



PRESENTATION ON

SME – Managing Transition, Growth &
Governance

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WHY INDIA DIDN'T HAVE INDUSTRIALISATION LIKE BRITAIN HAD ??

- India was a relatively urbanised and commercialised nation with a buoyant export trade, devoted largely to cotton textiles, but also including silk, spices, and rice as main products and other products too except technology;
- India was the world's main producer of cotton textiles and had a substantial export trade to Britain, as well as many other European countries;
- Largely agricultural nation
- Low income
- Low wages
- Lack of investment in technology
- Under British rule, India did not operate in free competitive environment
- The great depression 1932
- Lack of infrastructure
- **Political disintegration**
- Battle of Plassey 1757 paved ways for Europeans for trade and industry in the country
- Sea routes were blocked

Post independence

Industry policy – 1948	cottage and village industry -local resources and local self sufficiency
Industry policy – 1956	148 items were reserved
Industry policy – 1977	500 items were reserved
turning point in the history of india first time tiny industry were defined	investment in machinery and equipment upto Rs One lakh and situated in towns with a population of less than 50,000 according to 1971 census figures, and villages.
Government recognised the need for SSI hence set up --→	DIC - District Industries center set up for all the services and support required by small and village entrepreneurs .
	IDBI SET UP- Financial support
	KVIC -22 INDUSTRIES
Industry policy – 1980	SSI was redefined
Tiny Industry	1 lakh----> 2 lakh
SSI	10 lakh -----> 20 lakh
in case of ancillaries	investment limit increased from 15 to 20 lakhs
SIDC SET UP	Marketing support , village industries and correcting regional imbalances
	836 Items reserved for SSI and Tiny industry
Industry policy – 1990	
Tiny Industry	2 lakh----> 5 lakh
SSI	35 lakh -----> 60 lakh
incase of ancillaries	45 lakh -----> 75 lakh

. In order to enable small scale industries to play an important role in the total export effort, such of the small scale units which undertake to export at least 30 per cent of the annual production by the third year will be permitted to step up their investment in plant & machinery to Rs. 75 lakhs.

Post independence

Industry policy – 1991

SIDBI SET UP -1	Channelise need-based, higher flow of credit, both by way of term loan and working capital, to the tiny and rural industries. One of the major tasks of SIDBI and other commercial banks / financial institutions would be to channelise need-based, higher flow of credit, both by way of term loan and working capital, to the tiny and rural industries;
2	Training of women and youth under the Entrepreneurial Development Programme;
3	A special cell established in MSME-DO and State Directorates of Industries to assist women entrepreneurs;
4	The Reserve Bank of India has announced a package of measures to ensure a better flow of credit to the SSI through measures such as expansion of 'single window' loan scheme;
5	These included providing term finance at concessional rates of Interest, higher debt-equity ratio, capital investment subsidies to encourage investment in less developed areas, incentives for starting electronic industries etc .

CONCEPT OF CLUSTERS

Clusters can be defined as sectoral and geographical concentration of enterprises, in particular Small and Medium Enterprises (SME), faced with common opportunities and threats which can: Give rise to **external economies** (e.g. specialised suppliers of raw materials, components and machinery; sector specific skills etc.);

Favour the emergence of **specialized technical, administrative and financial services;**

Create a conducive ground for the development of inter-firm cooperation and specialization as well as of cooperation among public and private local institutions to promote local production, innovation and collective learning.

The investment ceiling for the purpose of definition of a small unit has been raised to Rs. 6 million (Rs. 7.5 million if the unit concerned undertakes to export 30 percent of its output or if it is an ancillary unit i.e. a firm supplying at least 50 percent of its output to large scale industries).

24% equity participation including large scale and foreign investors

MAJOR CLUSTER **Machinery & Parts except electrical and textiles and chemical** STATEWISE – HIGHEST IN GUJARAT AND MAHARSHTRA
DUE TO PRODUCT/PROCESS /MARKET/INFRASTRUCTURE

Impact of 1991 policy

- Liberalisation
- Merging of 2 ministry ie The Ministry of Small Scale Industries (SSIs) and the Ministry of Agro and Rural Industries (ARIs) were merged to form the Ministry of Micro, Small and Medium Enterprises (MSMEs).
- MSMEs design policies, programmes, projects, and Schemes in consultation with its organization and various stakeholders and monitors their implementation with a view to assist the promotion and growth of MSMEs.
- Assisted by SIDBI –SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA
- NSIC- NATIONAL SMALL INDUSTRIES CORPORATION
- SMERA –SME RATING AGENCY

2006 POLICY

- The definition of SMEs in India has changed with the passing of Micro, Small and Medium Enterprises Development Act, 2006. Accordingly it is divided into Manufacturing Enterprise and Service Enterprise.

