

ISED Discussion Paper



Development of Small & Medium Enterprises: The Emerging Global Agenda

by
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Institute of Small Enterprises and Development

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About 'Discussion Paper' Series

Brought out by the Institute's knowledge platform, the ISED Small Enterprise Observatory, titles under this Series are meant to stimulate a discussion on some of the latest developments in the economy and society. The contents of 'ISED Policy Briefs' emerge largely from the findings and experience of research work at the various Knowledge Centers of the Institute of Small Enterprises and Development. They are meant to be a backgrounder for policy debates and discussions at various levels.

Preface

'Enterprise Security' is a new conceptual addition to the semantics of development Studies. It refers to the challenges of maintaining an enterprise, healthy and robust, thereby providing sustainable incomes and employment opportunities. It is a concept, complementary to the now-well known concepts of 'livelihood security' and 'sustainable development'. It investigates the heightened vulnerability of enterprises, to some external stresses, which may be due to natural processes and phenomena as well as to unsustainable social activity.

The dimensions of 'enterprise security', as a holistic concept, are broadly of two forms: a) internal; and b)external. It is important to note that, public policy platforms, so far, have focused on internal aspects of enterprise security. There is need for a new approach and policy framework. The issues of MSME development need to be viewed in terms of a 'total system approach', rather than trying to find solutions for individual problems. The time has come for a radical departure from the beaten track. It is, therefore, important to spell out the key concerns of entrepreneurship and enterprise security, so that, the opportunities and threats around them can be pin-pointed.

This document is the outcome of the co ordinate work of the various Knowledge Centers of the Institute, with the lead role of the ISED Small Enterprise Observatory .While field research in the States of Tamil Nadu and in Kerala form its backbone, of the Report, I wish to thank the Field Teams and our esteemed respondents, without whose co operation, our findings would not have taken shape. The relevant Departments of the Governments of Tamil Nadu and Kerala extended valuable support in the form of access to data sources and by providing rich insights. At the desk, I would like to acknowledge and appreciate the meticulous support of J.M.I. Sait,Phillips Mathew, Jovel Johnson and P. Sreekumar. P.Jagannathan and Vishnu Vardhanan extended excellent support in data processing and analysis. The credit for cover design goes to R.Vishnu, and to Johny Antony for type setting. Last, but not the least, I would like to place on record the technical support of John Antony, Mathew George, Ashique and Arun.

I hope this publication may be useful to various stakeholders that are keen to uphold the role and relevance of small enterprises in the Indian economy. Researchers, policy makers, practitioners, and students belonging to the broad disciplines of Management, Economics, and public policy studies, also may find it useful.

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Abstract

Moving ahead from the relatively narrow conventional perception on the SME role in the economy, the evolving global agenda of 'sustainable development' places it at the centre-stage of global debates. SMEs today are perceived to have a dual role in the economy, by providing the relevant linkages on the one hand, and offering a solution of harnessing the potential of the 'job-seekers' into 'job creators'. Entrepreneurship and SME development are essentially labour market problems. However, the evolving global production structure visualizes a new role and relevance for SMEs. The paradigm of 'Industry 4.0' offers new opportunities as well as threats to SMEs. Accordingly, both the market place and work place have been redefined. The shift from 'scale economies' to 'scope economies' would demand a policy package that is discrete and specific to the particular socio-economic environment of countries.

KEY WORDS: *global agenda, sustainable development, SME, Industry 4.0.*

1.0. Introduction

The rationale for SME development has, traditionally, been built upon two major pillars of development policy: 1) employment promotion; 2) balanced regional development; with strong political foundations in a democratic system, this conventional perception 'closed economies'. The emerging trend, however, is towards globalization of production and accelerated enhancement of scale. How do the SMEs perform against such rapid changes in the economy, where value chains are the decisive force? These questions, form the compass of public policy today. It is the content of such a policy framework that drive the actions or not, of the government in power. The purpose of this study is to examine and analyse change management strategies in the sphere of MSMEs, with public policy as a key instrument and central force. It spells out the learning for India, based on international experience. Such a learning, on an international plane, is important for India to shape it's MSME policy, in correspondence with the challenges and opportunities brought in by the emerging global economic order.

