form over 90 per cent of all business entities in Malaysia and they have been contributing to the development of the nation. Technology adoption has been a thorn issue among SMEs as they require big outlay which might not be available to the SMEs. Although, resource has been an issue among SMEs they cannot lie low and ignore the technological advancements that are taking place at a rapid pace. With that in mind this paper proposes a model to explain the technology adoption issue among SMEs.

Recently, Arvid Andersson, Carl-Filip Clausson, Daniel Johansson (2009) studied in detail the, “Competence Barriers to Innovation in case of Small Enterprises”. As per the findings of the Research, innovation is, in most cases, a necessity for firms in today’s changing market place. However, innovation is no easy process and there are many barriers and impediments to innovation that needs to be overcome in order to efficiently innovate. The purpose of this Research Report is to investigate competence barriers to innovation within Small Enterprises and the consequences these barriers might result in.

**Research Gap**

On reviewing the above literature, it appears that though various studies on different issues relating to Small and Medium Enterprises have been conducted in India and abroad but there are only very few studies carried out on the SMEs Finances after WTO Regime. There is an urgent need to address the issues involved in the production, technological up gradation, marketing and provision of supportive financial system for Small & Medium Enterprises in India. The present study helps a lot in this regard.

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Hence there is a research gap and a need for the present study in this new environment. In this study all aspects of financial requirements and their use in SMEs in pro WTO era have been taken into consideration. Despite the more or less conclusive evidence on the shortage of financial resources at the command of the Small and Medium Enterprises, it is unfortunate that adequate attention has not been paid to ensure the development of SMEs Sector in India. Now, with the introduction of WTO norms the undemoted issues need to be addressed. The important issues are:

To what extent can this constraint be overcome through proper policy formulations and management techniques?

What are the issues involved in the post WTO era?

What are the policies of other countries for the development of SMEs Sector in their countries?

How can these policies be incorporated in our framework?

How can the available resources be utilized optimally?

These are the questions to which the present study is addressed. The lack of adequate flow of credit has been considered a major bottleneck. Such a study is of particular relevance and significance due to the drastically changed scenario, for the Small and Medium Scale Industrial Units which not only suffer from inadequacy of financial support system but also from their inability to assume higher risk.

The focus of this study is on the development of an appropriate financial infrastructure, which in turn would contribute to the overall development of a competitive Small and Medium Enterprises Sector in India.
CHAPTER-3: NEED, OBJECTIVE, ORGANISATION AND SCOPE OF STUDY

3.1. Need and Significance of the Study

Development of Small and Medium Enterprises is now a major concern of policy makers of not only of our country but throughout the world. The development of Small Enterprises has been considered as a “Safety Valve”, which eases the modern Governments of the burden of creating employment opportunities at massive scale.

Small and Medium Enterprises have been unable to achieve the competitiveness that would allow them to drive the manufacturing sector and overall economic growth, employment and poverty reduction. Essentially, this is because of their lack of awareness of the market and resources, as well as the problems that SMEs face in assessing adequate financing and business development services. Bankers are reluctant to lend to SMEs units because of the high transactions costs and perceived risks of SMEs lending in the face of insufficient credit information, inadequate credit appraisal & risk management skills, poor repayment records and low market credibility of SMEs.

Moreover, Industrial liberalization and the circumstances after post WTO regime have made enhancement of competitiveness crucial for the development of Small and Medium Industries. In majority countries, the policies and strategies towards industrialization have been reformulated with special focus on SMEs. The policy framework for the development of SMEs has been undergoing a very fast change in tune with the changing economic scenario in India also as well as in other countries.

The challenges being faced by the Small and Medium Scale Sector may be briefly set out as follows

- Small and Medium Enterprises (SMEs), have inadequate access to finance due to lack of financial information and non-formal business practices. SMEs also lack access to private equity and venture capital and have a very limited access to secondary market instruments.

- SMEs do not deploy their funds properly. There is a problem of diversification of funds also.

- SMEs face fragmented markets in respect of their inputs as well as products and are vulnerable to market fluctuations.

- SMEs lack easy access to inter-state and international markets.

- The access of SMEs to technology and product innovations is also limited. There is lack of awareness of global best practices.

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CREDIT FLOWS AND THEIR USES IN SMEs SECTOR IN INDIA IN THE POST WTO ERA

• SMEs face considerable delays in the settlement of dues/payment of bills by the large scale buyers.

