



ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2016; 2(2): 14-17
www.allresearchjournal.com
Received: 24-11-2015
Accepted: 26-12-2015

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Global meltdown & its impact on SME sector in India: A case study of Bank of Baroda

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Abstract

A key lesson that had been learnt from global financial has pulled many policy makers to again rethink on the policies for economic growth which have prevailed over the past three decades. We all know that SMEs sector accounts for more than 95% of all the firms leaving aside the Primary Agriculture sector. It is a major source for generation of employment and generates significant import and export earnings. The aim of this paper is to explore the problems that were faced by most of the Small and Medium Enterprises' entrepreneurs in India during the global financial crisis and provide valuable suggestions that will help them in coping up with these crises. The findings shows that most of the SMEs customers had faced with problems like declining demands, liquidity crunch, weakening value of rupee, interrupted power supply, inefficient rail road connectivity and so on.

Keywords: Small and medium enterprises, global meltdown, SME customers, Indian Economy, employment.

Introduction

India is a very young nation – just over 68 years since independence – setting out on a path of sustained economic growth, for decades to come. We already have over a billion fellow Indians. Within the next 15 years, we will have 500 million people between the age of 25 to 35 – more than the entire population of the United States! Each person, in this bold new generation, will be having he prime of his or her life, striving for a better tomorrow – creating, in the process, new growth opportunities, for budding entrepreneurs.

Objective of the study

- To study the SME entrepreneurs in Uttar Pradesh.
- To study the impact of global meltdown on these SME.
- To find out the problems which they had or still facing from Recession & its causes.
- To suggest measures that can help SME to recover from the
- Economic crisis.

Small Scale Industries: They are the backbone of the Indian industrial structure. They provide a variety of non-traditional low technology product. They are also engaged in processing preserving, manufacturing and servicing activities.

Small scale industries constitute an important and crucial segment of the industry sector. Promotion and growth of SSI sector has been a cardinal feature of Indian industrial policy. SSI's in India have been given a distinct identity and the government has accorded high priority to this sector on account of the vital role it plays in balanced and sustainable economic growth.

It plays crucial role in the process of economic development by value addition, employment generation, equitable distribution of national income, regional dispersal of industries, mobilisation of capital and entrepreneurial skills and contribution to export earnings.

Performance of SMEs

Production

The small-scale industries sector plays a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. It has been estimated that a million Rs. of investment in fixed assets in the small scale sector produces 4.62 million

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worth of goods or services with an approximate value addition of ten percentage points. The small-scale sector has grown rapidly over the years. The growth rates during the various plan periods have been very impressive. The number of small-scale units has increased from an estimated 0.87 million units in the year 1980-81 to over 3 million in the year 2000. When the performance of this sector is viewed against the growth in the manufacturing and the industry sector as a whole, it instills confidence in the resilience of the small-scale sector.

Employment

SSI Sector in India creates largest employment opportunities for the Indian populace, next only to Agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the small-scale sector generates employment for four persons.

Generation of Employment - Industry Group-wise

Food products industry has ranked first in generating employment, providing employment to 0.48 million persons (13.1%). The next two industry groups were Non-metallic mineral products with employment of 0.45 million persons (12.2%) and Metal products with 0.37 million persons (10.2%).

In Chemicals & chemical products, Machinery parts except Electrical parts, Wood products, Basic Metal Industries, Paper products & printing, Hosiery & garments, Repair services and Rubber & plastic products, the contribution ranged from 9% to 5%, the total contribution by these eight industry groups being 49%.

In all other industries the contribution was less than 5%.

Per unit employment

Per unit employment was the highest in units engaged in beverages, tobacco & tobacco products mainly due to the high employment potential of this industry particularly in Maharashtra, Andhra Pradesh, Rajasthan, Assam and Tamil Nadu.

Next came Cotton textile products, Non-metallic mineral products, Basic metal industries and Electrical machinery and parts. The lowest figure of 2.4 was in Repair services line.

Per unit employment was the highest in metropolitan areas and lowest in rural areas.

However, in Chemicals & chemical products, Non-metallic mineral products and Basic metal industries per unit employment was higher in rural areas as compared to metropolitan areas/urban areas.

In urban areas highest employment per unit was in Beverages, tobacco products followed by Cotton textile products, Basic metal industries and Non-metallic mineral products.

Location-wise Employment Distribution - Rural

Non-metallic products contributed 22.7% to employment generated in rural areas. Food Products accounted for 21.1%, Wood Products and Chemicals and chemical products shared between them 17.5%.

Urban

As for urban areas, Food Products and Metal Products almost equally shared 22.8% of employment. Machinery parts except electrical, Non-metallic mineral products, and

Chemicals & chemical products between them accounted for 26.2% of employment. In metropolitan areas the leading industries were Metal products, Machinery and parts except electrical and Paper products & printing (total share being 33.6%).

