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Small Wonders for Efficiency and Profitability

by Satyajit Majumdar

The need for and the relevance of the small scale industry (SSI) has been a matter of debate for a long time. The SSI has been under severe pressure due to credit related issues, higher interest rates, delays in payments receivables, unmanageable competition and employees turnover. Although these are considered to be typical problems faced by the SSI, these problems are there for the large scale sector too, the only difference being that of the scale.

Tom Peters, Sumantra Ghoshal and other management thinkers have been advocating 'smallness' - small is manageable, small is efficient and small is profitable. So the "biggs" are becoming small to drive the benefits of the smalls. But, is this not a paradoxical situation when it is said that the small scale sector is not performing well? The very design of small business model is based on agility and cost benefits, the very issues that are under the agenda of re-design or re-engineering. Then where is the problem?

The typical psyche that small industries are weak in resources and they do not have the strength to compete with large industries or markets, are the pitfalls of the Policy of Reservation followed till early 90s. Employment generation capacity and absorption of local skills and talents were some of the basic causes identified by our policy makers to frame laws to promote the small scale sector. But this has gradually insulated this sector from the competition at the market places and a large number of SSI went sick. On the other hand there are many small businesses that developed capability to fight the competition and match the market needs. These

businesses were the first to come out of the protection syndrome.

Businesses across the world are striving hard to create entrepreneurial environment. Entrepreneurial culture calls for respecting entrepreneurship, new initiatives, and small businesses are the outcomes of such entrepreneurial efforts. In such a case, working on creative ideas should not be subject to bureaucratic scrutiny and reviews. Second, the SSI not only address the needs of employment creation but they have the capacity to deliver the economies of scales the large industries look for. So there is need for co-existence. To remain competitive and flexible, large industries certainly depend on the SSI for value-added sourcing. Small businesses can make the value chain of the large industries meaningful; they

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can supplement the desired flexibility of the industry. The small businesses have developed competence to work on uncertain conditions; they have the skill to operate on small scales. If they also learn to manage

the flexible scales, they are the winners. We are living in an era where a capability of 'mass customization' is deciding the competitive advantage. This is a game of large variety offerings to the customers with small volumes.

The essential problem appears to be the "vagrancies" of government policy and the pressures and pulls of the large-industry lobby. B-schools can play their part in improving the present condition of the SSI, by incorporating the issues and concerns of the SSI in their curriculum.

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