CHAPTER 5:
SMALL SCALE INDUSTRIES AND THEIR IT NEEDS
INTRODUCTION

Since Independence, there has been a widespread recognition in India that small enterprises could be engines of economic growth, job creation and relative prosperity. The promotional setup for the MSME sector has, therefore, been elaborate.

In the liberalization era, the Industrial Policy of 1991 and the Abid Hussain committee report (1996-97) induced a paradigm shift in the direction of promotional policies for the sector. The points of departure have been characterized by a shift away from protection of the small-scale sector to its promotion; from support to individual unit to group of industries (clusters) and involvement of associations and the private sector in the formulation and execution of promotional schemes. The change is evident in the rising number of schemes and the public-private partnership projects in the last decade. The Federation of Indian Micro and Small & Medium Enterprises (FISME) recently studied major MSME development schemes that envisage a role for MSME associations in their design and implementation. The study mapped 42 schemes being run by 10 central ministries/departments. It found that while the broader aim of all schemes was enhanced competitiveness and
growth of the sector, different schemes sought to achieve that by focusing on any of the following five areas:

- **Provision of infrastructure**;

- **Soft interventions**, including capacity building, training & research;

- **Marketing assistance**;

- **Technology up gradation**; and

- **R&D/innovation**.

The associations’ roles varied with schemes. Some roles were quite generic, like need assessment and design of a scheme or spread awareness about the schemes. Some schemes have envisaged more specific roles: the associations are to implement or help float special purpose vehicles (SPVs) for implementation of projects or to participate in the evaluation/approval committees or monitor the schemes.

Partnerships between public and private institutions hold much promise, especially in MSME development, and from the perspective of outreach, efficiency and sustainability of public support programmes. But how effective these schemes were on the ground?
The study points to the wide gaps between the promise and reality. The off-take under these schemes was very low. And the level of participation of MSME associations was also negligible, especially in schemes envisaging implementation. The study has analyzed the causes of the existing gaps and ways to bridge them.

It contends that while conceptually concurrence has come about among higher levels of decision-makers, serious constraints stem from the conflict in the legacy systems in ministries (purveyor of the schemes) and the new role they are expected to play of a facilitator and partner with the private sector. Thus, almost all schemes—supply side—suffer from similar limitations.

Almost in all schemes, no structured need assessment has been made before their design. Dialogue with stakeholders prior to or during the launch of scheme has been rare and, therefore, a scheme’s flaws come to light too late to make any course correction. Training of officials handling the schemes is seldom undertaken, resulting in weak understanding of concepts, which in turn leading to excessive compliance-orientation. Then, there are too many layers of decision-making and guidelines are too rigid, leaving the execution process very difficult. There are inherent conceptual flaws in
schemes. For example, in the PPP models there are too many white-spots where clarity is missing: the questions of ownership of assets; need for viability gap funding; requirement of land as upfront contribution and the like. Finally, poor availability of information on the schemes and their operational steps and outcomes is a cross-cutting issue. (Even the study had to resort to a series of RTI applications to access data from respective ministries.) The constraints are not limited to the supply side. The demand side, the MSME associations, also suffers from serious deficiencies. The single-biggest challenge before MSMEs has been in dealing with global competition. As the competitiveness is influenced by several hard and soft factors beyond the control of a lone MSME, collective initiatives and public support for such initiatives are needed. That is the role associations were expected to play.

However, the study points out that, MSME associations suffer from some serious weaknesses, which come to fore when they implement collective initiatives. Most MSME associations in India suffer from a classical vicious cycle: weak resources lead to lesser activities, which lead to fewer members and resultant weak resources. Most fail to generate revenue from sources
other than membership. As a result, they fail to set up a strong and empowered secretariat to carry out the core functions of associations, and also fail to take up MSME development projects. This also limits their ability to hire professionals for conceiving, planning and executing development projects.

To address the flaws of the schemes, the study recommends a series of steps summarized in accompanying matrix.

SMEs need to change their mindset and they need to be more techno savvy so that they can walk along with others.

SMEs also need to understand that technology comes with a price which might pinch their pockets initially. But they can reap huge dividends in the long run from this little initial investment. SMEs also need to understand that if they don’t adopt technology related tools now, it will be very difficult for them to survive in the future.

As smaller firms face competition and grow, it’s imperative they make good decisions based on even better information.
When asked what business intelligence (BI) tools are used to measure their organizational performance, the common response by entrepreneurs might include Excel spreadsheets, report writers and canned reports. BI can be defined as the ability to extract actionable insight from data available to the organization, both internal and external, for the purposes of supporting decision-making and improving corporate performance.

Small and medium-sized enterprises (SMEs) are mostly owner-managed, entrepreneurial companies. And for many entrepreneurs, decision support tools tend to be a combination of static historical reports, analysis spreadsheets and gut feel, which is fine while an organization is small and easily managed on this basis.

**MAIN ERROR-PRONE ZONES**

Even though SMEs are the base of the country’s economy, little research has been done on them. The possible reasons for SME failures include

- a lack of demand for their product or service,
- the poor management and/or administrative skills of the owner/manager,
• a lack of experience in the particular industry,
• insufficient capital invested by the owner,
• an over-reliance on external borrowings,
• poor record-keeping, and etc

Accounting information signals that decisions are needed, and provide information useful to making decisions. Accounting information is used to assess the profitability of alternative courses of action, measure performance, and evaluate the position of enterprises in term of profitability, liquidity, activity and leverage. It can be used to improve SME performance, especially financial decisions. Different capital structures cause different degrees of financial risk. Different alternative financial plans affect SMEs’ performance differently. Thus, proper accounting is a key to small business success.