Manufacturing Enterprises – Investment in Plant & Machinery

Description	INR
Micro Enterprises	Up to Rs. 25 Lakhs
Small Enterprises	above Rs. 25 Lakhs & up to Rs. 5 Crores
Medium Enterprises	above Rs. 5 Crores & up to Rs. 10 Crores

Service Enterprises – Investment in Equipments

Micro Enterprises	Up to Rs. 10Lakhs
Small Enterprises	above Rs. 10 Lakhs & up to Rs. 2 Crores
Medium Enterprises	above Rs. 2 Crores & up to Rs. 5 Crores

DERESERVATION POLICY

- The erstwhile Policy of Reservation for exclusive manufacture in SSI (now-MSE) sector has been done away with the de reservation of remaining 20 items reserved for exclusive manufacture in SSI (now-MSE) sector vide Notification no.S.O.998 (E) dated 10.04.2015
- The new global scenario is emergence. To make MSMEs competitive. Government has taken measures to improve the competitiveness
 - To strengthen existing technological facilities, Government is formulating a scheme of assistance for Technology Up gradation
 - To improve access to latest information, automation of the Ministry of MSME Office of DC (MSME), Directorate of Industries and District Industries Centres have been taken up. SIDO knowledge portal takes this process further.
 - In order to facilitate adequate flow of credit, a scheme of Credit Guarantee has been launched.
 - Measures have also been taken to improve infrastructure facilities and promote marketing of products

FRAME WORK 2006 POLICY

- Quality management - management systems and quality technology tools.
- Competitiveness - The National Manufacturing Competitiveness Programme (NMCP) was set up to provide appropriate policy environment to SMEs to be able to achieve improvements in the face of global competition, regardless its an export oriented or domestic market
- National Commission for Enterprises in the Unorganized Sector: The commission has been setup as an advisory body and a watchdog for the informal sector to achieve improvement in productivity for generation of employment in large scale on a sustainable basis, particularly in rural areas.
- Awareness in Intellectual Property: As innovation is key to the survival of SMEs, the government is looking to create awareness of IPR and encourage Indian firms to invest in next generation intellectual property in the product, process and practice domain.
- Entrepreneurial and Management Support: The govt will offer financial assistance to set up business incubator units in colleges and training institutes to support entrepreneurs.
- Simpler Processes: The replacement of the registration with the far simpler Entrepreneur's Memorandum (EM) has been the most visible achievement in MSMED Act, 2006.
- Delayed payments: With the coming of MSMED Act, 2006, SMEs have a legal tool to deal with non paying customers. Customers who do not pay SMEs now can be charged 18 per cent interest after 45 days of invoicing. With this Micro and Small Enterprise Facilitation Council (MSEFCs) are set up in 17 states.
- Skill Development programmes, with a monthly stipend.

FRAME WORK 2006 POLICY

- Credit Support: priority sector lending by banks.
- 40% of net bank credit for priority sector.
- A credit guarantee fund had been set up to help SMEs who are unable to show collateral to get loans.
- The loan limits has been enhanced from Rs 25 lakhs to Rs 50 Lakhs and a onetime grantee is reduced from 2.5 per cent to 1.5 per cent.
- The Credit Linked Capital Subsidy Scheme (CLCSS) is made more attractive.
- Scheme of Fund for Regeneration of Traditional industries: The govt launched the Scheme of Fund for Regeneration of traditional industries (SFURTI) for development of around 100 clusters in khadi, Village and Coir Sectors.
- National Awards for outstanding performance by sme entrepreneurs from 2008
- Exhibition Opportunities: The MSME expo is being organized; trade fairs and buyer-seller meets are organized.
- International Trade : Regional Trade agreements (RTA) that includes Free Trade Agreements (FTA), Preferential Trade agreements (PFA), Comprehensive Economic Cooperation Agreements (CECAs).
- Better Patent Laws : There should be tightening of patent laws through regulation of intellectual property rights under the Trade Related Aspects of Intellectual Property rights (TRIPS) agreement, which lays down what is to be patented(both products and processes), the duration the terms and so on.
- Tax triangle : 5 year tax holidays - North Eastern States, Jammu & Kashmir, Himachal Pradesh, Sikkim , Goa and Union territories of Andaman and Nicobar Islands, Dadar and Nagar Haveli , Daman and Diu, Lakshadweep and Pondicherry

