

# BUSINESS ENVIRONMENT, INVESTMENT PRIORITIES AND COMPETITIVENESS: AN EMPIRICAL STUDY OF INDIAN SMALL SCALE INDUSTRIES (SSIS)

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**ABSTRACT:** *Small scale industries (SSIs) are considered engine for economic growth all over the world. In present scenario of markets globalization and age of information technology, SSIs are playing significant role in supply chains of larger organizations. To sustain their importance and performance, SSIs are feeling more pressures to improve their competitiveness as compared to past protective markets. In this paper, an attempt is made to examine various issues such as nature of pressures and constraints, priorities for making investment and developing competencies and their competitiveness. Different dimensions of performance and competitiveness have been identified.*

*For analyzing these issues questionnaire based survey methodology was used. Total 75 responses were received. For analyzing the data SPSS 10.0 software is used. On the basis of analysis of data, it is observed that cost reduction, quality improvement and delivery in time are major pressures on SSIs. Lack of growth conducive environment and inadequate government support are major constraints. For making investment, market research, welfare of employees and research and development are major areas of investment. Performance of Indian SSIs is not found very satisfactory in comparison to international standards. However their growth in terms of market share, sales turnover and profit is higher than moderate level. It may be due to enhancing opportunities for them after market globalization. This study implies that Indian SSIs have lot of potential for growth provided they can improve their competitiveness at global level.*

**Keyword:** *Globalization, Small scale industries, performance, competitiveness.*

## 1. INTRODUCTION

Small scale industries (SSIs) represent the largest proportion of the manufacturing sector in every country. They have always played a key role in the economies of all major industrial countries. In India, 95 percent of industrial units are in small-scale sector with 40 percent value addition in the manufacturing sector and 6.29 percent contribution to the Indian Gross Domestic Product (Times of India, 2002). In India, industries having investment in plant and machinery less than Rupees (Rs) ten million are called small-scale industries (SSIs).

The major challenge for SSIs is to continuously provide innovative and customised products using the best available process technologies. Improvements in competitors' capabilities have shortened product life cycles, elevated product complexity and expanded accessibility to new technical breakthroughs (Gupta and Garret, 1996). According to Ajitabh and Momaya (2004) in such kind of environment, firm's competitiveness will depend on its ability to provide goods and services more efficiently than others involved in the market place.

In recent years, many large organizations all over the world have been focusing on their core business, down sizing and outsourcing. This trend has given many opportunities for SSIs to work in partnership with them. As business success depends on the formulation and implementation of viable strategies (Pun et al., 2000), therefore to grab these opportunities, SSIs in all sectors need to develop effective strategies for providing higher added values to customers in terms of cost, quality and services at shortest possible time.

There have been very few studies aimed at strategy development by SSIs for competitiveness. Even in developed countries, most of the studies have been devoted to large scale industries (LSI). Small firm with limited resources will be expected to perceive its business environment as being different from that of a large firm with perhaps more resources and it is also likely to face different environment pressures with regard to competitiveness in market. (Gyampah et. al. 2001). The approaches that a large firm uses to benchmark its competitors and negotiate with suppliers are expected to be different from the approaches used by small firm (Vickery et al. 1999). Therefore this study being an empirical study for SSIs has its own importance in enhancing the knowledge of strategy development. It will help to understand major pressures and constraints on SSIs, dynamic nature of strategy development as well as relationship of strategies with performance.

## 2. RESEARCH OBJECTIVES AND METHODOLOGY

In sustaining their competitiveness, SSIs face many pressures and constraints due to their limited resources such as lack of finance, skilled manpower and advance technology. Thus, their strategy should match the organization's resources to the changing environment and in particular its markets and customers in the pursuit of its goals and objectives (Porter, 1998).

The new competition is in terms of reduced cost, improved quality, products with higher performance, a wider range of products and better service, and all delivered simultaneously (Dangayach and Deshmukh, 2001). For surviving in this new competition, SSIs will have to develop suitable strategies for making new investments and development of competencies. Chaston et. al.(2001) have observed that the areas of competence concerned with new product development, human resource management practices, organizational productivity, the management of quality and management of information were extremely crucial in terms of influencing small firm growth rates. They have also observed that firms which have adopted a higher level learning orientation can be expected to exhibit statistically significant higher

competencies across the areas of measuring customer expectations, identifying quality variance, implementing quality improvements, using information to optimize information, create control systems, and identify market changes and use of IT to acquire data.

### 3. SIGNIFICANCE OF THE STUDY

The limited literature review shows that small scale industry development is dynamic and a comprehensive is dynamic and a comprehensive one time study is not possible. Which express the causal relationship among the variable that help in judging the performance of the small-scale industries for all times. In this study the authors have tried to find the causal relationship among the three variable GDP, SSI output and SSI exports and also have compared the performance parameters in the pre and post liberalization era.

