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Growth of SMEs in Gujarat: Post Liberalization Experience

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Abstract

The Small and Medium Enterprises (SME) sector carries great hopes and great burdens in the evolution of the transitional economies. Sustained and healthy growth of this sector is obviously necessary, since it is difficult to imagine rising the overall living standard and social peace without such a development (EBRD, 1995). Despite the centrality of the small and medium enterprises sector in both the theoretical understanding and practical functioning of market economies, little attention has been paid to the conditions necessary for its new or expanded development. Modern urban industrial society in a very real sense emerged on the basis of the SME as the dominant form of production. The early industrialization process was sharply different from country to country and product to product, but for a very long time the dominant scale of enterprise, even for technically complex products remains within the boundaries of the modern definition of SME (Kuznets, 1966). The development of SMEs in Gujarat has been one of the successful stories and the challenges of this sector can be addressed well with a strong cluster approach policy.

Introduction:

Representing more than 90 % of all business worldwide, SMEs play a crucial role in the socio economic development of the entire global community as they are a major force not only in economic prosperity but also in social stability. The SME sector carries great hopes and great burdens in the evolution of all of the transitional economies. Sustained and healthy growth of this sector is obviously necessary since it is difficult to imagine rising overall living standards and social peace without such a development with the large scale units of both state owned enterprise and public sector often at best stagnant. Successful performance during transition increasingly appears to be dependent on the expansion of SMEs sector. Its role in generating employment and atgenerating an atmosphere of social stability is crucial. Increasing competition and globalization along with the need to produce quality products at best prices, have promoted the industry to new product development methods with modern technology. The need to evolve technologically superior methods of product development holds true especially for players in the SME segment. From a theoretical perspective, SMEs have several advantages. In SMEs, the incentives for both, managers and workers tend to be clearer and stronger than in larger organization. Governance problems are less significant since in many cases, the managers and owners are the same people. Majority of

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SMEs have simple system and procedures, which allow flexibility, immediate feedback, short decision making chain, better understanding and quicker response to customer needs than larger organization (Singh, 2008).

Global scenario of SMEs:

On a global scenario, small and medium-sized enterprises provide some 66% of jobs in the European Union (EU) -a percentage which is predicted to rise as SMEs face challenges and opportunities associated with increased globalization, largely through e-commerce and greater internet usage by entrepreneurs. In the last decade, SMEs were the principal creators of new jobs, whilst on average; big industry are downsized and had reduced employment. EU SMEs currently generate 56.2% of the private sector turnover.

Out of 19.3 million enterprises in the European Union (EU) today, 99.8% are defined as SMEs and employ some 75 million people. There are only 35,000 enterprises, with more than 250 employees, but 18 million enterprises employ fewer than 10 people - the micro-enterprises. The average European business provides employment for 4 people, including the owner/manager, the average turnover being 500,000 euro. (6th Annual Report of the European Small Business Observatory)

The size-class distribution of employment differs, however, between countries. For example, the share of microenterprises in total employment is 48% in Italy, and 57% in Greece. On the other hand, the share of large enterprises in total employment is over 45% in Ireland the United Kingdom. In Europe the average for SMEs only is 4 people. However, this varies between 2 people in micro enterprises, and over 1000 in large enterprises. Between countries, there are large differences as well. On average, an enterprise has 2 occupied persons in Greece and in Hungary too; and 3 in Italy, compared with 10 in Ireland, Luxembourg, Austria and the Netherlands.

Small businesses are recognized as the backbone of the British economy, accounting for more than half of the UK's turnover. Businesses employing fewer than 50 people account for 37 per cent of UK turnover and 44 percent of private sector employment. But failures are frequent and often are thought to be due to management and leadership weakness.

The Position of SMEs in India:

At the outset it must be mentioned that SSIs and SMEs are interchangeably used in Indian context. The President under Notification dated 9th May 2007 has clearly mentioned that Ministry of Small Scale Industries have been merged into a single ministry namely Ministry of Micro small and Medium Enterprise (MSME).

Table – 1 Classification of Industries

Enterprise	Investment in Plant + Machinery (Manufacturing)	Investment in Equipment (Service)
Micro	Up to Rs. 25 lakhs	Up to Rs. 10 lakhs
Small	Above Rs. 25 lakhs up to 5 crore	Above 10 lakhs to Rs. 3 crore
Medium	Above Rs. 5 Crore up to Rs. 10 crore	Above 2 Crore to 5 crore

The SSI Sector in India is the second largest manpower employer in the country next only to the agriculture sector which is stagnant and large industry sector is passing through 'zero employment growth', it is SSI, besides the service sector, where employment, output export are growing at substantial rates. Moreover, MSMEs helps in industrialization of rural and backward areas and reduce regional imbalance. It can also facilitate effective mobilization of local resources and skill which might otherwise remain untapped.

