CHAPTER 3

MEDIUM ENTERPRISES: AN OVERVIEW

The aim of this chapter is to introduce medium enterprises along with concept and characteristics. In definition section, various policy level developments related to defining medium enterprises have been discussed. But the criticism signifies that medium enterprises are yet to be defined in terms of turnover, investment and employment in tune with other countries. The characteristics of medium enterprises show that medium enterprises are most suitable for TQM adoption. The challenges, problems and prospects are also discussed to present the status report of medium enterprises in India.

3.1 INTRODUCTION TO MEDIUM ENTERPRISES

In today's Indian economy, medium enterprises occupy a crucial position not only because of their contribution to GDP, income and export potential but also because they provide self-employment, self / group initiatives, livelihood and outlet for small business. Alongwith SSIs, medium enterprises constitute more than 80% of total industries (Kharbanda, 2001) and comprises of manufacturing, processing, preservation, repair and servicing activities and industry related business services. In India, they provide employment to about 18.60 million people, contributing to about Rs. 60,000 crore worth of export earning per annum and 40% of industrial production, equivalent to 70% of GDP (Sarkar, 2003). At the international level, in Japan, 99% units are SMEs providing 52% of total export revenue; In Italy 94% of firms are SMEs contributing 43% of total GDP; and in USA, SMEs generate 54% of sales revenue (Krishnamurthy, 2002).

Medium enterprises contribute significantly by meeting social objectives of providing direct and indirect employment opportunities; enhanced industrial production, exports and GDP with their dynamism, flexibility and innovative drive. Medium enterprises are increasingly focusing on improved production methods, penetrating strategies and modern scientific capabilities to sustain and strengthen their operations. These are usually registered business entities that have formal business systems in place and...
operate in the formal sector of the economy. They have always been the engines of growth for every country but to face marketing challenges with constraints on sustained advertisement or market promotion strategies.

Although medium enterprises have their roots in local production networks but they are required to produce products linked to local market as well as to the international markets. In this respect, governments at various levels can act as facilitators for providing enough support to focus their energies by establishing quality certification facilities and disseminating information related to that. There are other agencies, apart from government agencies, who are involved in promotion and protection of medium enterprises which may include: NGOs, Industry Associates, Specialised Institution of HRD; Export Promotion Councils; Institutions of Exporters; Industry related Research Institutions, Ministry of Industry; National Small Industries Corporations and Federation of Indian Chambers of Commerce and Industry (FICCI). These agencies help medium enterprises to achieve a high degree of sophistication and settled life patterns, which contributes capital accumulation for their accelerated economic growth.

In the Indian context, the evolution of Small and Medium Enterprise goes back to 1951 with the advent of planned economy. Since 1951 to 1991, government has given due protection, but, since 1991, with the policy of liberalisation and globalisation, the reserved category of items is decreasing year after year. During 1951 to 1991, the SME sector contributed Indian economy by meeting the objectives i.e. high contribution to domestic production, export earnings, low imports, operational flexibility, location wise mobility, development of indigenous technology, contribution towards defence production, competitiveness in domestic and export markets. The stronghold of SME can be seen in almost all sectors i.e. Food Processing, Agriculture Inputs, Chemicals and Pharmaceuticals, Engineering; Electrical, Electronics, Electro Medical Equipment, Textiles, Leather Goods, Meat Products, Sport Goods, Plastic and even in Computer Software.

Although the globalisation, liberalisation and WTO regime has resulted into a transitional period for medium enterprises but they are silently moving from the ‘zone of protection’ to the ‘zone of promotion’ by way of diversification, adoption of technology, employing skilled labour force,
adopting benchmarked practices and by adopting international business outlook. Since 1991, with the globalisation, liberalisation and privatisation and signing of GATT, the Indian economy is gradually being opened up and integrated with the global economy. Stress is now on qualitative upgradation of the industrial structure and improving international competitiveness of manufactured goods as well as services. The medium enterprises are an important source of employment today and their importance is likely to grow in line with the trend worldwide. It has played a very important role in the socio-economic development of the country during past 57 years and has significantly contributed to the overall growth of GDP, employment generation and exports. In terms of socio-economic development objectives, it has contributed significantly towards labour absorption, income distribution, rural development, poverty eradication, regional balance and promotion of entrepreneurship. The medium enterprises played a pivotal role inspite of stiff competition from the large sector and not so encouraging support from the government. According to Dinesh (2003), ‘SME sector has progressed from the product of simple consumer goods to the manufacturing of many sophisticated and precision products like electronic control systems, electro medical equipment, television sets, engineering products, steel fabrication, mechanical equipment etc’.

Even most of the medium enterprises at present are facing stiff competition as many concessions, privileges and protections offered by the government in the past are being withdrawn gradually (Anandram, 2001). Due to the opening of the economy and WTO regulations, there is possibility that more and more medium enterprises may be affected and become potential sick units. So, there is an urgent need to revamp the existing institutional framework in line with the need and requirement of this sector in the changed scenario.

The medium enterprises are neither like those of the large enterprises nor of small-scale industries. In large-scale enterprises there is excessive layering with too many rungs of employees at different levels, where, information passes through too many people, decision through too many levels and there is impersonality in interpersonal relationships. Whereas, in
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SSIs, the personal relationships are face-to-face and even familistic (Dinesh, 2003).

The medium enterprises are gaining importance in all economies and constitute the foundation contributing significantly to their exports as well as to their GDP and GNP (Kharbanda, 2001). In Indian context, medium enterprises show the heterogeneous nature with their variety of firms i.e. handicrafts, machine tools, computer software firms, manufacturing and service firms. These firms possess a wide range of sophistication and skills and operate in a very different markets and social environments.

In India, the various governments, be it state or central, take greater interest in the development of small and medium enterprises and they render two kinds of assistance to them, viz., financial and non-financial. The governments assist SMEs to:

i) Improve their techniques of production and management.
ii) Provide credit facilities, both for investment and for working capital through various financial institutions.
iii) To provide common service facilities.