### 4. MAJOR OBJECTIVES OF THE PRESENT PAPER ARE TO

Analyse business environment for Indian SSIs.

- Identify priorities for making new investments by them.
- Identify major areas of competency development by them.
- Analyse performance in comparison to national standards.
- Analyse competitiveness at different levels.

### 5. RESULTS AND DISCUSSIONS

In this study, executives were asked to rate the intensity of each factor for their respective organization on a five point Likert scale (1-Lowest, 5-Highest). About 450 small scale organizations from all parts of India were contacted for collecting responses. These organizations were selected from various directories available at Confederation of Indian Industries (CII), Auto Component Manufacturers Association (ACMA) of India, Federation of Indian Chambers of Commerce and Industries (FICCI) and Department of industries (Government of India). In spite of continuous reminders, phone calls, e-mails only seventy five valid responses were obtained for this empirical study. This data was analysed in context of business environment, strategy development and performance. First of all reliability test was done for all the issues. It was observed that for all issues, it is more than minimum acceptable value 0.5 (Annually, 1978).

According to Eren Errin (2004), in order to compete with their competitors, firms have to develop competitive strategies. Competitive strategy is a long-term phenomenon. A firm can not have a strategy of a month. Organizations need to develop their competencies proactively. As SSIs have many resource constraints therefore SSIs should make investments carefully for developing effective strategies. Strategies adopted by SSIs for competency development and making investment in various areas will be discussed in the following sections.

#### *Development of Competencies*

Chaston and Mangles (1997) have found that the areas of competence concerned with new product development, human resource management practices, organizational productivity and the management of quality etc. According to Nonaka and Takeuchi (1995) knowledge and skills have become company's means to gain a competitive advantage because it will help in developing various competencies by organizations for sustaining their market position.

According to Chanaron and Jolly (1999), global competitive strategies are increasingly becoming technology driven in the context of extremely dynamic and turbulent environments. Technology operates on competitiveness in two ways. First by altering the price structure through the development of more efficient and flexible processes and second by enabling the creation of better products of greater quality, better design, after sales service and short delivery periods etc (Vinas et al., 2001).

It is also commonly reported that quality and consistency of the manufacturing performance of SSIs can be improved as a consequence of the use of the most appropriate information technology (IT) tools without any major changes in business practices, manufacturing operations or the production facilities (Chan and Tang, 1995). Several studies (Lal, 2004, Hodgkinson and Mcphee, 2002) have found that users of advanced e- business technology perform better than non-user in the export market.

In this study, Research and development, Automation of processes, Information technology, Training of employees, Welfare of employees, Market research and Advertisement were considered as potential areas of investment. Respondents were asked to prioritize these areas. The results of this study regarding investment priorities are shown in Table 5. It is observed that for SSIs, market research (3.07), welfare of employees (3.00), research and development (2.85) are the major areas of priority for investment in past three years. SSIs are giving maximum focus on market research due to highly dynamic nature of market after globalization. In past, employees turn over and poor R&D had been the major problems for SSIs but observations of this study shows that now SSIs are giving due focus on these areas also. This is a new change observed in context of SSIs.

Neely et al. (1994) defined performance measurement as the process of quantifying the efficiency and effectiveness of manufacturing system. Performance of an enterprise is often measured as a ratio of output to input. The outputs constitute the products of the enterprise and the inputs are the resources used by the enterprise (Choudhary, 2001). For measuring performance both subjective and objective measures are considered. Performance of an organization relative to its industry standards is termed as its competitiveness (Ghemawat, 1990).

### 6. Concluding Remarks

Objective of this study was to analyse business environment, strategies for investment and performance in context of Indian SSIs in globalised market. Major findings of this study are:

Indian SSIs have cost advantage in comparison to their global competitors.

- Cost, Quality and to reduce delivery time are the main pressures on SSIs.
- SSIs are considering lack of growth conducive environment, inadequate government support/incentives and poor infrastructure for training as major constraints.
- Market research, welfare of employees and research and development are top ranking areas for making investments.
- Use of information to optimize decisions, to define quality standards and optimization of working environment are main areas of competency development.
- Application of IT, training of employees and research and development are significantly correlated with competitiveness.

Although this paper has contributed significantly in finding major pressures and constraints, key areas of investment, competency development and performance of SSIs but present study has got some limitations. All regions of India have not been represented uniformly and only few areas of strategy development have been considered. Further scope for this study may include consideration of other areas of strategy development and their effect on SSIs performance.

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