FRAME WORK NEW POLICY

- **IMPLEMENTATION OF MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006**
- **RESERVATION/DE-RESERVATION OF PRODUCTS FOR MANUFACTURE IN THE MICRO AND SMALL ENTERPRISE SECTOR:**
- **PRIME MINISTER'S TASK FORCE ON MICRO, SMALL AND MEDIUM ENTERPRISES (PM'S TASK FORCE ON MSMEs)** - The detailed recommendations cover major thematic areas including credit, marketing, labour, rehabilitation and exit policy, infrastructure, technology and skill development and taxation.
- **NATIONAL MANUFACTURING COMPETITIVENESS PROGRAMME (NMCP) – 8 components – INCUBATOR/LEAN/QTT/QM/TECH/MARKETING/DESIGN/ ICT IN MGF SECTOR**

FRAME WORK NEW POLICY

- **PRIME MINISTER'S TASK FORCE ON MICRO, SMALL AND MEDIUM ENTERPRISES (PM'S TASK FORCE ON MSMEs)** The detailed recommendations cover major thematic areas including credit, marketing, rehabilitation, exit policy, infrastructure, technology, skill development, and taxation.
- **PUBLIC PROCUREMENT POLICY FOR GOODS PRODUCED AND SERVICES RENDERED BY MICRO AND SMALL ENTERPRISES (MSEs)**
– 1.4.2012- 20% of total purchase from SME sector in a period of 3 years.
- **E-Governance initiatives** – eoffice, biometric attendance, national portal for filing EM-1, EM-II, VIRTUAL CLUSTERS
- www.msmsecluster.in. (121 Domain experts, 212 academic institutions and 25530 MSME enterprises only have been registered.)

FRAME WORK NEW POLICY

- An Employment Facilitation Portal
- B2C web portal of NSIC was launched on 31st July, 2014
- First Ministry to launch **mobile friendly website** for quicker access <http://msme.gov.in/mob/home.aspx>.
- **MICRO & SMALL ENTERPRISES CLUSTER DEVELOPMENT PROGRAMME (MSE-CDP)**

SWOT ANALYSIS OF INDIAN SME'S

Strengths :-

- Easy to start
- Abundance of raw materials.
- Availability of Cheap labour.
- Progressive reforms.
- Growing economy & domestic market.
- Design expertise.
- Vast Industrial Presence in both Public and Private Sectors.
- Increasing investment in real assets and
- Inflow of FDI across Industrial sector.

SWOT ANALYSIS OF INDIAN SME'S (contd.)

Weaknesses :-

- Highly fragmented.
- High cost of input material
- Lower productivity.
- Technological obsolescence.
- Largely Unorganised
- Presence of Vast Industrial sickness.
- Outdated labour laws, and presence of too many political, labour and trade unions.
- Infrastructural problems like high power tariff
- Insufficient finance at affordable terms
- Tendency to evade taxes due to advices from management or tax avoiding/evading consultants

SWOT ANALYSIS OF INDIAN SME'S (contd.)

Opportunities :

- Shift in domestic market
- Increased disposable income
- Emerging economy & Expansion.
- Government support for export.
- Growing recognition of “Made in India” brand globally.
- Major growth through outsourcing opportunities.
- High thrust priority for development of SME's as identified by Government.
- Emerging new generation of entrepreneurs

SWOT ANALYSIS OF INDIAN SME'S (contd.)

Threats :-

- Stiff competition from developing countries
- Pricing Pressure
- Insufficient government incentives
- Complexity in trade documentation including packaging & labelling
- Unfriendly tax environment
- Historically rising corruption

SME THREAT - FINANCE

- SMEs do not approach formal financing for the
- following reasons:
 - a) High cost of credit
 - b) Documentation and procedures required for accessing formal finance are lengthy and cumbersome
 - c) Long processing time
 - d) Collateral requirements
 - f) Disclosure of taxes and burden imposed by inefficient tax authority
 - g) Perception that banks will start interfering in the internal affairs of the firm

SME THREAT - FAMILY OWNERSHIP


- Family Ownership
- Credibility problems
- The duties and responsibilities, and privileges of family members are not clearly defined.
- Family Voting power
- The concept of independent directors
- The approach of family owners is that they see anything external with threat.
- Absence of clear policies and long term planning. Benefits and compensation for family members are not clearly defined
- They usually do not have a succession plan

SME THREAT : INTERNATIONAL LINKAGES


These international linkages are important for the following reasons:

- 1) Access to International Markets
- 2) Access to latest technology
- 3) Access to international investors
- 4) Higher exports