This sector has emerged over five decades as a highly vibrant and dynamic sector of the Indian economy. By the end of March 2000, the SSI sector accounted for 95 per cent of the industrial units contributing about 40 per cent of value addition in the manufacturing sector, nearly 80 per cent of manufacturing employment and about 35 per cent of exports (both direct and indirect). More than 32 lakh units (which include both registered and unregistered units) are spread all over the country producing over 7500 items and providing employment to more than 178 lakh persons.

The Indian SME market is valued at \$ 5 billion. The SME sector is widely regarded as the engine of Indian economy. SMEs contribute significantly to industrial, economic, technological and regional development in all developed and developing economies. There are 11 million SME units in India and they produce over 8000 products and constitute 95% of all industrial units and contribute 40% to industrial output. They are prime drivers of growth and new employment generation in the economy.

MSMEs have played a pivotal role in the industrial development of the states as well as MSMEs have proved to be a major contributor to the economy of the state, especially in terms of value addition, employment generation, entrepreneurship development and inclusive growth. Hence it is necessary to find out the state wise performance of the sector.

State-Wise Distribution of Total SSI Units in India

The small-scale industrial units are functioning in all the states in India. According to Third All India Census of Small Scale Industries, there are 10.52 million units functioning in India. The total employment contribution of the sector is 24.93 million.

Table - 2 State-Wise Distribution of Total SSI Units In India

Sr. No.	Name of State/Union	No. of SSI Units	Total (%)
1	Uttar Pradesh	1707977	16.23
2	Andhra Pradesh	875430	8.32
3	Maharashtra	803568	7.64
4	Madhya Pradesh	793552	7.54
5	Tamil Nadu	787965	7.49
6	West Bengal	771388	7.33
7	Karnataka	658821	6.26
8	Gujarat	53031	5.04
9	Bihar	519351	4.94
10	Kerala	452826	4.30

Source: www.smallindustryindia.com

Table-2 reveals the state wise distribution of small-scale industrial units in India. It is inferred from this table that the state of Uttar Pradesh tops the list with more than 17 lakh SSI units followed by Andhra Pradesh, Maharashtra, Madhya Pradesh and Tamil Nadu. Gujarat stands at 8th position. The success of Gujarat in SME sector needs further analysis.

SMEs in Gujarat:

The state of Gujarat is usually described as the one of the advanced and dynamic regional economies of India. This is on account of the high Net State Domestic Product (NSDP) and its growth rate. Gujarat's per capital income is above the national average. As per results of the Annual Survey of Industry (ASI), 2005-06, carried out by the CSO. Gujarat accounts for 19.69 percent of fixed capital investment, 16.13 percent of gross output and 15.35 percent of net value added in industrial sector of India. Gujarat has ranked first in Industrial investment and second in terms of value of production and value addition in industrial sector.

The economic growth of the state is sustained by the secondary and tertiary sector and till a few years ago, this growth apparently did not show any positive impact on the primary sector. However the growth of production from agricultural sector in this state recorded clear upward trend in the recent years. Gujarat has registered an impressive industrial development since its formation as a separate state in 1960. The industrial sector in Gujarat has 1200 large industries and over 3,45,000 micro small and medium industries. The SME sector is dominant in the industrial development of Gujarat.

The SMEs in Gujarat has brought in substantial diversification of its industrial base. In year 1960 – 61, textile and auxiliaries were the major contributors to industrial economy of the state. However with the development of SSIs and SMEs the industrial spectrum has transformed to a great extent and today 12 major industry groups together account for 86% of factories, 96% of fixed capital investment, 94% of value of output and 95% of value addition

to the state's industrial economy. The Industrial commissionerate has been in the process of computerizing SSI registration data since 1993-94. The information of last eight years reveals that Gujarat has been getting an average of Rs. 500 Crs. of investment every year in SSI sector.