State-wise Employment Distribution

Tamil Nadu (14.5%) made the maximum contribution to employment. This was followed by Maharashtra (9.7%), Uttar Pradesh (9.5%) and West Bengal (8.5%) the total share being 27.7%. Gujarat (7.6%), Andhra Pradesh (7.5%), Karnataka (6.7%) and Punjab (5.6%) together accounted for another 27.4%.

Export

SSI Sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is contributed by SSI Sector. Direct exports from the SSI Sector account for nearly 35% of total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods. It would surprise many to know that non-traditional products account for more than 95% of the SSI exports. The exports from SSI sector have been clocking excellent growth rates in this decade. It has been mostly fuelled by the performance of garments, leather and gems and jewellery units from this sector. The product groups where the SSI sector dominates in exports are sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products. The SSI sector is reorienting its export strategy towards the new trade regime being ushered in by the WTO.

Impact of Global Meltdown in India

- Reduced liquidity in the Indian economy
- Reduced industrial output
- Reduced job opportunities
- Stock Market is lingering in the bottom
- Real estate market has started to take a beating
- Inflation has increased
- GDP has come down and the GPD forecast for the next two quarters are only average.

A slowdown in the US economy is bad news for India because

- Indian companies have major outsourcing deals from the US.
- India's exports to the US have also grown substantially over the years.
- Indian companies with big tickets deals in the US are seeing their profit margins shrinking.

Findings

- 1) Indian SMEs were facing tough competition from their global counterparts, changes in manufacturing strategies and the turbulent & uncertain market scenario. Demands for goods and services have been declining due to global meltdown.
- 2) SMEs in Uttar Pradesh were facing problem with a cut back in orders and a pile up of pending payments, both international and local sales. This has severely impacted

- the working capital cycle and led to a financial crunch. That's why most of the SMEs had done downsizing in order to reduce cost.
- 3) Most of the SMEs deals directly with household customers that's why they are not as such badly effected as compared to those who deals in exports, textiles, real estate, gems & jewellery, auto parts and handicrafts.
 - 4) They are not using the latest technology that's why they are not able to make optimum utilization of their business resources.
 - 5) They were not able to calculate correctly the working capital requirement and lead time. This creates hurdle in estimating the correct requirement of cash in order to meet out day to day expenses.
 - 6) They maintain a very high level of inventory that's why most of the capital is blocked in idle lying stocks. They told me that during recession, the cost of raw material and transportation also got increased which in turn create more problems to combat this situation.
 - 7) They are also facing problems relating to interrupted power supply and inefficient rail-road connectivity. When the electricity went off, the labourers become idle and thereby it becomes burden for the organisation to pay them for the time they had not worked.
 - 8) During global meltdown most SMEs have done downsizing in order to reduce cost. There was also a shortage of skilled and talented people in the SMEs organizations who can bring efficiency and productivity in their business.
 - 9) There were some SMEs that were involved in exports or imports faced problem like fluctuations in the currency exchange rates during recession.
 - 10) In this era of rapid technological changes, most Indian SMEs are still importing technology instead of developing them through their own R&D. Consequently, not only have they suffered in new product development but also in technological up gradation which is so crucial for survival in these times of cut-throat competition.
 - 11) They are also suffering from scarcity of information related to external environment that's why they lack expertise while forming strategies to run their business successfully. The SMEs have an additional challenge of attracting competitive management and marketing talent.
 - 12) A large number of Indian SMEs are functioning in traditional ways by utilizing local methods and unskilled labour to make products that are unacceptable even in the Indian market, leave alone abroad where quality expectations are higher.
 - 13) Downturn in economic growth, reduction in earnings due to shrinking export orders and domestic slowdown has also led SMEs to lower debt servicing capacity.
 - 14) Some SMEs told that banks had tightened the lending conditions during recession. That's why it became very difficult to avail loans during financial crisis when everywhere liquidity was drying up.
 - 15) On the raw material scene, prices of imported raw material have substantially reduced, but due to weakening of rupee, full advantage of price has not been available to the company.
 - 16) Due to lower turnover and profitability of the SMEs during the recession period, most of them are reluctant in disclosing the true income for payment of tax which is hindering the availability of loans for the working capital requirement.

- 17) Most of the SMEs in Allahabad are still not aware of the policies and schemes formed by the government. That is why they are not able to get those benefits which they would have if they had known.