3.1.1 CONCEPT OF MEDIUM ENTERPRISES

All over the world, the unorganised manufacturing sector is known as SMEs while in India, this is still known as Small Scale Industry defined in terms of investment in Plant and Machinery which has changed in last 50 years from Rs. 5 Lakhs in 1960’s to Rs. 100 Lakhs in 1999. S P Gupta’s Study Group on Small Enterprises (1999), in its interim report, has recommended that the time is ripe to move from ‘industry’ to ‘enterprise’ and also to include medium enterprises within the Small Scale sector. This is essential in order to bring Small-Scale Industries sector at par with the global SME sector.

3.2 DEFINITION OF MEDIUM ENTERPRISES

In many countries, a quantitative criterion stands that enterprises employing less than 500 persons are considered to be SMEs; enterprises employing less than 100 being treated as small enterprises. In Indian context,
different agencies have defined medium enterprises in different ways. Funda (2003) defined medium scale unit as any unit that has an investment in plant and machinery exceeding Rs. 01 crore and up to Rs. 05 crores. Punjab Small Industries Development Corporation (PSIDC) has defined all enterprises with assets excluding land; valued between Rs. 02 crore to Rs. 10 crore are medium scale units. However, there is a thin line of demarcation between a small and medium sized enterprise. The Government of India uses capital investment as criteria for defining medium enterprises. By notification number S.O.857 (E) dated 10 Dec, 1997, Government increased the investment limit to Rs. 03 crore in respect of SSI, but after representation by SSI units and associates, vide press note No. 3 (2000 Series) dated 14 March, 2000, issued by Department of Industrial Policy and Promotion, the Government has decided to reduce the investment limit in Plant and Machinery in respect of SSI / ancillary industrial undertakings from Rs. 03 crore to Rs. 01 crore.

However, the units, which have obtained permanent registration based on the order dated 10 Dec, 1997, would continue to remain SSI units.

However, the enhancement in investment in Plant and Machinery of certain items of Small Scale Industries has been revised from time to time as per the following details:

a) Enhancement of investment limit for 21 hosiery and 14 handloom items had been increased from Rs. 01 crore to Rs. 05 crore vide Ministry of Commerce and Industry (Department of Industrial Policy and Promotion) order number S.O.1013 (E) dated 9th Oct, 2001.

b) Enhancement of investment limit for 13 items of stationary sector and 10 items of drugs and pharmaceuticals sector from Rs. 01 crore to Rs. 05 crore vide GOI order no. S.0.655 (E) dated 5 June, 2002.

The definition of small scale, ancillary, medium enterprises and large-scale enterprises have been revised by time to time. As per the industrial policy statement of 1956, the SSI, include all industries which have capital investment of less than 5 lakhs and employ less than 50 persons when using power and less than 100 persons when not using power. In 1975, this limit
was raised to Rs. 10 lakhs for SSI, and Rs. 15 lakhs in case of ancillaries. In 1980, this limit was further raised to Rs. 15 lakhs in case of SSI, and Rs. 20 lakhs in case of ancillary units. Further in March 1985, the government has again revised the investment limits of SSIs, from Rs. 20 lakhs to Rs. 35 lakhs and for ancillary units from Rs. 25 lakhs to Rs. 45 lakhs. As per the industrial policy statement of May 1990, the investment ceiling in plant and machinery for SSI has been revised from Rs. 35 lakhs to Rs. 60 lakhs and correspondingly for ancillary units from Rs. 45 lakhs to Rs. 75 lakhs.

Further in 1998-99, the government announced that all industrial units with a capital investment in plant and machinery of not more than Rs. 3 crore be treated as SSI, and for ancillary units also the limit was fixed to Rs. 3 crores. However, on 17 Feb, 1999 the government announced its decision to lower the industrial ceiling of SSI to Rs. 01 crore (subject to the condition that the unit is not owned, controlled or is a subsidiary of any other industrial undertaking). However the consequent economic surveys and the budgets are silent. Thus, the position is unclear (Dinesh, 2003).

According to widely prevalent international norms, industries having less than 100 workers are regarded as SSIs.

While calculating the value of plant and machinery the following is normally excluded, namely:

I) The cost of equipments such as tools, jigs, dies, moulds and spare parts for maintenance and the cost of consumable stores;

II) The cost of installation of plant and machinery;

III) The cost of research and development equipment and pollution control equipment;

IV) The cost of generation sets and extra transformer installed by the undertakings as per the regulations of the state electricity Board;

V) The bank charges and service charges paid to the National Small Industries Corporation or The State Small Industries Corporation;

VI) The cost involved in procurement or installation of cables, wiring, bus bars, electrical control panels, etc, which are necessarily to be used for providing electrical power to the plant and machinery or for safety measures;

VII) The cost of gas producer plants;
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VIII) Transportation charges (excluding of sales tax and excise) for indigenous machinery from the place of manufacturing to the site of the factory;
IX) Charges paid for technical know how for erection of plant and machinery;
X) Cost of such storage tanks which store raw materials, finished products only and are not linked with the manufacturing process; and
XI) Cost of fire fighting equipment.

In case of imported machinery, the following is normally included in calculating the value, namely import duty, the shipping charges, custom clearance charges and sales tax. While defining the SSIs, the investment in land and buildings are also excluded because of the wide variations in the price of land at different places (Dinesh 2003). At international arena, the most simple definition of Medium enterprises is based on number of employees i.e. UK Department of Trade and Industry has defined medium enterprises as one with 50 to 249 employees (Gallear and Mckay 2002). It suggests that medium enterprises are just smaller version of large companies, which would make no difference in TQM implementation process (Sammalisto, 2001). The definition of medium enterprises adopted by European community addresses standard criteria i.e. number of employees and one or two financial criteria (the turnover threshold or the balance sheet total). The figure of the financial criteria is adjusted regularly, normally at the change of political will and to take account of changing economic circumstances in country. The statistical definition of medium enterprises varies from country to country or on the value of assets. In India, medium enterprises account for a relatively larger share of production and employment and in fact most of the firms are medium enterprises, regardless of how they are defined.

The criticism of defining medium enterprises in India can be characterised as follows:
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1) There is no single definition, not even single criteria. Four different areas can be used for defining i.e. number of employees, turnover, ownership and assets.