Table – 3 Growth of SSI units In Gujarat

Year	No. of SSI units
1960	2169
1970	15849
1980	43742
1990	115384
2000	251088
2005	306646
2006	312782

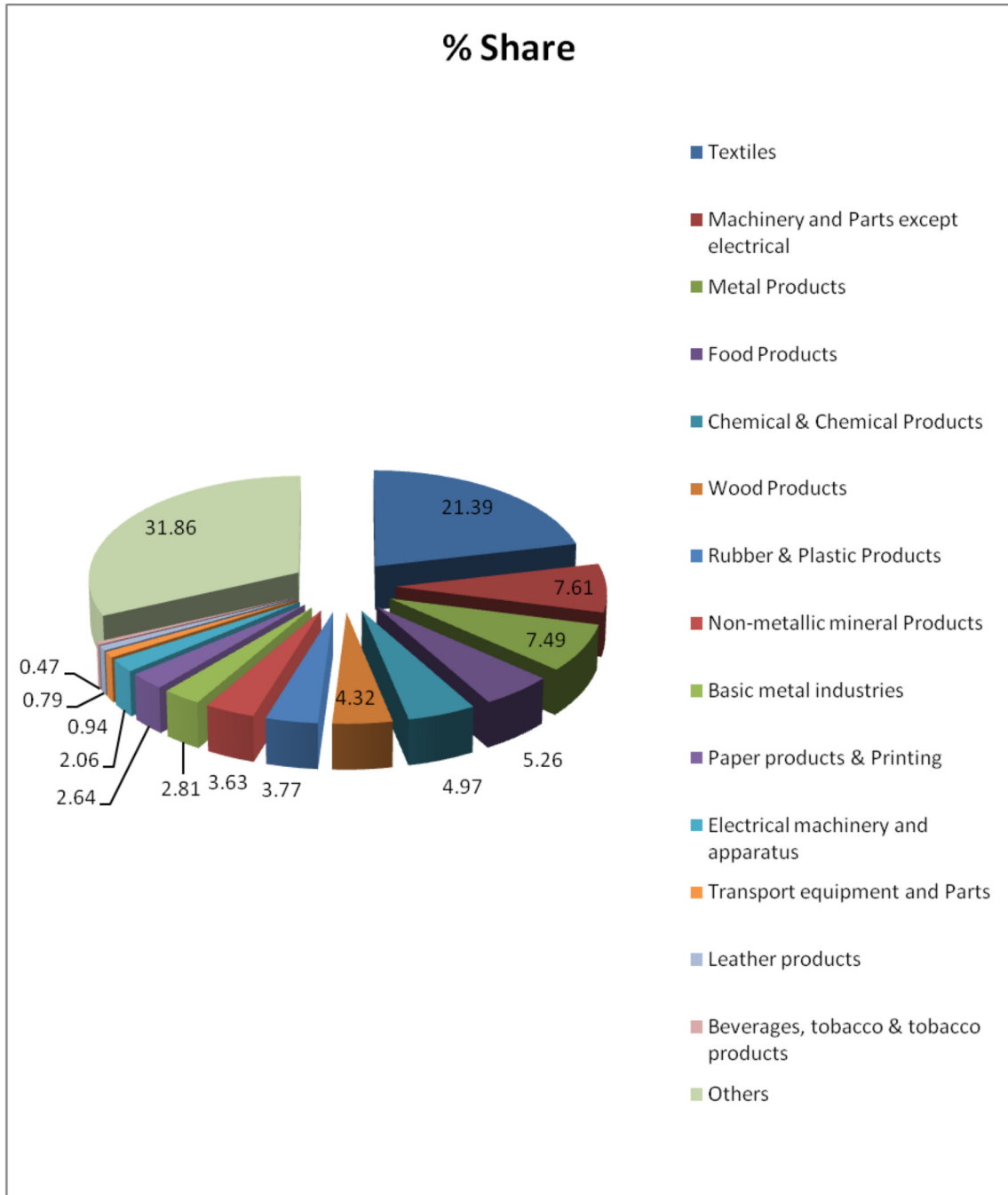
Source – Industrial Commissionerate

Over a period of time Gujarat has registered a sizeable growth of SME sector. There were only 2169 small industries in 1960 at the time of formation of the state. The number of SSIs increased continuously and has reached to over 3,12,000 units by in 2006.

