Creating Globally Competitive SMEs

What is the issue?

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- The productivity of a firm increases with the efficiency with which labour and capital are utilised and it is naturally high for large-scale operations.
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- So, small firms manufacturing products that can be mass-produced, is a bad model.
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What is the most appropriate business model for small firms?

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- The best business model available to small firms is competing on the basis of **innovation-driven niche and differentiated products**.
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- According to general economic development theory, **the 3rd stage is 'innovation'-driven economies,** where companies compete by producing and delivering new and different products and services by using the most sophisticated processes.
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- But, India has a weak ecosystem for the development of such products.
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What can we do to support small units?

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- To start with, **follow the example of Mittelstands,** the innovation-driven SME based in Germany.
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- Mittelstands contribute more than half of German economic output and

corporate investment and are global leaders in in sectors such as machinery, auto parts, chemicals and electrical equipment.
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- At the heart of Mittelstand success is a **personalised ecosystem supported by government, academia and the private sector** in terms of industry-ready innovations, skilled manpower and market development.
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- **Industry-ready innovation:** Germany has a network of 67 research institutions which work in close coordination with Mittelstands, German universities, and the government.
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- These research institutions complete 6,000 to 8,000 result-oriented contract research projects for immediate use by Mittelstand.
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- It receives **funding from the public sector** and through contract research earnings. Such efforts are also backed by the government.
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- **Supply of skilled manpower:** Germany's apprenticeship system ensures that 80% of trainees in Germany receive a high quality of training in the Mittelstands.
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- This way they employ about 28 million people which account for 60% of all German industrial jobs.
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- **Market development support:** The German economics ministry implements high-quality market development programmes through the use of trade missions, research reports, buyer-seller meets, export credit and investment guarantee programmes.
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Can the Mittelstand model be applied to any MSME sector?

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- Micro units and the service sector must be removed from consideration as these are not ready for the transition.
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- Micro and services sector units have not acquired the critical mass in terms of level of investments, availability of skilled manpower and use of technology to benefit from product innovation.
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- Thus, the Mittelstand model **can be applied only to manufacturing units in the small and medium sector.**
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What could be done?

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- The Government currently has a number of programmes. Thus it helps MSMEs get credit from banks; it promotes productivity centres, testing, skill upgradation and training facilities etc.,
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- The measure for assessing the efficacy of this system should be: **How many new innovative products have been introduced** by MSMEs in the past few years through the use of this system?
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- We may consider **consolidating this structure and benchmark each service** with those provided by Germany.
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- Tying up education institutions with local small and medium manufacturing units will help each unit introduce modern technology, management practices, and also make students more employable.
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- On the regulatory front, **setting up Export Single Window** will allow a large number of units to export directly without getting bogged down by commercial and regulatory processes.
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- Establishing an ecosystem on the German pattern will create a pipeline for the development of MSME-relevant innovative products which can be exported effortlessly.
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Source: The Indian Express

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