Suggestions

- 1) The first and the foremost suggestion which I would like to give is that they should not panic. Global meltdown kills fewer dreams than depression does. If they panic and get depressed, they've lost the game away!
- 2) They need to analyse the current scenario and take some sharp decisions in order to recover from the economic crisis. "SURVIVAL OF THE FITTEST" should be their motto. SME needs to adopt strategic approach to exploit their potential to cater the change in order to survive in global meltdown.
- 3) SME must not lay off their employees in a hurry as they have spent time as well as money in hiring them. The industry should make effective decision matters relating to hiring and firing of employees. They must run performance monitoring system in order to keep a check on the performance of their employees and wherever necessary, changes should be made to tackle complexities prevailing in the organization.
- 4) SME needs to motivate their employees and labourers in order to make them work with zeal and enthusiasm in the organization. Firing of employees creates the feeling of insecurity among the existing as well as newly appointed employees. If needed they must be given proper training so that their skills and knowledge could be enhanced which in turn will convert them as a valuable asset for the organization.
- 5) They should also make arrangements to retain skilled labour and employees who are key personnel for the company during recession because skilled manpower are the assets of the company and unskilled manpower act as a burden for the company.
- 6) They should identify the threats and challenges prevailing in the market and according to that they should form strategies to fight recession.
- 7) SMEs need to understand what risks they might face that could impact their business. They should analyse each risk and prioritize to decide which one is more likely to affect them and to what extent and then make list what preventive and contingent actions could be taken for each major risk. The next step they must take is to define how each risk will be addressed, by whom and in what time frame.
- 8) SMEs are clearly a major growth engine for the Indian economy. They need to develop a framework to effectively utilize their finance which they have borrowed in the downturn. They must not block their capital by way of maintaining huge inventory for a very long period of time. Instead they have to properly assess the correct requirement of stock and according to that they should plan to maintain stock.
- 9) There is a need to properly calculate the working capital requirement of the company and in accordance to that the organisation can approach banks for further financial assistance during global meltdown.
- 10) SMEs need to take suitable measures to cut unnecessary expenditure which increases the overall cost of the organization. They need to monitor each and every expenditure in a proper manner. They need to

standardize new practice that can help them to bring down costs. They should monitor their liquidity position, focus on cost reduction and continue with efforts to improve productivity.

- 11) SME also needs to make continuous innovation that will provide them with competitive edge during recession. As we all know that resources are scarce but they have alternative uses. That's why SME needs find out the best way of doing things in an efficient manner.
- 12) They have to accept the changing paradigm and develop dynamic strategy-building expertise and not just remain fixed with traditional time-tested methodologies. Leaders with a wide and deep vision are the core need of any organization with a will to be successful among its competitors.
- 13) They also need expert advice and talent management consultants to help them find their strengths and weaknesses so that can overcome obstacles, especially during global slowdown.
- 14) The cost on advertisement should be reduce because in ads huge expenditure is generally needed. They have to redesign their spending on it because at the time of global meltdown there is no or very least effect of advertisement on demand.
- 15) Last but not the least, they also need to adopt efficient supply chain logistics so that on every phase of transfer of goods and services minimum time is spent and less cost is incurred so that their profits would definitely increase in the future.

Conclusions

Today organizations are knowledge based and their success and survival depend on creativity, innovation, discovery and inventiveness. An effective reaction to these demands leads to innovative change in the organization in order to ensure their existence. The rate of changes is accelerating rapidly, as new knowledge idea generation and global diffusion are increasing.

Creativity and innovation have a bigger role in this change process for survival. In the era of Globalization, SMEs need the latest technology, innovative ideas, assistance for export promotion, timely working finance, skilled labour and finance at lower rate of interest. It is only then that SMEs can compete in the world market on an equal platform and succeed in the globalization World.

SMEs have to learn and imbibe the process of innovation, in their day to day working, to remain competitive. Instead of looking for support from other agencies, they have to find their own ways of overcoming barriers. Global trade has rapidly expanded. Today approximately 20 to 30 per cent of goods cross borders before consumption. Despite all the barriers and gaps as well as global financial crisis Indian SMEs have continued on their path of progress. In fact, their rate of growth is higher than the rate of growth of the industry sector as a whole, their contribution to our GDP is almost 7%. In the past also, our SMEs have shown enough strength, vigor and resilience and in current situation they will not only survive but win also. They have the high capacity of generating almost 8 times more employment opportunities than the big corporate bodies. Globalization and change in government policies brought not only sophisticated production and manufacturing techniques but also speedy supply chain management. Therefore SMEs need to think over their marketing logistics again and again in

order to compete with global players. S C M plays a major role in delivering market offering to the ultimate customers on time, that too at less cost. Most SMEs had the capability to produce quality products but they fail to deliver goods on time to the end user. They need proper chain of network of suppliers as well as distributors in order to make delivery of goods/products run smoothly and that to at minimum cost. They also need the help of some professionals who can guide them in managing the business. Most of the entrepreneurs in Allahabad are not well educated & lack expertise while running their business that's why they are not able to adapt themselves with the changing environment. They are still using the traditional way of doing things. They need to learn a lot if they want to stand against their competitors. They also need to study the consumer behavior and their changing taste and preferences. They need to move in accordance with customer because "CUSTOMER IS THE KING." They have to adopt customer centered approach.

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