International investors are often reluctant to invest in developing countries because their institutions do not provide an adequate level of security for their investment particularly in terms of enforceability of legal rights and governance framework. MNCs and international investors will be willing to forge partnership with SMEs only when their level confidence and trust increases regarding transparency and governance of the local partner. In other words how the firm is being governed is critical to raise investment



SME Threat – Community

- Relationship with community & environment
 - CSR
 - Employment
 - Infrastructure – poor electricity, transport poor roads, port facilities
 - Wide spread corrupt system
 - In addition to the generic infrastructure that boosts the local economy in general, there is need for enterprise specific infrastructure, viz., provision of common effluent treatment plants (CETPs), well-developed industrial estates / parks, common testing / quality check facilities, potable water etc.
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TODAYS SME'S

- BACK BONE OF INDIAN ECONOMY AND INDUSTRIAL BASE,
- GDP-8%
- EXPORT – 40%
- 45% OF MANUFACTURED OUTPUT
- PROVIDES EMPLOYMENT TO 70 MILLION THROUGH 30 MILLION ENTERPRISES. IT IS THE LARGEST GENERATOR OF EMPLOYMENT
- **90% OF INDUSTRIAL UNITS IN THE MANUFACTURING UNITS ARE IN THE SME SECTOR**
- (121 Domain experts, 212 academic institutions and 25530 MSME enterprises only have been registered.
- Source:
 1. Fourth All India Census of MSME 2006-07,
 2. National Accounts Statistics (2014), CSO, MOSPI and
 3. Annual Survey of Industries, CSO MOSPI

PERFORMANCE OF MSME, EMPLOYMENT AND INVESTMENTS

Sl. No.	Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (Rs. in Crore)
I	II	III	IV	V
1.	2006-07	361.76	805.23	868,543.79
2.	2007-08	377.36	842.00	920,459.84
3.	2008-09	393.70	880.84	977,114.72
4.	2009-10	410.80	921.79	1,038,546.08
5.	2010-11	428.73	965.15	1,105,934.09
6.	2011-12	447.64	1,011.69	1,182,757.64
7.	2012-13	447.54	1,061.40	1,268,763.67
8.	2013-14	488.46	1,114.29	1,363,700.54

- Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing

(except cold storage) for which data were extracted Economic Census 2005, Central Statistics Office, MOSPI.

- Estimated on the basis of per enterprises value obtained from sample survey of unregistered sector for activities wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing(except cold storage) which were excluded from Fourth All India Census of MSME, unregistered sector

Year	Gross Value of Output of MSME Manufacturing Sector (` in crore)	Share of MSME sector in total GDP (%)			Share of MSME Manufacturing output in total Manufacturing Output (%)
		Manufacturing Sector MSME	Services Sector MSME	Total	
2006-07	1198818	7.73	27.40	35.13	42.02
2007-08	1322777	7.81	27.60	35.41	41.98
2008-09	1375589	7.52	28.60	36.12	40.79
2009-10	1488352	7.45	28.60	36.05	39.63
2010-11	1653622	7.39	29.30	36.69	38.50
2011-12	1788584	7.27	30.70	37.97	37.47
2012-13	1809976	7.04	30.50	37.54	37.33

SUMMARY RESULTS: FOURTH ALL INDIA CENSUS OF MSME

Sl. No.	Characteristics	Registered Sector	Unregistered Sector	EC-2005	Total
I	II	III	IV	V	VI
1	Size of Sector (in Lakh)	15.64	198.74	147.38	361.76
2	No. of rural units (in Lakh)	7.07	119.68	73.43	200.18
3	No. of Women Enterprises (in Lakh)	2.15	18.06	6.40	26.61
4	Total Employment (in Lakh)	93.09	408.84	303.31	805.24
5	Per Unit Employment	5.95	2.06	2.06	2.23
6	Total original value of Plant & Machinery (` in Lakh)	10502461	9463960	-	19966421
7	Per unit original value of Plant & Machinery (` in Lakh)	6.72	0.48	-	-
8	Total fixed investment (` in Lakh)	44913840	24081646	-	68995486
9	Per Unit fixed investment (` in Lakh)	28.72	1.21	-	-
10	Total Gross Output (` in Lakh)	70751027	36970259	-	107721286

TRANSITION MANAGEMENT - CONCEPT

- INTRODUCTION TO THE CONCEPT OF TRANSITION
- DIFFERENCE IN THE CONCEPT OF TRANSITION WRT A HUMAN BEING & AN ARTIFICIAL PERSON
- STRATEGIC PERSPECTIVE v GOVERNANCE PERSPECTIVE
- STRATEGY & GOVERNANCE ARE TWO SIDES OF THE SAME COIN
- CMA & CS TO BE A SIGNIFICANT CATALYST IN THE INTERFACE AND A KEY MEMBER OF MULTI-DISCIPLINARY TEAM