2) There are different upper limits of turnover as well as upper limits of employees that can be identified for the different sectors of the business.

3) The comparative statistical definitions prevalent in different countries are difficult to compare over time due to fluctuations in their currency values.

4) With the variations over time and with the variation in size of the company, the employee based criteria for classifying into large and medium enterprises is incorrect.

5) The non-homogeneous nature of medium enterprise.

From the above clarifications, it seems that the quantitative definition is being followed for the classification of cottage, small and large enterprises. However, a common definition for medium enterprises is not yet there and it depends on the purpose for which they serve and policies, which they govern. Here, quantitative definition is advantageous in terms of availing benefits of technical assistance, financial concessions and other incentives. Apart from physical identification and transaction of policies of medium enterprises, a quantitative definition facilitates better articulation of the problems and prospects of this sector.

3.3 CHARACTERISTICS OF MEDIUM ENTERPRISES

Since there is no single definition of medium enterprises in India, the characteristics in which they differ from large and small-scale enterprises can be described and classified as follows which help them to maintain distinct identity.

i) Medium enterprises have modest human capital, limited financial resources and know how, as well as small-scale technology. They contribute more to equal distribution of income and wealth to the extent that its owners and workers are in the lower half of the income distinction. In reality, the desire of the government to promote medium enterprises is based on social and political considerations rather than
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on economic grounds. Medium enterprises are capable of generating more jobs, exports and more contribution towards economic development but due to globalisation they are facing adverse effects in meeting stringent requirements of quality, cost, delivery schedule and productivity.

ii) Most medium enterprises operate in their narrow niche and are able to provide different products and services, which distinguish them from larger firms. They are most often price takers and act as negotiating partners; they are weaker than the larger companies. They function as subcontractors to one or few large companies since the larger companies are often active in several markets, they can compensate the larger fluctuations.

iii) The owner in medium enterprises is often the entrepreneur who sees the company as a way to get a reasonable standard of living and to maintain his freedom. The medium enterprises represent a short decision making chain where company performance is the main motivation for the owner. The owner / manager is highly visible and often shows a directive or paternal management style. In most of the cases, the owners have no plans to expand but if a medium enterprise grows, the growth takes place in a number of stages and is often managed by the second and third generation of owner manager. Since the ownership is located in just one individual or in the few hands, they show little internal conflict.

iv) Medium enterprises shows more informal and flat organisation with short decision making chain because of lesser hierarchy which establish contacts between different functions and decision makers and thereby make it more result oriented in comparison to large companies. In medium enterprises the supervisors are in advantageous position as they are familiar with their subordinates and it helps to create a holistic corporate mindset with common culture. The low specialisation of task helps people to move between different tasks. However the lack of possibility for training and personal development can be a problem but
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it is practically compensated by the common vision, which is easier to create in medium enterprises.

v) In comparison to larger enterprises, the medium enterprises show greater degree of flexibility, evolution and change in regard to new products, markets and organisation structure. The flexibility allows each person to see wider and act accordingly in an organisation structure, which is often organic with little bureaucracy. The larger organisations are characterised by the twin perils of bureaucracy and hierarchy, which build inflexibility in their operations. However, in the era of opportunities and competitiveness, with the agility, flexibility and quick response, SMEs have a better chance of winning than the large companies that get slowed down by sheer size (Singh and Bhandarkar, 2002).

vi) The medium enterprises tend to rely on interfirm relationships and informal sources of information rather than formal and external service providers.

vii) Medium enterprises participate fully in organised markets and employs large portion of labour force, which are usually under privileged, have low level of educational background, wage earning in nature and underserved.

viii) The Health, Safety and Environment (HSE) factors in these enterprises are generally affected by hazardous work environment with unsafe electric wiring, exposure to pesticides, dust, solvents and chemicals, high humidity, heat, poor lighting and ergonomics, heavy workload, long working hours, stressful with irregular income and inadequate employment security. Many of these factors are by product of poverty and unhygienic / inadequate living conditions, which ultimately results in low productivity and absenteeism among employees.

ix) Medium enterprises show lesser degree of standardisation and formalisation with lesser automation that facilitates adjustment in their production according to varying market demands and special requirements of consumers.

x) Medium enterprises show negligible resistance to change and help informal competence development possible.
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xi) Research and development involvement in medium enterprises is negligible but they introduce and adapt the practices done by others.

xii) Medium enterprises involves less capital and tend to rely on inter firm relationships and informal sources of information rather than on formal, external service providers.

xiii) They are able to survive economic recession better than large companies by adopting suitable product range to fill niches in the market.

xiv) In most cases, medium enterprises are relatively free in their decision-making, choice of suppliers and customers and are relatively technologically capable, oriented towards familiar product and represent a 'self satisfied' sector of the industry.

xv) Medium enterprises play a major role in Indian economy by contributing progressively in supply of goods and services and thereby meeting the demand of masses.

According to a report on “Research on SMEs Technology and Development” of ‘European Parliament’ (1999), SMEs exhibit the following characteristics that contribute to the growing importance of SMEs in the world economy:

1) SMEs exhibit a high degree of flexibility, which has become determining factor in a highly fragmented volatile and fluctuating market, in which major scaling down is taking place;

2) SMEs show great diversity, which allows them to exploit new market niches that are uneconomical for larger enterprises.

3) SMEs adapt particularly well to an economic environment in which the service sector is growing.

4) SMEs can create jobs with a very low capital investment;

5) SMEs contribute to an important source of technological innovation and adoption of technologies to local situations;

6) SMEs are particularly important in producing qualified human resources.

7) Compared with large enterprises, SMEs have easier access to a lower cost workforce;
8) Compared with larger enterprises, SMEs have the potential for better geographical distribution, which promotes more balanced industrial development;
9) SMEs have lower start up costs and therefore low market costs; which facilitates business creation even by women and less affluent people who would otherwise be excluded from economic development processes;
10) As production becomes more networked, SMEs can provide low cost inputs for large enterprises;
11) SMEs are better able than larger businesses to adapt to the local systems and fully exploit the society's existing social capital.

