

## Role of Networking in enhancement of the progress of SMEs in Medchal District of Telangana Region

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### Abstract:

With the launching of the cluster development programme in India by the UNIDO in 1997, promoting clusters as a strategy to enhance the competitiveness and to participate in the global value chain has been almost a celebrated strategy countrywide. The surge of various cluster schemes can be observed since 2000 onwards. Numerous Government and quails-government documents have acknowledged cluster development as the most important initiative to improve the performance of the MSMEs in the country.

### Introduction:

For instance, the Draft 11th Five Year Plan document states that “A cluster approach can help increase viability by providing these units with infrastructure, information, credit and support services of better quality at lower costs, while also promoting their capacity for effective management of their own collectives (emphasis ours)” (Planning Commission, 2006: 35).”

The acknowledged traditional benefits of clustering, identified in the literature on agglomeration economies, include the following:

- Information / knowledge spillover at the enterprise level
- Sharing of inputs, services and technology
- Multi-skilling of labour improves job opportunities
- Attracts both customers as well as suppliers / wholesalers The advent of globalization, however, has opened up newer spheres of networking and business spread. In addition to the above benefits, especially during the last 15 years or so, a range of advantages has been found to be associated with clusters.

As listed in popular documents (e.g., Ecotech Research & Consulting, 2004: 5), some of these include:

- Increased levels of expertise. This provides sourcing companies with a greater depth to their supply chain and allows for the potential of inter-firm learning and co-operation.

The ability of firms to draw together complementary skills in order to bid for large pieces of work that as individual units they would be unable to compete for.

- The potential for economies of scale to be realised by further specialising production within each firm, by joint purchasing of common raw materials to attract bulk discounts or by joint marketing.

- Strengthening social and other informal links, leading to the creation of new ideas and new businesses.

- Improved information flows within a cluster, for example, enabling finance providers to judge who the good entrepreneurs are and business people to find who provides good support services.

- Enabling the development of an infrastructure of professional, legal, financial and other specialist services. Clustering is one of the key drivers of economic growth in localities, cities and regions. However, adopting a cluster approach is not the only way of encouraging regional economic growth. Informal networking, developing supply chains and improving workforce skills all have a part to play in improving competitiveness and creating growth.

Some even claim that cluster development could be an approach to eradicate poverty as well. Cluster development has also attracted much attention in the policy circles as it has potential for broad-based networking amongst the government, private sector, academia and various support / service agencies, both within and outside the country.

Some dynamic and modern sectors as garments, pharmaceuticals, IT based industries, leather goods and machine tools seem to have benefited extensively through following the cluster approach and there is redoubled enthusiasm to extend these advantages to the traditional and artisanal clusters spread across the country.

Given the vast range of goods produced in clusters, levels of technology and markets accessed, a recent policy-oriented study (Das et al. 2007: 12-13) has classified the clusters into:

- i) high-tech clusters (mostly knowledge-based and It-linked);
- ii) Traditional manufacturing clusters (non-high-tech and non-micro sectors like leather goods, ceramics, garments, etc.);
- iii) low-tech, poverty-intensive micro enterprise clusters (including handicrafts, handlooms and other labour intensive micro enterprises).

It is important to note here that there exist a number of government schemes/ programmes to support various requirements of MSMEs, including provision of industrial estates, marketing support and concessional credit. Nevertheless, these schemes, typically, address the need at the enterprise level. The cluster approach, contrarily (and as mentioned earlier) focus on a range of

activities, that concern collective issues, whether provision of common facility centres, cluster specific transport infrastructure, linking to the external markets, or encouraging participation in trade fairs.

The most important advantage, however, is the potential of networking with an array of stakeholders in the business that widens scope for both enhancing product/process quality and operating gainfully in a larger market space. The synergy of collective action improves manifold as enterprises in the similar product line pursue certain common business goals.

### **Challenges and Strategies**

Based on cost competitiveness, though a section of the Indian garment manufacturers graduated to be integrated into the global market through customer driven commodity chain, the dismantling of the MFA regime (since the beginning of 2005) has posed huge challenges in accessing or improving their share of the global market. Faced with stiff competition from China, Vietnam, Bangladesh, Sri Lanka and Indonesia the Indian apparel sector has been concerned about focusing on higher productivity, economies of scale, advanced technology and an efficient supply chain to raise its market presence.

