

Globalisation of SMEs in South Asia a Must

Written by JP, Senior Business Analyst, Small Enterprise India.com
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Small and medium scale industry is the lifeline of industrial sector of all South Asian countries including India. The strong economic growth of countries, barring a few, in the region and their cooperation are fast integrating the region's economy with the global market.

Against this background, it has become the need of the hour to globalise the SME sector of the region while contributing to sustainable and inclusive growth. However, in the present state, the sector is not strong enough to face the formidable challenges in the globalised market. A facelift is needed for the sector to effectively play in the totally liberalised market.

A.V. Ramanathan, export promotion advisor to Coir Board is of the view that first and foremost importance should be given to improve the governance of the SME sector in the region to make it a global player. "For SMEs and unlisted companies, the issue of governance may seem parochial", opines him.

According to him, the SMEs should improve the quality of their decision making mechanism and improve the management of risk. To improve these two critical faculties, the sector can depend on Commonwealth Business Council (CBC). The Council has recently developed a framework for corporate governance for SMEs after several global discussions.

The frame work says that SMEs should document polices and supporting practices, though in a very concise form. At present, SMEs do not follow the system of documenting polices and practices.

Most SMEs do not have independent directors, though they are very much needed to direct the firms in the correct direction. To fill this vacuum, they should at least appoint a mentor or

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independent external advisor to steer clear the firm through waves of adversities.

The framework suggests that all SMEs have a strategy, planning and monitoring. Besides they should have a written financial plan. Since SMEs are very sensitive to risk, it is very essential that they should have long and short-term risk management plans.

In small units the acquisition of skill may be less formal. This affects very much the functioning of the unit and quality of the products. Such company cannot effectively compete in the present open market system. External agencies may be depended for the supply of skilled workers.

Similarly, financial discipline is must for SMEs too like in the case of big ventures. The SME firms should subject themselves to independent external audit. Their financial statement may be very simple in nature and largely cash flow based.

The contribution of SMEs to the overall economic growth and the GDP is significant across South Asia. It is estimated that SMEs contribute half of Bangladesh's industrial GDP and provide employment to five million, or 82 per cent of the total industrial sector employment.

Bhutan had in 2001 about 409 small-scale and 43 medium-scale enterprises. In Nepal, SMEs constitute more than 98 per cent of all establishment covered by census and contribute 63 per cent of the value-added segments. More than 80 per cent of national value addition in manufacturing comes from the SME sector.

In India, SMEs contribute as much as 30 per cent to the GDP. In Pakistan, SMEs contributes about 30 per cent to the GDP, while 99 per cent of the 2.3 million enterprises that are very small absorb 60 to 70 per cent of labour in manufacturing, services and trade sectors and SMEs account 25 per cent export of manufactured goods besides sharing 3.5 per cent in manufacturing value-added.

In Sri Lanka, the SME sector comprises largely well-established business of which sole proprietorship and partnership account for 80 per cent of all SMEs.

So then, what are the critical propositions for South Asian SMEs to globalise successfully?

One of the key factors for building successful SMES is to build partnerships and technical networks with large-scale organisations. Technical support can thus be available to the SME on a continuous basis. It is imperative that SMEs get all possible technical support to enable the creation of small clusters of firms providing services to large industries in the initial phase. Later, these very firms should be nurtured to become a modern, 'stand-alone' unit which is able to bring about a significant change in the national economy through its domestic as well as global competitiveness.

A modern SME should be one which is technically competent, environmentally conscious, well connected to information networks and highly competitive. The active participation of the government is required to tackle issues of corruption and bureaucratic inertia. The time required for obtaining permits and necessary licences should be kept at the minimum levels.

What can South Asian governments and the private sector do together to support globalisation of SMEs in the region?

These can also involve UNIDO as well as the National Productivity Organisations, which have a valuable role to play too. Large organisations with their huge resources can not only incorporate the SMEs in their supply chains but also help them in upgrading and improving their productivity.

Similarly well networked industrial associations can help SMEs acquire the required standards of excellence through various workshops and training programmes.

One tool which could be encouraged by the Government is factoring, which can be done by setting up factoring houses.

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MAS Holding is a manufacturing of lingerie for the US and European retailers such as Victoria's Secret and GAP. The MAS Holding is owned 50 per cent by Sara Lee and 50 per cent by MAS Holding/Sri Lanka and has an A credit rating. The firm depends on a local supplier base because of the quicker delivery time. This includes fabrics, trims, laces, zippers etc. About half of MAS Holding's suppliers are local Sri Lankan SMEs. The remaining 50 per cent is split between large local firms (mostly fabric manufactures) and joint ventures, in which MAS has an equity stake.

Credit rating agencies could also act as a catalyst for financing SMEs. India is a classic example where third party rating facilitates smooth credit flow across SMEs.

One of the factors working against the SMEs is their isolation. It is for this that clusters need to be developed. This will improve bargaining power, production quality, and hence higher profitability.

To compete effectively, SMEs need to bring their production costs down by adopting suitable business technologies. Subcontracting, a common route to do this has played a big role in integrating SMEs into dynamic export oriented sectors in Japan and South Korea.