

Entrepreneurial Opportunities For Foreign Investors In The Indian Small Industry Sector - A Study Report

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INTRODUCTION

In the current globalised scenario, the strategies (of any country) that formulate programmes for economic development and for the removal of poverty are laying more emphasis on the development of small-scale industrial sector (SSI). The small scale sector in India has emerged as a traditionally vibrant, competitive and dynamic segment of the economy as it provides large scale employment, education and training, capital formation, effective mobilisation of resources, balanced economic growth, expansion of trade, transport and equitable distribution of national income. The SSI gathered momentum along with industrialization and economic growth in India. Being a labor-intensive sector, SSI offers a higher productivity of capital than the capital-intensive sector due to low investment per worker.

After the dawn of industrialization, British producers of textiles found hand made Indian textiles such a threat that they lobbied hard to have its import banned, succeeding in the late eighteenth century (Gupta & Sharma, 1996). During the pre-economic liberalization period, a wide variety of incentives, concessions and institutional facilities were extended for the development of SSIs. But these socialistic promotional policy measures, in many cases, resulted in protection of weak units rather than the independent growth of units under competitive business environment (Nyati, 1988). Such situation continued up to the middle of 1991. Under the regime of economic liberalization, the focus was shifted from “protection” to “competitive promotion” (Raja & Rajashekar, 2002). SSI stimulates personal savings and also promotes entrepreneurial talent and skills.

MEANING OF SSI

Before discussing the performance of Indian small-scale industry and the investment opportunities for the foreigners in the sector, the understanding of the concept of SSI is relevant. According to the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the Micro, Small and Medium Enterprises (MSME) are classified in two classes -namely **Manufacturing Enterprises** that are engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries Development and Regulation Act, 1951 and **Service Enterprises**. The limit for investment in plant and machinery / equipment for manufacturing / service enterprises are as shown in Table 1.

TABLE 1: Limit For Investment In Plant and Machinery

ENTERPRISES	INVESTMENT IN PLANT & MACHINERY	
	MANUFACTURING SECTOR	SERVICES SECTOR
Micro Enterprises	< Rs. 25 lakh	< Rs. 10 lakh
Small Enterprises	> Rs. 25 lakh but upto Rs.5 Crore	> Rs. 10 lakh but upto Rs.2 Crore
Medium Enterprises	> Rs. 5 Crore but < Rs. 10 Crore	> Rs. 2 Crore but < Rs. 5 Crore

Source: Ministry of MSME

PERFORMANCE OF SSIs IN INDIA

Globally, small and medium enterprises have been performing extremely well for the growth of the economy. In India too, the MSEs play a pivotal role in the overall industrial growth of the economy. According to the contemporary survey findings, it is estimated that SSI sector accounts for about 39% of the total manufacturing output value and around 33% of the total export value of the country. Further, MSE sector has consistently registered higher growth rate than that of the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost having the labor intensity four times higher than that of the large enterprises.

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The overall performance and contribution of SSIs to the Indian economy is generally described in terms of its absolute growth in four major factors - number of units, employment, production and exports from SSI sector which are mentioned in Table 2.

Table 2: Performance of Small Scale Sector

Year	Number of Enterprises (Lakh Nos.)	Employment (Lakh Persons)	Production (Rs. Crs.) at Current prices	Exports (Rs.Crore)	Growth Rate (%)	Share in GDP (%)
2000-2001	101.1	239.09	184428	69797	NA	NA
2001-2002	105.21	249.09	195613	71244	NA	NA
2002-2003	109.49	263.49	314850	86013	8.68	5.92
2003-2004	113.95	275.30	364547	97644	9.64	5.79
2004-2005	118.59	287.55	429796	124416.56	10.88	5.84
2005-2006	123.42	299.85	497842	150242.03	12.32	5.83
2006-2007	128.44	312.52	587196	NA	12.65	5.94
2007-2008 (Projected)	133.67	322.28	695126	NA	13.00	NA

SOURCE: Office of the Development Commissioner, Ministry of MSME, Government of India (Statistics & Data Bank Division) & Annual Reports of RBI