There is a special emphasis on product differentiation based upon unique designs, embroidery and workmanship to cater to niche markets both in the domestic and global arena. Increasing participation in the global market has also brought home the significance of maintaining lower cost, consistent quality of the product, frequent seasonal changes in designs and punctuality in delivery schedules. As observed by industry experts, the only way to achieve these competitive advantages for the sector is to enhance supply chain efficiencies through proactive networking with different stakeholders in the business. There have been suggestions that even competing nations (as India and China) could collaborate in jointly sourcing/ sharing raw materials (cotton or silk) and designs for both finished garments and accessories.

Further, as both the US and EU manufacturers do not consider imports from India as a threat (unlike from China, which has been a matter of concern for these major buying nations in the West), the Indian garment sector, it has been highlighted in informed deliberations, must work towards acquiring higher levels of technology and enhance the capabilities of existing specialized institutions providing training in textile design.

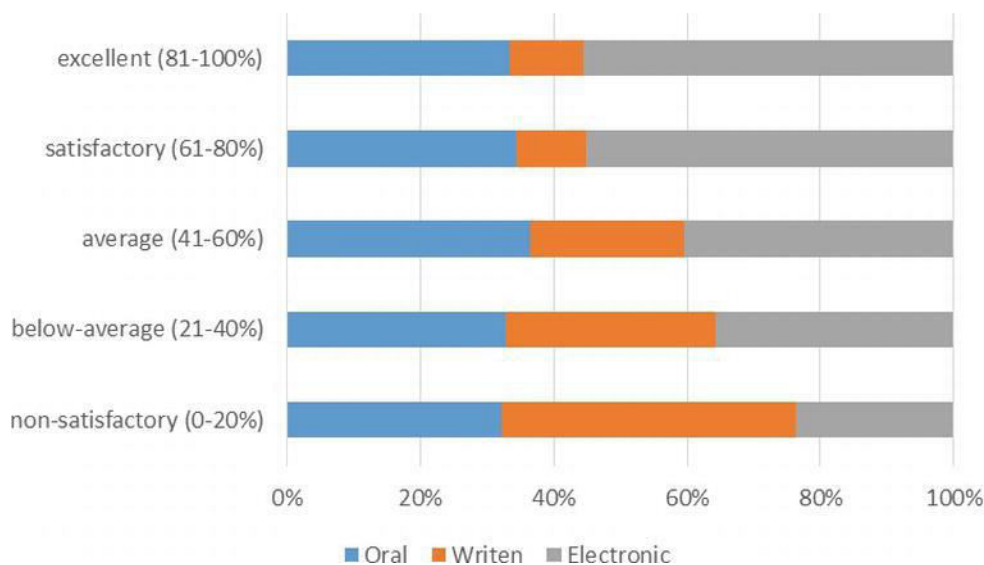
In order to cater to global demand, both in terms of volume and quality, the need for larger investment in both machinery and skill formation has been felt across the industry. This necessarily implied that much of the business can, eventually, be handled by relatively larger (mostly medium) enterprises and would not be feasible for the capital-strapped small units to pursue. It is in this context that there was severe criticism of the government policy of to include garments as a reserved item (for the small sector, exclusively).

Observing the progress of the sector in accessing newer markets through adapting to new technology and changing customer preferences, the central government has responded positively to a set of special requirements needed for its wider global reach. In a major move to support the private sector, the central Ministry of Textiles, during the last quarter of 2005, had signed a Memorandum of Understanding (MoU) with the Infrastructure Leasing and Financing Society (INFLS) to set up as many as 25 apparel parks across the country.

While the central government offered to invest Rs. 400 million per park, the INFLS would enter into agreements with a ‘Special Funding Vehicle’ comprising promoters for different parks. Each park was proposed to be set up with an investment range of Rs. 1000 million–Rs. 4000 million depending upon the market response. Initial few parks were to commence in the states of Gujarat, Andhra Pradesh and Tamil Nadu. In addition to these initiatives, some state governments also have plans to promote similar apparel manufacturing facilities.