Table – 3 SSI Registration in Gujarat – Group wise (2006)

Sr. No.	Industry Group	No. of SSI Units	% Share
1	Textiles	66914	21.39
2	Machinery and Parts except electrical	23792	7.61
3	Metal Products	23421	7.49
4	Food Products	16467	5.26
5	Chemical & Chemical Products	15553	4.97
6	Wood Products	13468	4.32
7	Rubber & Plastic Products	11780	3.77
8	Non-metallic mineral Products	11345	3.63
9	Basic metal industries	8795	2.81
10	Paper products & Printing	8244	2.64
11	Electrical machinery and apparatus	6451	2.06
12	Transport equipment and Parts	2944	0.94
13	Leather products	2476	0.79
14	Beverages, tobacco & tobacco products	1455	0.47
15	Others	99647	31.86
	Total	312782	100.00

Source – Industries Commissionerate, Gujarat



The data shows that textile including hosiery and garments accounts for the largest number of SSI units, followed by other sectors the institutional network has contributed to a great extent to the industrial development in various districts. Gujarat Industrial Development Corporation (GIDC) established industrial estate, providing developed plots and ready built-up sheds to industries all across the state. The DICs (District Industries Centers) were setup in all the districts to provide assistance in setting up industrial units.

The recent phenomenon in the industrial development of Gujarat has been the emergence of industrial clusters. There are in all over 83 industrial clusters covering different locations. The clusters have helped in creating common facilities, developing market centers and brand name, development of skills and thereby improving cost competitiveness. The clusters have helped in supporting technology upgradation, quality improvement, setting up of common facility centers. Skill development facility with the support from R & D institutions as well as industry associations.

In Gujarat as per MSME census 2006-07, there were 2.87 lakh registered MSME units in the state upto March 2007, of which 80% were found working. The total estimated fixed assets of MSMEs was Rs. 22,084 crore with an employment of 12.9 lakh.

The following table gives the progress of MSMEs in the state.

Table – 4 Progress of MSMEs in the state

Period	No. of New units registered	Investment (Rs. Crore)	Employment
April 2007 to May 2008	13,166	8163.2	1,96,772
April 2008 to May 2009	17,803	8240.8	2,52,257
April 2009 to Sep. 2009	8549	3847.1	1,11,472
Total	39,518	20,251.1	5,60,501

Source –<http://ic.gujarat.gov.in/>

District wise Small-Scale Units in Gujarat:

District Industrial centers in all the districts of the state and the institutions such as Gujarat Industrial Development Corporation (GIDC) and Gujarat State Financial Corporation (GSFC) have been instrumental in accelerating the pace of development of SMEs in Gujarat.

The district wise progress of industries is also very impressive in the state. Over a period of time Gujarat has succeeded in widening its industrial base. In the 1960's in the initial years the industrial development was confined only to four major cities namely Ahmadabad, Baroda, Surat and Rajkot. And some isolated location such as Mithapur & Valsad. The following table gives the district wise progress of SMEs.

Table – 5 District wise Number of Registered Small-Scale Units in Gujarat:

Sr. No.	State/District	1980	1990	1995	2001	2005-06
1	Jamnagar	2894	5396	7698	10763	372
2	Rajkot	5088	14417	20923	28365	760
3	Surendranagar	1480	2949	4757	6963	208
4	Bhavnagar	2465	5152	7947	10855	193
5	Amreli	392	1426	2566	3999	100
6	Junagadh	1184	2632	4261	6624	281
7	Kutchh-Bhuj	649	1746	3127	4780	250
8	Banaskantha	543	1755	3230	5147	275
9	Sabarkantha	800	2362	4307	6660	-
10	Mehsana	2313	5290	8877	13369	405
11	Gandhinagar	40	843	1881	3060	312
12	Ahemdabad	10919	29661	43320	58982	1301
13	Kheda	2528	5669	8522	12316	411
14	Panchmehals	761	2071	3785	6074	275
15	Vadodra	3020	6648	10134	14491	751
16	Bharuch	846	3815	6983	11508	636
17	Surat	5486	16764	25780	37179	1736
18	Valsad/Dangs	2305	6788	10529	15253	378
	Gujarat	43712	115384	178627	256388	8644

Source – Industries Commissionarate, Gujarat

New Districtwise SSI Registration:

Table - 6 focused on the registration of Small Scale Industries during 2005-06, in New district of Gujarat the highest number of registered units is in Navsari (350) followed by Anand (225), and lowest registered units is in Porbandar (97), total registered units in Gujarat districts are 1072 in new district of Gujarat. These 6 new districts Navsari, Narmada, Dahod, Anand, Patan and Porbandar have come into existence afterwards.