From the above figures, it is clear that the SSI sector has been growing rapidly over the years. The growth rates during the various periods have been very impressive. The number of SSI units has increased from 101.1 lakh units in the year 2000-01 to an estimated 133.67 lakh units in the year 2007-08. Even the production and export performance is very much impressive indicating the increasing trend from 2000-01 to 2007-08 as shown in the table above. The exports of the Indian SSI units include Direct Exports¹ and Indirect Exports² that take place through merchant exporters, trading houses and export houses. Sometimes, indirect exports may also take the form of export orders from large units or the production of parts and components for use for finished exportable goods. Even the trend of the employment generation by SSIs has shown an upswing. According to the recent survey being conducted by Ministry of MSME, it has been estimated that investment of lakhs of rupees in fixed assets in the Indian SSI sector generates employment for four persons. Among the small firms, firms involving food products have been ranked as first in generating employment, which was followed by non-metallic mineral products, metal products and chemicals & chemical products. From these facts, it is revealed that the SSI sector registered continuous growth in the number of units, production, employment and even exports till date in the current millennium.

SICKNESS IN SSIs

The anti License-Raj policy along with integration of Indian market with the global market has increased the problems of various SSIs. The sector now faces problems like fierce competition, natural threat to indigenous technology etc. The process of LPG (Liberalisation, Globalisation & Privatisation) posed several threats and challenges for the SSIs in India, as a result of which various SSIs flourished well and several became sick. In spite of the different policy initiatives and measures taken by the Government of India for the support of SSIs, there are some sick units also. However, sickness in the total SSI sector is of the order of 1 %, whereas in the registered and unregistered SSI sectors, it is 3.38 % and 0.64 %³ respectively. According to the Kohli Committee report of RBI (III census of SSI), the criteria to measure sickness is:

- Delay in repayment of loan over one year.
- Decline in net worth by 50%.
- Decline in output during the last three years.

According to the Third Census of RBI, the main reasons for sickness in SSI include:

- Inadequacy of working capital, delay in sanction of working capital⁴ and time gap between sanction of term loan and working capital.
- Poor and obsolete technology.
- Problem related to availability of raw material.
- Inadequate demand and other marketing problems.
- Erratic power supply.
- Labour problems.
- Infrastructural constraints.
- Inadequate attention to Research and Development.
- Inability of the units to face growing competition due to liberalization and globalization.

¹ Direct Exports contribute almost 45% of the Indian total exports as per the Third Census of SSI (2001-02).

² Indirect Exports contribute around 15% of the Indian total exports as per the Third Census of SSI (2001-02).

³ According to the Third Census of SSI done in 2001-02.

⁴ Credit provided for running the industry for its day-to-day requirement for purchasing raw material and other inputs like electricity and water etc. and for payment of wages and salaries is called short-term credit or working capital.

PROBLEMS FACED BY THE SSI ENTREPRENEURS

In the view of the LPG, Indian SSI units have been suffering from one major problem which is non-accessibility to reliable and efficient infrastructure which in turn impedes small industry competitiveness. The infrastructural constraints confronted by small industry can be broadly classified as economic, technological, marketing and financial. Technological obsolescence in SSI sector affects the quality and productivity adversely. Inferior quality and low productivity is a common phenomenon due to lack of technological dynamism in the Indian Small Industries (Pandey, A.P., 2005). Timely availability of adequate finance is another important issue which determines the survival and growth of small firms. While large firms have alternative sources of finance, small firms are largely dependent on bank credit to meet their financing requirement. Marketing has been identified as a major problem area of small-scale sectors. Inferior quality of produce is unable to penetrate the market and hence, even government support will not pay much for SSI. Also, the SSI units are unable to invest on advertisements like large enterprises.

FINANCIAL AID TO SSIs

Of all, one can conclude that lack of adequate and timely credit facility to SSIs poses a hindrance for the survival and the growth of SSI units. According to the RBI annual report (2008), majority of the SSI sector depends on commercial banks for the credit purposes. RBI has initiated different schemes through which SSIs get funds for long-term⁵ and working capital requirements as well. The Laghu Udyami (small enterprise) Credit Card Scheme has been provided to SSIs where they can avail credit up to Rs.10 lakhs. Similarly, credit facilities up to maximum of Rs.25 lakhs are provided through Credit Guarantee Fund Trust in collaboration with SIDBI and Govt. of India. Term loans along with working capital in the form of composite loans are provided by State Financial Corporations (SFCs), Small Industries Development Corporations (SIDCs), National Small Industries Corporation (NSIC) and National Bank for Agriculture and Rural Development (NABARD). In the context of the financial aid to SMEs, FDI plays a crucial role.

