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## SMALL AND MEDIUM ENTERPRISES

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### ABSTRACT

"FIRST, WE WILL FOCUS ON THE PRIVATIZATION OF SMALL AND MEDIUM ENTERPRISES, FOLLOWED BY THE MEDIUM SIZE INDUSTRY AND THEN WE WILL MOVE ON TO THE HEAVY INDUSTRY." -IBRAHIM RUGOVA

The successful privatization of small and medium enterprises is the first step to achieve a thriving economy. Most businesses start small and hence require resources and other supports in order to advance their businesses. An enterprise, whether small or medium scaled, is an asset to the nation and is crucial for the development of the nation. This work studies the symbiotic relationship between the Government of India and small and medium enterprises. Due to lack of funds, many entrepreneurs either close off their businesses, or remain stagnant without getting the opportunity to bloom their business ideas to its full capacity. The Government of India recognizes the needs of small and medium enterprises by conducting programmes, workshops, providing various schemes and opportunities, offering tax credits, loans and many others.

### INTRODUCTION:

The Small and Medium Enterprise (SME) sector carries great hopes and great burdens in the evolution of all of the transitional economies. Sustained and healthy growth of this sector is obviously necessary, since it is difficult to imagine rising overall living standards and social peace without such a development. With the large-scale units of both the State-Owned Enterprise (SOE) and previously State-Owned Enterprise (PSOE) sector often at best stagnant, successful performance during the transition increasingly appears to be dependent on the expansion of this Small and Medium Enterprise sector. Even if the hopes that this sector will by itself have a systems-dynamizing and transformational effect prove to be false, its role in generating employment and an atmosphere of social stability is crucial.

### Market Realities and Free-Market Ideology

Despite the centrality of the Small and Medium Enterprise sector in both the theoretical understanding and practical functioning of market economies, little attention has been paid to the conditions necessary for its new or expanded development. This omission appears to be in part the result of a tendency to assume that there will be a kind of market automaticity that spontaneous processes can be counted on to arise which will create new, viable entities to fill the interstices between the large organizations. All modern economists use the established body of neo-classical theory to describe and analyze small movements within established market systems. Unfortunately, these theoretical constructs do not turn out to be directly useful in deciding how to construct new institutions. When called upon to prescribe de novo remedies for very different conditions, there appear to be ideological correlates of neo-classical thinking which prevent the actual application of straightforward market logic to the transition situation and at the same time foreclose clear policy-level discussion about what was being done, why, and in whose name. Enterprises, managers, and workers in urban and rural sectors are modern and 'fit to survive' if they behave like they were in such a model. As Stiglitz (1999) has argued, any analysis of the transition that takes these assumptions literally is detached from understanding of how real (non-commodity) markets operate.

It has simply assumed that:

- (1) There will be mass emergence of successful small- and medium-scale family enterprises;
- (2) Large enterprises will be privatized in a transparent competitive process with many bidders and clear information; and
- (3) The resulting new system will both emerge and function under perfectly competitive conditions.

### The Role of the SME in the Emerging Market Economy

In this paper we point to the experiences of some countries which throw useful light on the questions of, how the SME sector has emerged under past conditions; how it functions today in advanced capitalist countries; and how these historical lessons or precedents apply to the special conditions of the contemporary transitional economies. In the latter countries the wrenching

adjustment from administratively controlled centrally planned systems to mixed market systems with little or no explicit planning, is proving to be more difficult and complex than at first anticipated. The results of transition thus far are sharply differential and difficult to interpret for purposes of SME policy because of the over-determination problem (they teach too many lessons, because there are too many alternative explanations, all of which can not be true at the same time, but all of which look plausible when presented as the sole independent variable). One surprising conclusion that does seem to emerge from this now decade-long experience is that the small enterprise sector is not by itself enough to create successful economic growth.

Unless the surrounding large enterprises have been successfully commercialized (meaning that privatization has either been delayed or done in a way that does not sever their already existing working relationships) and overall demand conditions are not severely restrictive, no significant and sustained SME growth can be expected. The SME sector needs the large enterprise sector as a source of inputs, a market for its output and also (it unexpectedly turns out) as source of individual entrepreneurial leadership. This points to the need to create a synergistic relationship between the SME and the large enterprise sectors, rather than thinking of a zero-sum environment in which the success of the small can only be secured by destroying or disassembling the large. Positive and mutually reinforcing interactions can be expected to emerge if ways can be found to encourage the formation of purpose-built alliances and sub-contracting relationships. In many different historical and contemporary economic systems large firms and small firms interact in complex relationships which confer reciprocal advantages.