Table -6 New District wise SSI Registration during 2005-06

Sr. No.	District	Units
1	Anand	255
2	Dahod	100
3	Narmada	100
4	Navsari	350
5	Patan	200
6	Porbandar	97
	Total	1072

Source – Industries Commissionarate, Gujarat

Districtwise Classification of SSI Units:

Table – 7 depicts the functional units of small scale industries and clearly mentioned the closed unit in district of Gujarat, highest registered units is in Ahmadabad (53944) in that functional units are 39241, and closed unit 13655, we perceived Surat (32450) as second highest registered small scale industries and functional units are 28865, closed units are 3485, and at third place as mentioned in table Rajkot (26693) in that functional unit are 18887 and closed unit is 5229 .

Table – 7 Districtwise Classifications of SSI Units

Sr. No.	District	Fun. Unit	Closed Unit	Other	Total
1	Ahmedabad	39241	13655	1048	53944
2	Amreli	2767	916	252	3935
3	Banaskantha	3078	661	170	3909
4	Bharuch	4500	2065	1317	7882
5	Bhavnagar	5860	970	791	7621
6	Gandhinagar	4138	1657	133	5928
7	Jamnagar	9493	873	5	10371
8	Junagadh	3479	472	732	4683
9	Kheda	3663	870	986	5519
10	Kachchh	3235	919	171	4325
11	Mehsana	3327	1539	135	5000
12	Panchmahal	3051	926	36	4013
13	Rajkot	18887	5229	2577	26693
14	Sabarkantha	4949	574	317	5840
15	Surat	28865	3485	100	32450
16	Surendranagar	4649	1445	42	6136
17	Baroda	7239	3406	1171	11816
18	Valsad/Dang	5627	2212	193	8032
19	Anand	4356	559	355	5270
20	Dahod	1157	179	91	1427
21	Narmada	779	136	194	1109
22	Navsari	3590	1055	349	4994
23	Patan	2471	322	185	2978
24	Porbandar	619	198	90	907
	Gujarat	169020	44322	11440	224782

Source –Industries Commissionerate, 2006

The closed units to the extent of 44,322 provide the cause of some introspection. Which we have taken up while describing the challenges.

District Wise Working Units, Investment, Production And The Number of Workers :

As per the Survey of small scale units in Gujarat, which is depicted in Table No 8 it can be seen that in 1998-99, the highest number of small-scale units was in Ahmadabad (39241) and the average number of workers working in them was 145684 followed by Surat, Rajkot, Jamnagar and Vadodara in that order where the numbers of registered small-scale units were 28865, 18887, 9493 and 7239 and on an average 164045, 64282, 30427 and 37513 workers worked in them respectively. This suggests that the small-scale industrial units are concentrated mostly in big cities. The lowest number of the registered small-scale units is in the Dangs, where 205 workers work on an average. Then come Porbandar and Narmada districts where there are 619 and 779 small-scale units with 3557 and 1498 workers on an average. Further in 1998-99, the total investment in the small-scale units in Gujarat was Rs. 744632 lakhs, while its total production was Rs. 1022313 lakhs.

Table -- 8 District Wise Working Units, Investment, Production and The Number of Workers

Sr. No.	Name	No. of units	Investment (Rs. In lakh)	Production (Rs. In lakh)	Employment
1	Ahemdabad	39241	136912	178614	145684
2	Amreli	2767	3655	4447	5635
3	Banaskantha	3078	12970	11157	10892
4	Bharuch	4500	29948	47377	17551
5	Bhavnagar	5860	31182	28882	35101
6	Gandhinagar	4138	29272	19890	21794
7	Jamnagar	9493	28805	35325	30427
8	Junagadh	3479	14059	20151	12511
9	Kheda	3663	10304	15499	10391
10	Bhuj	3235	10710	16110	12010
11	Mehsana	3327	18025	22164	16743
12	Panchmahal	3051	12633	16762	11015
13	Rajkot	18887	69676	103977	64282
14	Sabarkantha	4949	15213	12918	13489
15	Surat	28865	139097	234311	164045
16	Surendranagar	4649	22676	25821	22986
17	Vadodara	7239	61422	52032	37513
18	Valsad	5547	47656	106916	41818
19	Anand	4356	22106	35062	18998
20	Dahod	1157	4878	4829	3280
21	Narmada	779	1089	152	1498
22	Navsari	3590	12193	17727	13694
23	Patan	2471	5790	5318	9213

24	Porbandar	619	4231	6684	3557
	Gujarat	169020	744632	1022313	724332

Source – Industries Commissionarate, Gujarat

The above mentioned table clearly shows the importance of small units in Gujarat and its penetration in all the districts of Gujarat

Problems and challenges of SMEs in Gujarat and in India:

Nowadays, trade liberalization and globalization process shave significantly increased customer expectation and competition between companies. In order to respond to the increased by the globalization process and benefit from global market opportunities, SMEs have begun facing too many challenges: First, to transform themselves and increase their individual competitiveness, and second, due to their limited size to take advantage of synergy effects created by entering into co-operative relations with other SMEs and related partner institutions (Masoomah Z., 2010).