FOREIGN DIRECT INVESTMENT (FDI) IN SSI – CURRENT SCENARIO

The requirement of FDI in the Indian small-scale sector is very high. Accordingly, GOI has liberalized FDI norms for small-scale units by shifting the approval regime from the case-by-case approach currently used by the FIPB⁶ to the automatic route, and perhaps even raising the industry-specific caps on foreign equity ownership. It brings money along with new expertise, international discipline in the deployment of funds and sometimes even strategic inputs. The Department of Commerce feels that Indian exporters are not in a position to compete in the global market for such items since SSI reservation⁷ hinders economics of scale. Therefore GOI, in order to increase participation of foreign players and big companies in small-scale industries, has formally announced doing away with the 24 per cent investment cap in the sector. India has allowed FDI up to 100% in many manufacturing industries which are designated as Small Scale Industries. It has reserved just 35 on the reserved list for the small scale manufacturers that once had as many as 873 items in 1984 and 47 items when the policy of reservation was first introduced in 1967. The 35 items on the SSI list include food products like pickles, chutneys and bread, most ground and processed spices and a few edible oils like non-solvent extracted mustard and groundnut oil etc. The de-reservation facilitates:

1. Global benchmarking for the SSI to compete in the international markets through upgraded quality & technology.
2. Economies of scale in production and cost reduction in the global markets.
3. Tie-ups with MNCs for accessing skills, technology, finances & even export markets.

ENTREPRENEURIAL OPPORTUNITIES FOR FOREIGN INVESTORS

India's current target of doubling its per capita income by the end of 2010 with the greater participation of private sector in the development process provides due opportunity as well as responsibility on SSI sector to contribute more for the achievement of this target. Moreover, in order to fulfill the economy's warranted growth rates by

⁵ Credit provided for creation of fixed assets like land, building, plant and machinery is called long term credit.

⁶ Foreign Investment Promotion Board prescribes some cap on FDI limit in some sectors.

⁷ Reservation means that units producing the reserved items cannot go beyond a stipulated cap on investment in plant and machinery. Moreover, FDI was allowed on a limited basis in SSI's.

bearing both national and international market competitions, the forthcoming years will be of more importance for the SSI sector mainly due to the accelerated pace of deregulation of financial sector. In this regard, let us examine the needs of SSIs in India.

REQUIREMENTS OF SSIs

To grow with competitive strength, the SSI sector needs proper flow of financial resource support and less burdened financial services which the present Indian financial system has to take care of. Financial infrastructure needs to be broadened to ensure the perfect fulfillment of the growing investment demand in the SSI sector. The major focus areas of SSI units are undoubtedly financing of infrastructure, plant and machinery, expansion and modernization, technology up gradation, marketing and R&D should necessarily be comprehended for apprehension of future prospects of the SSI sector. According to the primary survey conducted by UGC on the problems of SSI units, it is evident that the majority of SSI units still find it much burdensome to bear the interest rate burden of domestic term loans. Hence, there is a need to open up the SSI sector for foreign investors to invest in this sector. Secondly, apart from the proper and cheaper financial resource support, it is felt by the Working Group of the Tenth Five Year Plan on SSI sector that infrastructure and marketing network are the two pillars that can make the sector more competitive.

Thirdly, it is of immense necessity for the sector for the constant upgradation of technology for the survival in the international markets. The future dynamics of the SSI sector is bestowed upon the Information Dissemination system, which is a complete network of information at both domestic and international levels that enables the sector to have updated information on all the related demand and supply factors. Fifthly, from the experiences of the SSI units of Korea, Japan and Singapore, it can be inferred that it is high time that the SSI sector should be re-oriented to establish a higher degree of simulative inter-linkages among large, medium, and small sectors, so as to assertion ancillarisation in the vertical setup of the industrial sector. Sixthly, to meet and to sustain international competitiveness, there lies the urgent need to create the transition from the existing level to higher international standards of quality and design. As a positive step in this regard, the GOI has enlarged the scope of the ongoing incentive scheme of ISO 9000 certification to include reimbursement of expenses for ISO 14001, Environment Standard Certification w.e.f. Oct 28, 2002.