What is Transition? A Strategic Perspective

- **The entire change process in moving from the present state to the desired state**

Necessary to recognize the present state before identifying the desired state

- STARS in Transition
- Start up
- Turnaround
- Accelerated Growth
- Realignment
- Sustaining Success

Source : Michael Watkins – Harvard Business Review January 2009

STARS IN TRANSITION

	Start Up	Turnaround	Accelerated Growth	Realignment	Sustaining Success
Where it is now	Assembling the various capabilities	Saving a business perceived to be in serious trouble	Managing a rapidly expanding business	Re-organizing a previously successful organization now facing problems	A highly regarded leader with a stellar record of accomplishment.
Challenges	Recruiting and welding together a high-performing team. Making to do with limited resources	Re-energizing demoralized lots. Making effective decisions under time pressure.	Putting in place structures and systems to support scaling. Integrating many new employees.	Convincing employees that change is necessary. Carefully re-structuring the top team and refocussing the organization.	Inheriting a successful leader and team. Developing good defence before embarking on new initiatives. Finding ways to take business to next level.
Opportunities	Doing things right from the beginning. People are energized by the possibilities. No rigid preconceptions.	Everyone recognizes that change is necessary. A little success goes a long way.	The potential for growth helps to motivate people. People will be inclined to stretch themselves and those who work for them.	The organization has significant pockets of strength. People want to continue to see themselves as successful.	A strong team is already in place.. People are motivated to continue the history of success.




ROLE OF CMA IN TRANSITION MANAGEMENT

- Development of Appropriate Business Strategy
- Operations Management & MIS
- Various Modern Management Techniques such as Lean Management, Six Sigma, Balanced Score Card, Zero Defect Manufacturing etc.
- Internal Controls & Internal Audit System
- CSR
- Risk Management Systems
- Indirect Tax Planning including preparing for GST
- Financial Planning
- Direct Tax Planning



OPERATIONS MANAGEMENT

- Management Information System for effective decision making and operations Management
 - Resolving the tangle of DRIP (Data Rich Information Poor)
 - Developing appropriate system for reporting of information, analysis, decision making and enabling prompt corrective action
- 




INTERNAL CONTROL

- Under Section 134, specific responsibility cast on directors for laying down internal financial controls and for ensuring such controls are adequate and are operating effectively.
- Internal financial controls defined to mean Policies & procedures adopted for orderly conduct of business including :-
 - Adherence to policies
 - Safeguarding of assets
 - Prevention & detection of fraud & errors
 - Accuracy & completeness of the accounting records
 - Timely preparation of reliable financial information




INTERNAL AUDIT

- Governed by Section 138 and the Companies (Accounts) Rules, 2014
 - Mandatory for every listed company
 - Internal auditor shall be a CA or CMA or such other professional as may be decided by the Board
 - Internal Audit shall cover functions and activities of the company
 - Reporting to the Board
- 



CORPORATE SOCIAL RESPONSIBILITY (CSR)

- CSR policy documentation
 - Independent Director in CSR Committee
 - Building up CSR Projects and Programs and budgets for the same
 - Developing Reporting & Monitoring Systems
 - Services relating to specific aspects of CSR Policy Implementation
 - Triple Bottom Line Accounting and Reporting for Management
 - Statutory CSR reporting
- 




RISK MANAGEMENT SYSTEMS

Type of Risks

- External Risks
- Internal Risks

Review of system in place for Risk Management –

- Identification of Risks
 - Assessment of Risk
 - Effectiveness of Techniques
 - Avoidance (Elimination)
 - Reduction (Mitigation)
 - Retention
 - Transfer (Buying insurance)
- 



EMPHASIS OF TRANSITION MANAGEMENT

Well Planned is half done.

Similarly Well begun is half done

But:

a) Half planned is not well done as also

b) Half begun is not well done

**Emphasis of Transition Management is on
close follow up on implementation of plans.**



THE OPPORTUNITY TO EXCEL

- ◎ No end to learning

- ◎ Remember Ego = 1

Knowledge

- ◎ Knowledge is Power

- ◎ Enhance networking capabilities

- ◎ Objective should be “Zero Tolerance” for “Non Compliance”

- ◎ Go by the spirit of the law rather than letter of law

- ◎ Enhancing transparency and quality of disclosures

And the transition goes on, let us pursue the right strategy, govern ourselves properly and grow to truly make our days “Acchhe Din”



THANK YOU