3.3.1 PROGRAMMES TO PROMOTE MEDIUM ENTERPRISE

In India, the first major policy announced in the direction of helping medium enterprise fulfil specified objectives was by way of Industries (Development and Regulation) Act, 1951, which gave an indication of the Government of India's attitude towards industrial development. The silent features were:

1) Regulation of investment and production;
2) Protection of industry as a whole;
3) Prevention of concentration of economic power;
4) Regional dispersal of industries;
5) Industrial licensing.

Since then, a number of changes have occurred and three main policy measures may be considered responsible for unilaterally strengthening the SMEs. The first of these is the policy of reservation of select products solely for this sector. This policy was aimed at achieving economies of production, greater employment, diffusion of ownership and dilution of concentration of economic power.

The Government of Punjab has adopted SSI policy with objectives of increased share in GDP, investment, vertical growth, creating a healthy industrial environment where government and industry acts as partners, assisting in acquisition of technology and skills and enhancing the credit flow with minimum friction. It is also trying to simplify the acts of debt tribunals for
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acting with providing an adequate explanation. The Government of Haryana in its industrial policy has emphasised the development of this sector with its commitment to develop ancillaries as priority to ensure healthy and balance growth, by providing effective marketing support, by providing timely payment, by providing testing and common facilities at reasonable cost and by disseminating information on latest marketing trends.

3.3.2 GOVERNMENT INITIATIVES IN THE DEVELOPMENT OF MEDIUM ENTERPRISES IN INDIA

In India, the Small Scale Industries and medium Industries are so articulated that there is no universal borderline fixed for them. In respect of states their ceilings depends upon state to state and from industry to industry. From 1951 to 1991, till the government accepted the liberalisation and globalisation policy, the SMEs were under protection for the national cause of socio-economic development of the country. It emphasised judicious use of foreign exchange, labour intensive mode of production, employment generation; non-concentration of diffusion of economic power in the hands of few; and discouraging monopolistic practices. These protections are in the form of promotional policies and measures adopted by central and state governments and may include Credit Guarantee Scheme, machinery procurement, Technology Modernisation Fund, better supply of credit for raw material procurement, and by facilitating to conduct testing of raw materials, components and end product through various regional tooling and testing centres. The regional testing centres are very important and useful because SMEs cannot offer to install costly machines. Certain state governments also encourage the promotion of medium enterprises with their assistance programmes to achieve a combination of social objectives, which may include poverty alleviation and addressing social, ethnic and gender inequalities. For example, in recent past, the Government of India has taken various initiatives to encourage women entrepreneurship.

As a promotional policy, the Directorate of Industries and State Financial Corporations helps in procurement of land, sheds, credit, power, machinery, raw materials and other facilities at state level. According to
MUKHERJEE (2001), some financial and tax measures undertaken by the Government in assisting this sector includes provision of subsidies for R&D, guarantee of loan extended by Credit Guarantee Association, provision of venture capital funds, tax reduction for capital investments; credit for machinery leasing; loans at low interest rates, loans for modernisation of equipments, tax breaks and others. To some extent, the Government encourages the medium enterprises in their QMS implementation by way of providing incentives in the form of reimbursement of certain level of amount spend on attainment of QMS certification. Since 1994, Government of India recognised the need of ISO 9000 certification and launched the scheme by which the SMEs acquiring ISO 9000, became eligible for a reimbursement of 75% of expenses, subject to a maximum of Rs. 75,000/-. 

3.3.3 AGENCIES INVOLVED IN INDUSTRIAL DEVELOPMENT:

Ludhiana based Mechanical Engineering R&D Organisation (MERADO) was established in 1965 to nurture the growing industrial clusters in Ludhiana in the field of knitwear, agro-industrial machine tools and bicycle industry. Since then, it has contributed significantly towards design, development and standardisation of industrial machinery, machine tools, special purpose machines, consumer durable etc. Ludhiana cluster make 95% of the country’s woollen knitwear; 85% of sewing machines and 60% of the bicycle and bicycle parts (Kharbanda, 2001).

‘Industrial clusters’ are important ingredients of industrial development. In India, there is a large number of ‘special clusters’ of small firms engaged in specialised industries such as locks in Aligarh, leather footwear in Agra and Kanpur, cotton hosiery in Kolkata and Delhi, blankets in Panipat, powerlooms in Bhiwadi; diamond polishing in Surat etc. In Punjab ‘dense clusters’ are more pronounced with woollen garments, bicycle and bicycle parts, sewing machine parts and machine tools in Ludhiana; printing and printing goods, water-pipes and bathroom fixtures in Jalandhar; foundries in Batala etc.

‘Industrial district’ also represent the accumulation of industries in a particular area. The characteristics of industrial districts are interfirm co-operation, co-operation blended with competition, the importance of local value systems, flexibility and innovative capacity, geographical proximity,
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sectoral specialisation, the provision of local pool of skilled labour and the presence of large number of firms.

Since medium enterprises are constituents of SME sector, they can avail various support services provided by Central Government and State Governments. At the Centre level, the agencies involved in support services are SIDO, Regional Testing Centres, and Product Process Development Centre in dense industrial clusters, tool rooms, entrepreneur development programme and National Small Industries Corporation. On the other hand, at state level, the agencies involved are Directorate of Industries, SIDC, District Industries Centre and Technical Consultancy Organisations. The state governments implement a host of other actions to create favourable conditions for the development of medium enterprises. These include functioning competition, a reliable legal framework and other regional conditions.