The combination of the ideological dynamics of the end of the Cold War (in which the new 'Western' path is defined as simply the opposite of each and every organizational feature of the Soviet-type system), an exaggerated sense of the role actually played by small enterprises in advanced capitalist economies and a fascination with the textbook version of market processes discussed above, have led many transitional economies to fail to directly address this issue. It is crucial to determine why successful small enterprise development has been achieved in some places and not in others. We will try to cut through the complexities and causal puzzles and point in the direction of SME development approaches that work.

### Advantages of Small and Medium-sized Enterprises in Developing Market Economies

From a theoretical perspective, SMEs have several advantages over both SOEs and large privatized SOEs (PSOEs). In SMEs the incentives for both managers and workers tend to be clearer and stronger than in larger organizations. Governance problems are less significant since in many cases the managers and owners are the same people. The small size of many of the SME firms allows owners easily to monitor the performance of managers while the cost of monitoring labour is also lower. Under the special conditions of the transition economy there are several additional advantages. There is likely to be less behavioural carry-over of bad work habits (from the especially chaotic last years of the planned economy system) in SMEs that are either new or had worked outside the main channels of the planned system.

Small firms appear to have greater flexibility and potential for innovation, which are especially important in the unsettled conditions of the transition period. To the extent that the SME firms produce the same products or services as SOEs and PSOEs, their small size makes them less prone to monopolist behaviour. Higher productivity is also likely in those product areas where there are no or few scale economies (e.g. services and specialty or niche manufacturing processes). It should be noted that many or even most of the existing or emerging SMEs are not really new. These are entities, now classified as SMEs, which had a pre-transition existence as part of large, usually horizontally integrated, service, craft and distribution SOEs or co-operatives. The new sector of relatively small organizations is thus a mixture of many privatized sub-units of SOE, entirely de novo entities and in surviving pre-transition SMEs.

### POTENTIAL POLICY IMPLICATIONS: EXPLICIT STATE POLICY TOWARD THE SME

The transition process has been sharply different from place to place, but in each it demonstrates strong path-dependent features—conditions in which actions taken at one time have effects and implications that cumulate through time, enabling and foreclosing options in ways that are not always easy to understand. Clearly institutions matter, but not in any simple sense of the words. At the micro- and mezo-levels, it is not the existence of a legal code and court system, but the broad acceptance of this system as the actual forum in which disputes are to be settled. It is not

the existence of a wholesale distribution network, but the terms of access to this system by small-scale producers. At the mezo- and macro-levels, the foundation of small productive enterprises produces little or no ultimate effect if their putative customers are in a fiscal crisis which inhibits or prevents expenditures. This is true regardless of whether the demand reduction is on the part of SOEs that have been fragmented and damaged in a process of hasty privatization or on the part of the demand for consumer goods by the general public whose incomes have been repressed by contractionary monetary and fiscal policy. Policies which target the SME without attention to these surrounding conditions are unlikely to have substantial and long-lasting positive effects. Programmes designed to provide direct assistance to SME often end up mired in corruption, high overhead costs and efforts that ultimately serve other than announced programme interests.

In some transitional economies there has been a lack of market-facilitative actions by the state, despite active use of the rhetoric of the 'market'. Some of these market friendly reputations come from manners western education or simple skill in telling Western advisors what they want to hear. Other countries or regions have an anti-free-market reputation but have nonetheless made some orderly step toward the market. Some of these anti-market reputations result from simple resistance to Western penetration or control of local resources on concessionary terms. It is important to look beyond these stereotypical images and try to see that actual connections between policies and outcomes. Certain main themes that have appeared in SME development during the transition process can be presented by means of the dichotomy presented below. Liberalization without Adequate Institutional Development and Market Development without Full Liberalization are presented as opposite policy approaches, each of which has suggestive lessons to teach.

## CONCLUSION

The discussion of co-operatives and the need for local-level financing fits directly into this equation. In institutionally incomplete environments it may be impossible for potentially promising SMEs to get financing on any non-criminal terms. In much of the transition region the concept of real worker- or employee-owned enterprises is naturally popular and largely untainted by sounding like a 'collective farm'. The combination of small co-operative production facilities, local co-operative savings and lending institutions and local-level government as

nature/guarantor (and sometimes part equity owner) of both production and financial institutions is completely natural. It also not unpromising as a path to finally dealing with remaining 'dinosaur' enterprises left and not-entirely dead from the old system. That so little attention has been given to this path is a direct manifestation of the institutional homogeneity assumptions, now evidently discredited.

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