2.0. Brief History of the SME Constituency

From the days in the First Industrial Revolution, the large firm has been considered as the corner stone of manufacturing. Adam Smith (1776), conceptualized

'scale of production' as the driving force of capitalist manufacture. In the scheme of Karl Marx also such a paradigm is implicit, wherein, the ultimate state is one in which "the entire social capital would be united, either in the hands of a single capitalist, or in those of one single corporation (Marx, 1912).

The perception that, in the manufacturing sector, large and even giant firms will dominate, existed in Western economies throughout most of the twentieth century. In fact, Galbraith (1956), wished away the role of small firms, as essentially on a diminishing mode. Hence, the preference for large scale production was shared both by market economies and planned economies, for the better part of two centuries (Acs, 2003).

The publication of the 'Wealth of Nations' by Adam Smith (1776) corresponded broadly with the onset of the Industrial Revolution in England. During this period, subcontracting was widespread. In the then prominent putting-out system, the manufactories were dependant on cottage workers and their families. The production units were essentially small workshops. However, the initial technological interventions such as the spinning jenny, the mechanical loom, and subsequently, development of steam power in the late eighteenth and early nineteenth centuries, gradually led to the factory form of organization (Acs, 2003). By the middle of the nineteenth century, most of the industrial employment came under factories,

generally in the owner-managed form.

By 1870, Britain emerged in its role as a supreme industrial power, under its colonial regiment. On the other hand, other leading countries, especially Germany, the USA and Japan, were starting on a period of even more rapid expansion. Such expansion however, soon eclipsed Britain. By the early twentieth century, armed with the abundant natural resources base, and immigrant labour, there took place a booming of industry in the continental United States. This huge market size was exploited by the early entrepreneurs like Rockefeller, Morgan, and Carnegie. The process of merger was set in motion, leading to a wave of the world's largest 'corporations' or 'trusts', which began to dominate the US economy. By 1902, this hegemony of the US corporations got into the development of a global model of production organization, wherein, mass production was tuned on lines of the vision of Henry Ford, and the principles of 'scientific management' on lines of the thinking of Frederic Taylor, an engineer by training.

In Europe, the ascendancy of the German Empire, overtook great Britain in most branches of industry and technology. The track of capitalist production in Germany was different. The craft traditions inherited from the pre-industrial era were significantly adapted to the needs of industry, wherein human resources acted as a focal point. Vocational training and apprenticeship system of Germany was one of the best in the world. It brought in an unusual convergence system of the skills of the blue collar workers that complemented the abilities of scientists and engineers. This led to the manufacture of

high quality, technically advanced, products. The new lead and leap happened essentially in new growth industries, such as chemicals and electrical engineering. Complementing such a leap, was the growth of universal banks in the organization of industry.

In the global manufacture and exports, Germany and its share grew from one-third of Britain in 1880, to two-thirds in 1930, and is more than double today. The cartalization of business was a characteristic feature of Germany which helped to reduce costs, enhancement of profits, and an higher rate of investments. A characteristic feature of Germany even today, is a relatively few publicly quartered companies, unlike UK or the USA. Germany is the haven of family business, not only in manufacturing but in banking as well. This also helps to promote long term investment strategies in some unique lines.

2.1. The Challenge of the Mass Production Era

For nearly more than a century, the productivity of a US manufacturing worker has been around twice the level of a UK counterpart. In Europe, on the other hand, small national markets, coexisting with a much stronger craft tradition, delayed the adoption of mass production and scientific management (Acs, 2003). Skill development became a focal area for most of these countries. Going beyond, after the Second World War, the mass production model of US was embraced by UK, thereby leading to a relatively lower priority for the tradition on skill development and craft production. From 1950 to 1973, the share of UK in manufacturing exports dropped from 25 to

Crisis of Mass Production

The Industrial Revolution in England brought in the hegemony of large-scale manufacture globally. However, there began to develop cracks in this hegemony by the early 1970s. Evidences indicate that small firms in several countries were outperforming their larger counterparts (Acs, 2003). For example, in US steel industry, new entrants came in the form of mini mills and sectors like electronics and software. Following the two oil shocks, new technologies such as micro electronics, tool machines with numeric control, etc., came to the fore, thereby redrawing the manufacturing scene in favour of smaller firms. Loveman and Sengenberger (1991) points out that after increasing from at least the end of the Second World War, average firm and establishment size began to decrease in the 1970s, in most countries. Acs and Audrech (1993), analyzed this in terms of the employment shift in favour of small enterprises.