3.3.4 THE STEPS IN THE ESTABLISHMENT OF MEDIUM ENTERPRISES:

The following fifteen-step model can be helpful for establishing a successful enterprise:

i) First of all the entrepreneur should identify the product, which leads to success of the proposed venture.

ii) The availability of fund can be arranged through banks, financial institutions and other agencies for which size of the industry is to be taken care of.

iii) The availability of space, land and buildings with well equipped infrastructure facilities like roads, sewage, water, telephone etc. This can be hired, purchased or constructed as per the requirements of the project.

iv) With the help of experts and institutions located throughout the country, the requirements of plants and machinery may be identified, which should match the proposed production capacity.
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v) A proper market study may help to ascertain the market potential of the production in terms of demand pattern, growth, consumption, competitors, rates and even packing standards.

vi) The availability of raw materials by different sources throughout the year is to be assured to produce the product comfortably.

vii) The availability of skilled manpower should be assured from the local or nearby areas.

viii) After making comfortable with all the above a detailed report should be prepared with information on product, its marketability, survey report, promoter's details of past experiences, details about raw materials, plant and machinery, equipment, staff and labour etc. This report should highlight the framing of break-even point for optimum product capacity utilisation.

ix) To avail various facilities, the entrepreneur should get its company provisionally registered with nearby Directorate of Industries of concerned state governments/ union territories through District Industrial Centres by making an application in prescribed format. Initially a provisional certificate, valid for five years is issued.

x) As per the requirement, company should apply for power connection at an early date.

xi) The government approvals in the form of various permissions and licenses may be required before commencement of production. It may be in the form of drug licenses from the State Controller of Drugs, FPO from food processing unit and / or NOC from Pollution Control Board.

xii) Various financial institutions may be contacted to avail loan for acquiring plant and machinery, other fixed assets and even day-to-day working capital requirements.

xiii) While establishing plant and machinery, the care should be taken about saving time between two operations, so that the product should travel the minimum distance.
xiv) The employment of required staff and labour can be facilitated either through advertisements in dailies, employment exchanges or through various placement agencies.

xv) At last, the commercial production can be resumed and marketed after a successful trial production.

3.3.5 GUIDELINES FOR THE DEVELOPMENT OF MEDIUM ENTERPRISES

The following guidelines can be helpful in the effective development of medium enterprises:

i) A general national level policy framework and programme is required to be developed according to changed economic scenario by strengthening of export network for cluster of companies. This should be based on transparency and accountability.

ii) Medium enterprises are required to conduct systematic and continuous market research and make endeavours for making tie up arrangements with the prospective buyers to sell their products (Biswas et al, 2003).

iii) With the help of liberal credit at low cost, they should upgrade and modernise their technological up gradations.

iv) They should affiliate themselves with development institutions and associations, who can impart managerial training, disseminate information related to demand pattern and its future trends.

v) Banks and financial institutions engaged with these enterprises need to formulate new financial products for technology upgradation, quality products and marketing etc (Sharma and Bishnoi, 2003).

vi) The speedier dissemination of information on the latest market trends and use of information technology on a continuous basis can help these enterprises in their development.
vii) These enterprises should have capabilities for generating, assessing and diffusing knowledge and also has openness to external sources of knowledge including new technology databases.

viii) They should develop a suitable link between them and national laboratories, university and other specialised institutions who can extend technological support in areas of research and development; quality improvement, testing and standardisation, environment techniques etc.

ix) They should remove procedural hassles in their reform process with easy and simplified procedures.

x) They need to introduce the scientific marketing method to improve the productivity at reduced per unit cost.

xi) They should make constant endeavour to gain foreign exposure through the medium of international fairs and exhibitions, besides aggressive brand imaging, formation of marketing consortia, establishing trading agreements with like minded countries, promoting, contracting and vendor development schemes and providing WTO compliant measures to support (Gupta and Tiwary, 2003).

xii) They should be encouraged to adopt Research and Development activities for evolving best practices and for bringing products into market quickly and efficiently. This will facilitate product diversification, modernisation, elimination of drudgery and pollution.

xiii) For survival and growth of medium enterprises, a favourable environment should include unoppressive system of laws, basic infrastructure and the availability of a skilled workforce.

xiv) In medium enterprises, sufficient knowledge about health, safety and environment issues are required to be imparted for maintaining cleaner environment, ventilation and natural light at work places and for taking care off their own health issues so that, health, happiness and productivity can be achieved.
3.4 CHARACTERISTICS OF MEDIUM ENTERPRISES THAT HELPS TQM IMPLEMENTATION

Medium enterprises implement TQM mainly because of market and customer demand or external pressure rather than internal initiation with a focus on informal people oriented approaches. Since the implementation of TQM is affected by size, the large firms implement more comfortably than their smaller counterparts but smaller firms pays more attention to customers and use SPC tools. They also use incentive and suggestion schemes more effectively for continuous improvement than large organisations. The characteristics that form a platform for medium enterprises to implement TQM are as follows:

3.4.1 RESOURCES

Resources form the frame within which the medium enterprises operate and use its potential. TQM implementation is always bound to take some resources. The capital resources of medium enterprises are often insufficient. They are marked with the managers' personality in every function. Every relation in these enterprises often consists of the manager's personal contact to customers, suppliers and public (Zheng and Dolken, 2002). But shortage of financial resources is not necessarily the main issue but that of time and knowledge. Resource scarcity is widely reported feature of medium enterprises, which may include financial support for costly technology led solutions and may also include the available expertise and managerial time to implement complex methodologies (Bradford and Childe, 2002).

3.4.2 MARKET

Market is a precondition for a company's existence that often forces medium enterprises for a quality certificate to maintain supplier status. Due to their size, medium enterprises may not have the capability to pressurise their suppliers to engage in quality activities and also cannot incorporate the cost of their quality activities in the prices of their end products. As sub contractors, their negotiating position is often weak. Even though direct exports from medium enterprises are limited, quality certification plays an important role.
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However, market along with interested parties does exercise a considerable amount of pressure for TQM implementation.

3.4.3 INTERNAL POTENTIAL

Internal potential includes management leadership, organisation structure, flexibility and innovations that form the ‘soft’ internal potential. The most important feature of management leadership is its visibility, as it is much more apparent in a medium enterprise than in larger companies, where several members and layers of management can complement one another. In medium enterprises, the employees have a broad and general know how due to low functional differentiation. But in certain situations, where special know how is required, they show disadvantages.