With the deregulation of the financial sector, the ability of the banks to service the credit requirements of the SME Sector depends on the underlying transaction costs, efficient recovery processes and available security. There is an immediate need for the banking sector to focus on credit and finance requirements of SMEs.

Lack of adequate flow of credit has been considered a major bottleneck. Though, retail banking is prominent in the country but, it is more out of the expansionist strategy of the Reserve Bank of India. Bankers became shy to market credit as a product presumably for the following reasons:

a) The bankers lack information on the concerned economic activities and therefore, they keep themselves reserved.

b) The feeling that, if credit is offered as a commodity, the borrower will smell a buyer’s market and will fail to repay promptly.

c) If a large number of borrowers approach, appraisal and assessment of project may become difficult.

d) Until recently, the bankers capability to credit as a commodity was extremely conditioned by the regulatory mechanisms of the Reserve Bank of India.

Viewed, both from the angle of the sustainability of banks as business entities, as well as considering the environment offered under reforms in the financial sector, marketing of credit for the promotion of small and micro enterprises assumes critical importance.

The discussion as above, leads us to conclude that legislation as well as directives of the Central Government per se are not likely to improve the present situation of retarded credit flow to Small and Medium Enterprises in India. The imperative today is on major change in the development culture towards greater transparency and accountability. As in other sectors, in the financial sectors also, departmentalization and narrow accountability cripples the smooth functioning of the SMEs Sector. On the other hand, the legal-institutional framework has significantly eaten away the business culture from the Indian financial system.

A balancing act in this area should be the cornerstone of reforms in the financial sector. The discussion on credit to Small and Medium enterprises in India should not start from issues like mounting NPAs and the dwindling CDR etc., but from the wider realities of industrial change and organization. This is because the industrial and financial system of the twenty-first century will undoubtedly be a much different one, based on a principle of “survival of the fittest”. In this respect much remains to be done. Though the Government has formulated many policies on Small and Medium Enterprises, yet there is an urgent need to address the
issues involved in the production, marketing financial requirements and deployment of funds by the SMEs units especially in the wake of introduction of WTO norms. The present study helps a lot in this regard.
3.2. Objectives of Study

In sustaining their competitiveness, SMEs face many pressures and constraints due to their limited resources like finance, skilled manpower and advanced technology. Thus, their strategy should match the organization’s resources to the changing environment and in particular its markets and customers in the pursuit of its goals and objectives. The specific objectives of the study are:

1. To find out the problems being faced by the SME Units.
2. To study the manner in which the available funds of the units are deployed on various items of Fixed and Current requirements.
3. To find out the financial requirements of the SME Units in the Post WTO Era.
4. To examine the policies, procedures and practices being practiced by the Central Govt. and Financial Institutions in providing long term and short term funds to the SME Units.
5. To make suggestions for improving the Financial Support System for SMEs Sector in India.
3.3. **Organisation of Study**

The study has been organized in **nine chapters**.

The **first chapter** is an introductory chapter. It provides the background of the SMEs Sector, importance of this sector and defines the problem statement.

**Chapter two** is devoted to the review of literature on SME Sector. The studies relating directly or indirectly to the present subject has been depicted and reviewed in order to determine the research gap and to establish the need for this study.

The **third chapter** exhibits the need & significance of study, objectives and scope of study.

**Chapter four** is devoted to the Research Methodology. The Research Design, Sample selection, data collection methods and data collection tools have been explained in this chapter.

The analysis and discussion on the findings of the study from the survey and SMEs that and experienced Bank/offered policy makers makers have been included in **Chapter five**.

**Chapter six** depicts a case study. A comparison has been made in two real accounts i.e. borrowers of a nationalized bank. One account has shown very good results while the other has turned bad and is proving difficult for recovery.

The summary, findings and suggestions and conclusions have been exhibited in **chapter seven**.

**Chapter eight** depicts the contribution to new knowledge.

The limitations of this study and suggestion for further study have been exhibited in **chapter nine**.
3.4. **Scope of Study**

The major aim and scope of this study is to provide practical solutions to improve SME’s access to financing by promoting a stable, diverse and well functioning financial system, which is capable of effectively servicing SME’s needs and working on the micro level initiatives that directly impact SME’s access to credit. Especially scope lies for private funding and newer method of financing and support tools as prevailing in some developed and developing countries of the world.