ENTRY STRATEGIES FOR FOREIGN INVESTORS

A foreign investor can enter and set up business operations in India in the SSI sector in any one of the following modes:

- 1) **As an Indian Company**, which is a company incorporated in India under the Companies Act, 1956 through Joint Ventures, Strategic Alliances or as a Wholly Owned Subsidiary. Joint Venture may entail a foreign investor:
 - To establish distribution/ marketing set up of the Indian partner.
 - To avail financial resources of the Indian partners.
 - To establish contacts with the Indian partners as this helps to smoothen the process of setting up of operations.Foreign companies can also set up wholly owned subsidiary in India in the sectors where 100% FDI is permitted as per the current FDI policy.
- 2) **As a Foreign Company**, who can set up their operations in India through Liaison Office/Representative Office, Project Office or Branch Office. But such companies have to register themselves with the Registrar of Companies (ROC) within 30 days of setting up a place of business in India.

ENTREPRENEURIAL OPPORTUNITIES FOR FOREIGN INVESTORS

Small industry sector in India has been performing exceedingly well and has enabled our country to achieve a wide measure of industrial growth and diversification. The opportunities in the small-scale sector are enormous due to the following advantages:

- Less Capital Intensive.
- Extensive Promotion & Support by the Government.
- Reservation for exclusive manufacturing by the small scale sector.
- High labour absorption nature.
- Funding - Finance & Subsidies.
- Subsidies in machinery and raw-material procurement.
- Manpower Training.
- Technical & Managerial skills.
- Tooling & Testing support.
- Reservation for Exclusive Purchase by Government.
- Export Promotional measures.
- Growth in demand in the domestic market size due to overall economic growth.
- Increased Export Potential for Indian products.

Owing to its less capital intensive and high labour absorption factors, the SSI sector has made significant contribution to employment generation and to rural industrialization. This sector is ideally suited to have flourishing and

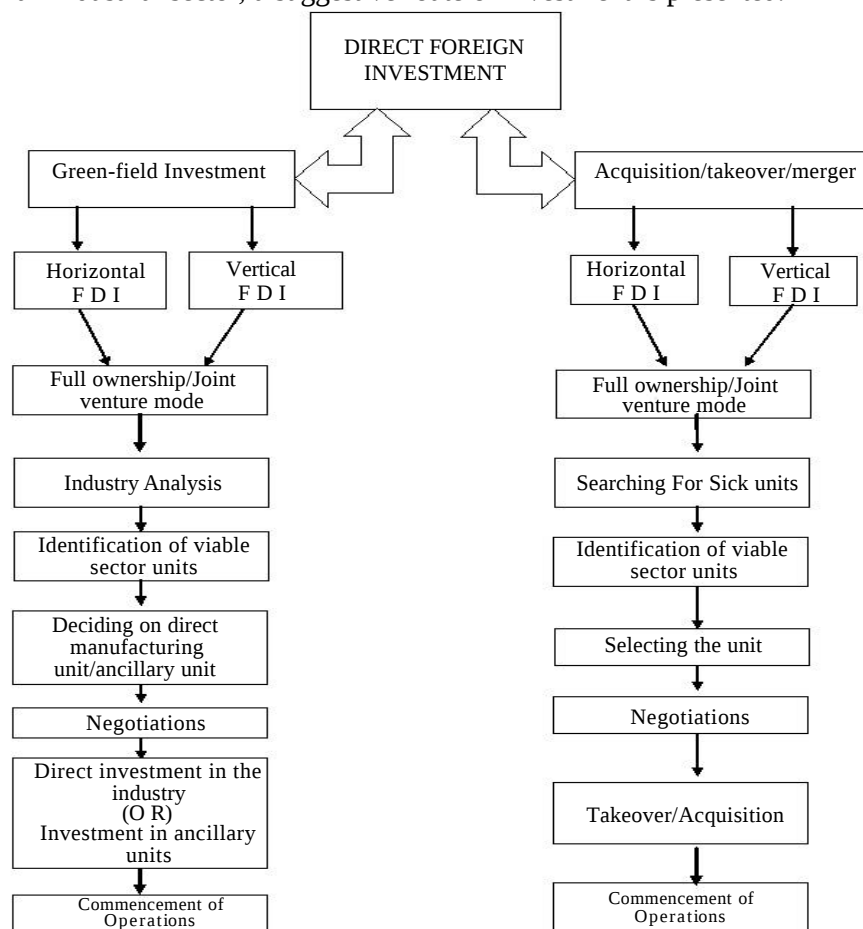
well-grounded markets for the same products/processes, differentiated by quality, value added and sophistication. This characteristic of the Indian economy will allow complementary existence for various diverse types of units. The promotional and protective policies of the Govt. have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods. Therefore, the SSI sector in India creates a wonderful opportunity for the foreign investors.