3.4.4 ORGANISATION STRUCTURE

Organisations are systems of highly interdependent parts and organisation structure is the most important element within which much of the approach and vision of the management is realised and opportunities provided to the staff. A proper organisation structure drives personal behaviour to provide excellent results. The creativity factors enable its people to work effectively. TQM organisation shows a flat type organisation chart, which consists of overlapping circles rather than distinct boxes connected by lines of authority. It facilitates employees with authority to make decisions at anytime provided. Here, layers of management are reduced and middle manager and first line supervisors use to operate in a new way instead of acting as monitors, order givers and agents of control. They serve as boundary managers, co-ordinators and leaders who assist line workers in getting their job done. TQM engaged organisations could be classified into three categories i.e. uncommitted, drifters and tool pushers.

For a better organisation structure, the management with visibility and awareness are responsible for up gradation. They can play a role model in increasing the understanding of basic administrative and technical system in restructuring to recover from the situation close to bankruptcy.

The medium enterprises show organisation structure suitable for TQM implementation because according to Hallberg (2001), “Smallest firms are
least efficient and there is evidence that small and large firms are relatively inefficient compared to medium scale firms". The small structure of medium enterprises makes it possible for the staff to see the contributions they make. According to Bradford and Chiide (2002) there are 'significant' structural differences between medium enterprises and large organisations. The structural issues relate to the organisation of the company where authority lies and who is responsible for what.

3.4.5 FLEXIBILITY

The flexibility variable of medium enterprises contains the market prosperity and the age of the firm besides its organic / mechanistic nature and it is positively correlated with the customer focus and the total participation (Nemeth, 1999). It helps copying with uncertainties. The level of flexibility makes it easier for the company to see and use its potential because complex procedures tend to discourage medium enterprises, because they require an investment in human resources, time and attention they rarely have.

3.4.6 INNOVATIONS

Innovation refers to technological change of any magnitude. It is the value addition to product of service and it is necessary for survival of the company (Krishnamurthy, 2002). Innovation used to achieve quantum gains, dramatically increases market share of a standard product and creating new approaches to solving seemingly intractable problems. It can be managed by 4 phases i.e. strategy development, ideation, evaluation and implementation. However it cannot be left to chance, as it is required wherever new possibilities and options are desired. Innovation has become a key factor in business and can have a relevant impact on the nature of the enterprise. However, it does not have a direct correlation with the size of the organisation (Fariselli, 1999). It is negatively affected by the skill shortages, which reduces investment in new technologies. In a TQM organisation, innovation is the ability of the management to create a favourable atmosphere for adoption of change practices. Medium enterprises show a positive involvement in innovation with their flexible nature.
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In the present environment, medium enterprises can play an active and competitive role by the way of incremental innovation, customisation and post sales services. They can follow ‘niche strategies’ by using high product quality, flexibility and responsiveness to customer needs as means of competing with large-scale mass producers (Hallberg, 2001). According to Thorne and Machray (2000), “Innovative organisations are characterised as nurturing, supportive but challenging; developed with effective teamwork, encourages cross communication and co-ordination, supportive to innovative practices, recognises small changes, allows time for reflection and debate, encourages active participation and involvement and creates a climate of cooperation and trust”. It is largely a result of an atmosphere that allows creativity and flexibility in adopting and applying creative ideas developed both within and outside the company.

3.4.7 OWNERSHIP

The degree of ownership of a medium enterprise depends on the degree of detail of influence the owner wants to have in the company (Sammalisto, 2001). The owner is the person or authority, which has the ultimate control over the affairs of the undertaking, where the said affairs are entrusted to a manager or a MD and such manager or MD shall be deemed to be owner of the undertaking (Krishnamurthy, 2002). The owners are characterised with dynamic, innovative and growth oriented. In modern circumstances, the owners have realised that to become successful, quality management is essential with strong commitment for realisation of quality goals.

The ownership can be categorised as partnership and owner manager. The partnership is one form of ownership, which is an agreement or contact between partners to get his share of profits from time to time. It embarks on joint venture with purpose to bring capital money where all partners have interest in proportion to the trading share. However, it does not prescribe any maximum number of partners but section 11 of companies Act, 1956 provide that partnership should not consist of more than 20 persons for the purpose of carrying out any business. Partnership is not a matter of heritage status but purely based on contract and no person shall be introduced as a partner into
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a firm without the consent of all the partners (Krishnamurthy, 2002). On the other hand, the owner manager is owner entrepreneur. This owner entrepreneur finds it difficult to take time off and are not willing to pay its full cost in many a time.

Management and organisation structure are the main components in the potential of medium enterprises that are affected by ownership and flexibility and which can promote innovation. To remain competitive, irrespective of ownership, the owners must constantly look for improvement in products, processes and services to maintain market niche and satisfy customers (Richard, 2003). To realise this, they must realise the need to improve and translate it into action.

3.5 CHALLENGES FACING MEDIUM ENTERPRISES

In India, medium enterprises have emerged as dynamic and vibrant sector of economy along with over three million SMEs, which account for almost 50% of industrial output and 42% of India’s total exports, and is the most important employment generating sector. It acts as an effective tool for balanced regional development, which produces a diverse range of products (about 8000), including consumer items, capital and immediate goods (Kharbanda, 2001). Since 1991, this sector is trying to redefine its role and adapt effectively to the changing economic environment, where the market forces are calling the tune. However medium enterprises suffer from the following disadvantages from the productivity point of view (Wani et al, 2002).

1) Technology and equipments are outdated;
2) Because of high cost, special product testing equipments are usually beyond their means.
3) Low labour productivity in absence of well established assessment standards.
4) Shortage of skilled and technical manpower;
5) Inadequate training facilities;
6) Immediate need of profit maximisation.
The medium enterprises are facing today a number of challenges which are connected with changes simultaneously occurring both within and outside the enterprise; both in local and in the global market place. Change in market can drive product and process innovation, which can further lead to the reorganisation of the business processes, stimulate growth and change the position of the company in the network. However, the overlapping challenges do surely increase complexity and uncertainty. Thus, these enterprises are keen to cope with the strategic readjustment.