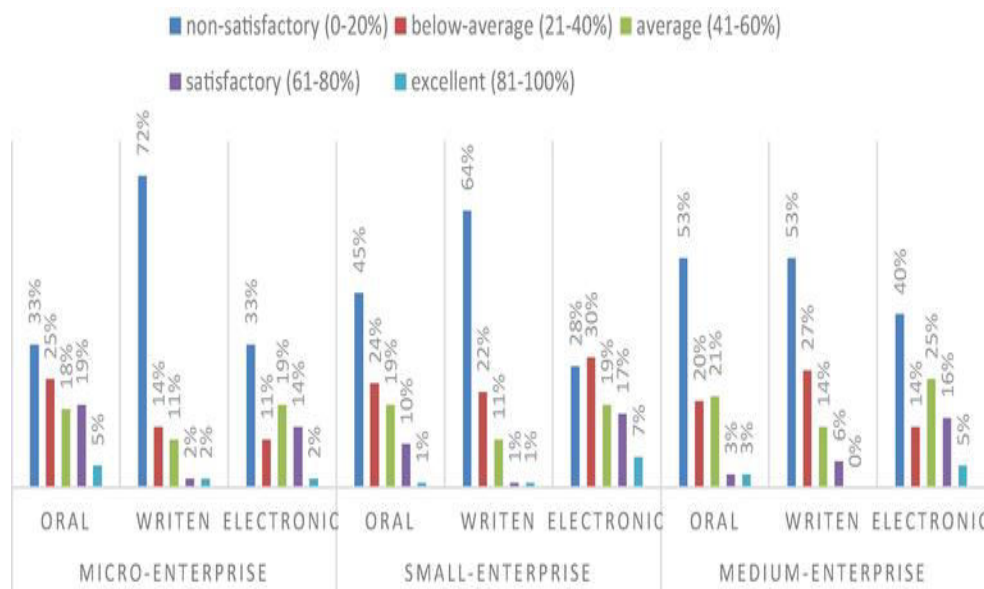
### 3. EXTERNAL COMMUNICATION OF SMES IN THE MEDCHAL DISTRICT

There are numerous ways to communicate with the outside world. This chapter will illustrate how to use numerous channels to achieve this goal while taking into account the full external communication process. A manager's time spent communicating with external parties via a certain channel type is desired (oral, written, or electronic). Based on these findings, percentage ranges were calculated as shown below (figure 1).



**Figure 1**Percentage of small and medium-sized firms that use individual channels for external communication.

Written communication was reported to be used by 62 percent of businesses in this scope, oral communication by 45 percent of businesses (0–20 percent utilisation), and electronic communication by 33 percent of businesses in this area. Only 3% of the companies asked said they used all available communication channels to the fullest degree posmall and medium enterprises (81–100%) for oral communication, 5% for computer communication, and 1% for written communication. According to the survey results presented in Figure 6, the majority of businesses use all accesmall and medium enterprises channels for external communication, with only a small fraction using just one. Even so, the percentage of channels used ranged from 81 to 100 percent in this scenario. None of the companies polled had heard of a circumstance when they solely used one communication channel for all external communication. On average, 36 percent of respondents utilise oral communication, 26 percent use written communication,



and 38 percent use technological communication.

**Figure 2 By firm size, the percentage of small and medium-sized enterprises that use individual channels for external communication.**

When organisations were categorised based on their size, external communication through individual channels followed a similar trend. Most companies only use 0–20 percent of the communication channels available to them. Just 21–40 percent of respondents in the group with the highest percentage of respondents reported utilising electronic communication in the range 0–20 percent (30 percent ). Only one out of the 81–100% of medium-sized businesses polled did not use written communication to communicate with the outside world.

Between 0% and 20% of organisations use all communication channels, yet none of these organisations mentioned 0% in any of their communication styles.

#### 4. CSR AND SMALL AND MEDIUM-SIZED ENTERPRISES

SME CSR practises are increasingly using CSR as a long-term growth strategy.