MODEL OF INVESTMENT FOR FOREIGN INVESTORS

It is a universally acceptable fact that the small-scale industry constitutes an integral and vital component of a developing economy. SSI creates more employment opportunities in an efficient entrepreneurial environment. It also contributes profit generation through entrepreneurship. According to Dr. Perumal Koshy⁸, majority of the SSI units in India have been suffering from marketing problems because of which they cannot make their presence felt in foreign markets. He also opined that there arises a need for the sector to shift the productive base from low value, price-determined modes of operation to higher value, knowledge-based patterns of production and products. Also, SME companies have to reorient their focus on exports.

Generally, foreign investors look for a favorable environment in the host countries. India, being a frontier for foreign direct investment, offers enormous scope for overseas investors, especially, in the small industry sector. The Indian SSI sector is characterized by manufacturing and merchandise activities. The manufacturing sector includes ancillary industries that cater to the needs of large scale industries. Besides producing for the domestic markets, the small scale industries manufacture internationally competitive products for the overseas markets. While export is the priority, imports are permitted by the government, especially, with export obligation.

Foreign investors may opt for a wholly owned subsidiary in the permitted small industrial sector or a joint venture or acquisition/take over of existing units. To ensure long-term gains and to exercise better control over their investments in the small industrial sector, a suggestive route of investment is presented.



⁸ Dr. Perumal Koshy is an Economist with World Association for Small and Medium Enterprises (WASME).

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ABSENTEEISM SPECIFIC

The result revealed high and low absentees differ in their job-satisfaction, neuroticism and extraversion. High absentees are not satisfied with their job, are neurotic and show high extraversion. It is interesting to note that high absentees are neurotic as well, and show extravert tendencies. Studies in the past have also reported that high absentees' show extravert tendencies. The probable reason may be that they are deficient in job-related skills and better in social skills and other life skills. So employee counseling, psychological testing during selection process, training and other cafeteria benefits can help them to overcome the problem of absenteeism.

LIMITATIONS OF THE STUDY

The following limitations of the study should be noted.

1. The present study was confined to the employees of the University of Jammu.
2. The study was limited to a sample of 80 in which there were 40 males and 40 females.
3. The study was restricted to the non-teaching staff only.
4. The present study relied on quantitative data, making it difficult to comment on the process of social and cognitive functioning.
5. The results of the study are sample specific and may not be applicable to other groups like teaching staff and employees belonging to other professions.

AVENUES FOR FUTURE RESEARCH

Future research should incorporate both qualitative and quantitative data, with emphasis on understanding of various psychological factors that affect absenteeism rate. More work is required to identify and assess the relative impact of demographic traits, job attributes, recent organizational changes and personality traits, and practice characteristics on employee's job satisfaction, absenteeism rate and intentions to quit. There is also a need to examine longitudinal changes in job satisfaction, absenteeism rate and intentions to quit. Other areas of future work are to investigate how job satisfaction affects performance in the university employees and to predict recruitment and retention patterns for particular groups of employees. Additional research is required on how new organization programs such as EAP and EHP influence employee's job satisfaction, absenteeism rate and intentions to quit.

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Foreign direct investment in the SSI sector could be a wholly new operation or acquisition/take over/ merger with an existing business. Through horizontal FDI, the investment could be made in the same industry, the firm operates at home or in an industry that provides inputs for the firm's domestic operation or sells the outputs of the

firm's domestic operation. The form of ownership may be determined based on the mode of investment, management's philosophy and the government restrictions. A thorough industry analysis or a search for viable sick units may be carried out to identify the prospective sector/sick units for investment. Negotiations may be carried out with the respective authorities depending upon whether the investment is made in direct manufacturing or ancillary operation or taking over of a sick industrial unit, to effect investment and commence operations.

CONCLUSION

In the context of economic reforms and globalization, the SSIs must be competitive enough for their survival and growth. In the Indian context, particularly, small firms' comparative advantage lies in value-added labor which the country has to utilize effectively by opening the doors for the foreign investors through the horizontal FDI more than before. And in the days to come, there are innumerable opportunities for small enterprises to get into and make the Indian growth story consistent and sustainable.

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