The challenges faced by medium enterprises can be overcome by adopting certain strategies:

a) The challenges pertaining to competitive atmosphere can be overcome by new management techniques;

b) Challenges related to fast development can be fought by giving more individual responsibility, increasing profession / expert skills and by increasing broader skills based on increased competence;

c) The problem of new values can be overcome by recognising the changes, career growth and more mobility in the organisation;

d) The problems related to aging workforce can be overcome by diversification, motivation and by redefining management and leadership behaviour, and

e) The challenges of internationalisation can be overcome by increasing the communication media, which can increase the interpersonal skills of employees.

3.5.1 TECHNOLOGY TRANSFER AND ITS ASSIMILATION

Technology transfer can be referred as the movement of technology across national boundaries to establish the concept of appropriate technology. It is a dynamic concept and suggests that with country’s technological skill development, the technology must change. As the Indian economy is increasingly influenced by factors such as globalisation, tariff reforms and the creation of regional tariff blocks in the world economy, the technological inflow has increased at unprecedented rate. The companies are trying to assimilate technology by enhancing their operating procedures, structures,
personnel and ways of doing things so that it can become the need and part of normal routine of the organisation. The need of technology transfer in medium enterprises is felt to maintain their dynamism, flexibility and innovative drive, which increasingly focus on improved production methods, penetrating marketing and modern scientific capabilities to sustain and strengthen their operations.

The technological adoption is concerned with the ability to innovate, to maintain and to upgrade existing technologies (Mole et al, 2000). But there are various reasons due to which medium enterprises are unable to identify their technology needs. Some of the reasons pertain to their poor financial situation, low levels of R&D, long waiting periods for deliveries, poor adaptability, desire to avoid risk, non-availability of trained manpower, lack of management skills, lack of access to technological information and consultancy services, and isolation from technological backwardness in the long term. The firms also face problems in adopting technologies when stringent product and employment regulations are prevalent. To avoid this, the technological enhancement is required with the help of a conducive environment with human centred approach both within and outside the enterprise. This approach may include formulation of appropriate national policies and programmes; building up technological capacity; knowledge flows and technology databases, and R&D and interim linkages. The awareness about technology is also an important factor, which can be found out from trade journals, trade fairs and even through customers. According to a research report of European Parliament (1999), the factors have an adverse effect on technology transfer among SMEs include lack of strategies, inability to transfer / obtain technologies, preference for short term objectives, lack of information about existing opportunities and potential local partners, limited managerial resources, limitations of access to capital; and other macroeconomic business issues.

In the Indian context, technology required has to be cheap, simple, ecofriendly, small and capital saving because many a time a sophisticated technology makes production complex and costly. Although technology transfer is always a costly affair but the organisation needs it to enhance its
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Competitiveness. The management has to be convinced about its benefits, which should be above its cost factors. With the help of global partnership, they should develop the potential to absorb latest technologies of diverse industrial fields on a sustainable basis. To face the resource constraints they can use debt financing. There are various financial institutions such as IDBI, ICICI, IFCI and banks, which provide assistance for commercialisation of indigenously, developed technologies and adoption of imported technologies for wider domestic applications through venture capital.

3.5.2 PROBLEMS RELATED TO MEDIUM ENTERPRISES

With the adoption of LPG (Liberalisation, Privatisation and Globalisation) in 1991, various reformation policies have forced medium enterprises to stand on their own legs and become competitive producer without compromising on quality. Not only in India, various developing countries have shifted their economic policies from 'state intervention' to 'market orientation', and exposed medium scale enterprises to greater market competition. Along with this, the medium enterprises in India feel that they are in a disadvantageous position, because they are yet to be defined. Since independence, the Government of India in various industrial policies defined cottage, small and large enterprises but on the medium enterprises, there is no official classification as yet. In India, this sector is a constituent of SME sector of economy. Although various Governments from time to time provided various promotional schemes to this sector (being in SME sector) i.e. incentives, subsidies, import restrictions, government procurement and others, but the gap between large and SMEs has increased with the time and with the change in global scenario and policy parameters. Mukherjee (2001) has highlighted the following problems due to change in policy parameters:

i) Phasing out of Quantitative Restrictions (QRs) relating to different manufacturing and agricultural imports;

ii) Gradual opening of reserved categories of items and putting them under OGL for imports;

iii) Lowering of tariffs as per the objectives of GATT;

iv) Binding tariffs of different tariff lines as required under the GATT;
v) Reduction in import duties;

vi) India’s export promotion policies like tax exemption for exporters, export promotion credit guarantee scheme are being challenged by other trading partners like E.U. and U.S. on the ground that they are not WTO compliant;

vii) Legislations on TRIPs, copyrights and trademarks have implications in terms of costs, technology purchase, modernisation and upgrading technology.

viii) Relaxation in foreign equity rules for attracting higher foreign investment in competing sectors;

ix) Application of labour standards by trading partners such as U.S. on an unilateral basis i.e. Child Labour Act;

x) Application of environmental standards by trading partners on a unilateral basis.

xi) Transparency in government procurement is gradually assuming importance.

Apart from above, the medium enterprises suffer from the problems related to operations and technological obsolescence. To overcome the problems related to operations and technological obsolescence, they may evaluate the alternate technologies, which may suit their requirements in comparison to larger enterprises. The financial problems resulting from the inadequate funds as fall in demand of product in the market; no immediate payment of bills of output sold and shortage of raw material are common. Various expert committees examined and found that lack of efficient management, lack of availability of finance in time and apathy to adopt technologies are most prevalent and common problems (Krisnamurthy, 2001). They also suffer problems relating to Research and Development; lack of qualified personnel, inadequate technological capability and insufficiency in R&D capital.