However the problems of this sector need urgent attention. SMEs are facing tremendous challenges to survive and sustain. Some of the major challenges faced by MSMEs include lack of access to finance, low R & D inadequate marketing support and so on.

Despite their immense contribution, the sector is largely informal. Majority of the units in this sector are either proprietorship or partnership enterprise. Hence their access to any kind of formal institutional credit is limited. While most of the large companies have financial as well as technical capacity to identify technological resources, lack of management skills and access to technological information are some of the reasons for the various problems of this sector.

The latest policy to redraw the contours of the cluster development programme by developing model clusters across the country is set to integrate efforts across the value chain to achieve optimum results at the industry level to cater to the need of SMEs.

The globalization of business has increasingly drawn SMEs into global value chains through different types of cross-border activities. Many entrepreneurs are recognizing the opportunities that this process offers access to global markets and has become a strategic instrument for their further development. Access to global markets for small businesses can offer a host of business opportunities, such as larger and new niche markets; possibilities to exploit scale and technological advantages; upgrading of technological capability; ways of spreading risk; lowering and sharing costs, including R&D costs; and in many cases, improving access to finance. Gaining access to global markets can help prospective high-growth firms realize their potential.

To prosper, SMEs need a conducive business environment and regulations, adequate basic infrastructure eservices, access to short and long-term funding at reasonable rates, equity and

venture capital, advisory assistance, and knowledge about market opportunities. They typically suffer from weak entrepreneurial skills as well as deficiencies in accounting, production management, and business planning. As SMEs grow, they increasingly need connectivity to export markets and the world economy. So far, the lessons of international experience show that very few government and donor initiatives have succeeded in implementing sustainable strategies for SME development. To succeed, sustainable SME development will require concerted efforts among the various parties concerned including commercial and rural banks, leasing companies and equity providers, consulting and training firms, internet providers, as well as local business associations.

Governments' role in the process should be limited to providing the enabling environment for private sector development, correcting potential market failures and creating a level-playing field that will allow SMEs to compete with their larger counterparts on an equal basis. Governments do not have the finances nor the ability to get involved directly in economic activities such as SME financing and service provision. Emerging international experience is demonstrating that government is not the appropriate vehicle to implement and co-ordinate such efforts, and that public-private partnership for SME development are a critical element for the success of these efforts.

SMEs can significantly increase their competitive advantage through mutual cooperation with emerging business development service providers for cost reduction, capacity building, technological upgradation and common facility creation through cluster approach.

They do so as originators of new ideas and technologies; as links in supply chains promoting technical advances; and as sources of knowledge and specialized goods and services for larger businesses. Small businesses accounted for a higher proportion of employment in some industries including agriculture, business activities and construction.

Under the circumstances, the Government should immediately take necessary steps to increase awareness of WTO provisions among entrepreneurs, particularly to those located in its backward areas, and assist them as an effective facilitator. It is pertinent to note here that these entrepreneurs get special attention and support all over the world including the developed countries. The developed countries have been constantly expanding the network of non-tariff barriers by raising issues like environmental concerns, labour standards, child labour etc. India too should push for bringing down tariff and non-tariff barriers in other countries for the promotion of its exports to the markets of developed countries. Govt. must motivate the people for the expansion of small scale unit by providing financial efforts. Small scale units highly contribute to the economic growth as we have the evidence of Gujarat.

Conclusion

Increasing competition and globalization along with the need to produce quality product at best prices have prompted the industry to introduce new product development methods with modern technology. To face challenges the new initiatives required for SMEs have taken various forms such as (i) Promoting clusters, (ii) Social security of works in the unorganized sector (iii) Innovativeness through networking (domestic & global) (iv) Increasing export and Broad basing rural industrialization. These issues can be best addressed at individual institutional and at policy levels. Gujarat state has wonderful institutional support in the form of GIDC, other institutions and favorable industrial policy. However the strengthening of clusters will help in promoting SMEs to face the global challenges.

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