The other problems are related to their weak representation at various forums in comparison to larger firms and MNCs, when their voices are hardly heard by policy makers. Some exogenous forces influencing performance of
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This sector include the advancement in information technology, rise in e-commerce, globalisation and liberalisation policies, multilateral trading rules under agreement of WTO, bilateral agreements, M&As, labour and environmental standards, lobbies, out sourcing and growth of world demand for variety of services (Mukherjee, 2001). These exogenous forces are both direct and indirect, coming from multiple sources and are influencing the policy environment. These forces expose medium enterprises to a world of intense competition, risks and uncertainties. The industries located in village area generally face the shortage of power during peak agricultural season, which affects their overall productivity and profitability. Along with this the industrial sickness has affected the medium enterprises more than any other sector. The main reasons for sickness are lack of demand, non-availability of raw materials, labour problems, equipment problems, structure of working capital, power shortage, marketing problems and management problems. Therefore, the problems faced by medium enterprises in India can be summarised as:

i) The subsidies and concessions extended by various government agencies to this sector have been counterproductive as the enterprises failed to graduate towards large-scale enterprises.

ii) The attitude of banks towards this sector has not been favourable in terms of financing of acquisition of technology due to lower investment in plant and machinery, which make difficult for them to compete with large-scale enterprises and MNCs.

iii) In this era of globalisation, the integration of world economies has resulted into various marketing problems for this sector i.e. intensified market competition, dumping of low priced goods by MNCs, and fulfilment of WTO agenda.

iv) Due to their resource inadequacy, they are not able to finance high cost advertisement on TV, radio, and newspapers.

v) The problems related to competitiveness are high cost of production, high cost of procurement of raw materials, high cost of electricity, low capacity utilisation, lack of funds for new technology, delayed payments, poor quality management, high
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cost of finance, harassment due to frequent inspections by multiple agencies, inadequate access to credit availability, lack of entrepreneurial skills and managerial incompetence.

vi) The industrial sickness is one of the problems of this sector which results more often due to locking up of resources, wastage of capital asset, loss of production, absence of proper appraisal of the project, defective analysis of market, wilful mismanagement, technological obsolescence, lack of timely and adequate working capital / loan available from banks, change in policies, changes in customer tariffs, excise duties and other taxes, security based approach of banks in granting credit and other bureaucratic hurdles.

vii) The lack of information, standards, international exposure and sensitivity to the implications of the WTO agreements.

viii) They face the delay in implementation of projects and an expensive mode of communication.

ix) Even protections prevent these industries from becoming engines of growth.

x) Many a time, medium enterprises are not always able to lift its people out of poverty because the people working in these enterprises acquire skills and earn according to a person of middle class, which is quite fragile in nature.

xi) Medium enterprises find it difficult to recruit and retain skilled workers, which are important to embrace new methods and to get best from instruments; because of a cycle of availability of lower capital leads to lower productivity which further leads to lower wages and which in turn affects retaining of skilled workers in comparison to large companies.

xii) They have difficulties achieving operational excellence because they still stick to labour and capital problems in their production and operation processes (Kim, 2003).

xiii) They are not usually equipped with infrastructure for market research and analyse customer needs, customer taste and
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customer trend. Due to which they also do not recognise necessary knowledge gap with competitors.

xiv) They focus primarily on operation for achieving economies of scale or increase in productivity with short-term perspective rather than on innovation.

To solve the above-mentioned problems faced by medium enterprises, the entrepreneurs should go for introspection, which can give great ideas and be able to translate them into reality. However, involving some decision makers, who with the help of entrepreneurs, can arrive at the solution by interacting as early as possible, can also solve it. At the government level, the lawmakers can help by simplifying the rules and regulations and help in avoiding corruption generated by maze of laws.

3.6 PROSPECTS OF MEDIUM ENTERPRISES:

The importance of medium enterprises in India is widely acknowledged as a source of employment creation and poverty reduction. They show unique characteristics with their size and flexibility. Their technological adoption creates backward and forward linkages between small and large companies respectively. Medium enterprises have certain advantages that may comprise of less capital and less manpower; can be easily managed with less capital; and local skills can be bettered utilised. These advantages differentiate them from other sectors of economy. In comparison to larger enterprises, they are more environment friendly by releasing less polluted water and air in the atmosphere.

The future of medium enterprises is very bright because large corporations are withdrawing from direct manufacturing activities and concentrating more on marketing, technology creation and networking with SME firms, who acts as supplier for their inputs. To meet the rising demand of large enterprises, medium enterprises are required to upgrade their capacity, being more responsive managed, employ skilled labour, use advanced equipment and technologies for efficient production. To improve their competitiveness, the information technology can be used for developing global partnership, which may further strengthen their image in national as
well as in the international markets. The worldwide acceptance of ISO certifications has motivated the Indian medium enterprises to go for ISO 9000 certification. Government of India in its consecutive budgets has made several announcements relating to reduction in excise duties, which facilitated smooth operations of medium enterprises. According to Gupta and Tiwary (2003), the new century belongs to SMEs with operational efficiency, quality standardisation and harmonisation between large and SME sector; where key to accelerated growth will be directed or facilitated by reorienting operational strategies, collaboration between industry associations, establishment of common facilities, determination of the critical information and technology, proactive marketing strategies, easily accessible and available advisory services at affordable costs etc.

In addition to these, the medium enterprises have bright prospects with their greater flexibility and their advantage seeking behaviour in terms of technological adoption and organisational simplicity. Although, these industries are primarily domestically oriented, but, the foreign markets can be attractive for them if they adopt international perspective. For obtaining international perspective, these industries need to develop competencies at their domestic market where they can use it as a test bed for innovation, which will help them rapidly accumulate higher value added skills in the process of developing low cost solutions.

The Indian medium enterprises have enormous opportunities if they can extend their co-operation. The Government can also play important role in their development by mobilising resources and planning in the form of business focal points and parks. The medium enterprise through co-operation can improve their infrastructure; form regional agencies; integrate economy with ecology, create vocational training centres; establish co-operative networks along technical institutions; triggering co-operation and consultancy between enterprises; improving technology transfer and by creating technology centres and technology parks.

The prospects of medium enterprises are also bright with the recent economical reforms, availability of countrywide facilities of national laboratories, universities and other specialised institutions in the field of
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Research and Development, which can be shared for technological upgradation. The ongoing economical reforms are also beneficial for this sector because it has reduced the various procedural hassles for these industries. Since the investment in plant and machinery for these industries are marginal and government provides various extensive promotional schemes and support services in the form of subsidies, reservation of items for production and marketing and export promotion schemes, this sector has another bunch of opportunities. These industries can further tap opportunities created by information technology; e-commerce; trade marks; participation in trade fairs, exhibitions abroad; conducting study tours and by adopting various marketing approaches.