Small and medium-sized enterprises (SMEs) have identified hurdles to success, which are akin to roadblocks to CSR growth. Representatives of small and medium-sized businesses (SMEs) are concerned about their involvement in and participation in these activities. The following obstacles to SMEs participating in CSR initiatives have been identified:

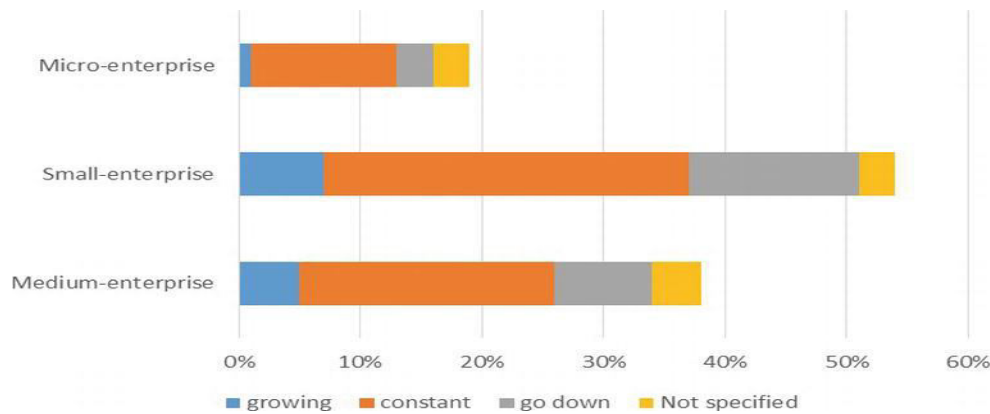
- ❖ Concerns about rising costs
- ❖ Due to a shortage of resources (both time and manpower),
- ❖ Internally, there is a lack of motivation.
- ❖ Bureaucracy is a major issue.
- ❖ Absence of understanding about CSR activities and how to engage in them in a way that benefits society as a whole.
- ❖ Companies, on the other hand, benefit from effective and successful CSR engagement, as the authors of this piece point out. When a company decides to invest in CSR, it considers the return on investment, the impact on the company's image, goodwill, customer and employee perceptions of the company's engagement, and reactions from other stakeholders to see if employee loyalty has increased as a result of responsible behaviour.

Corporate social responsibility (CSR) shows how this strategy reveals itself both internally and externally in the area of human resources:

The importance of social interaction among employees may go unnoticed, yet it is just as significant. An increase in creativity and a more imaginative approach to work can be seen if employers encourage their employees in developing their talents and desire.

#### 5. EMPLOYEE STABILISATION

For the purpose of determining the fluctuation rate, a questionnaire survey was undertaken to determine whether or not organisations use an indicator of the number of departing employees. 66% of those polled indicated they were keeping an eye on this metric; 26% said they weren't; 7% weren't sure if they were or weren't. Table 7 shows the statistics broken down by the number of employees that have been recorded for each company size group.



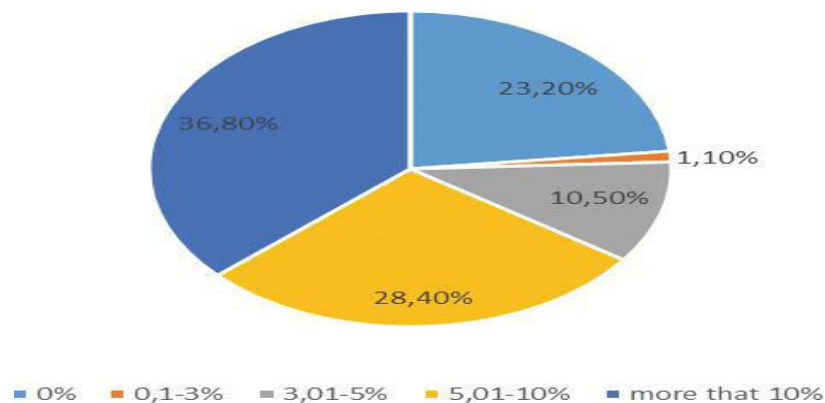
**Figure 3 The amount of employees who have left the organisation recently.**

According to the number of employees in each company, the most common trend was a consistent scenario (as for the percentage the constant trend was mentioned in 55.3 percent of all provided answers regardless of the company size).

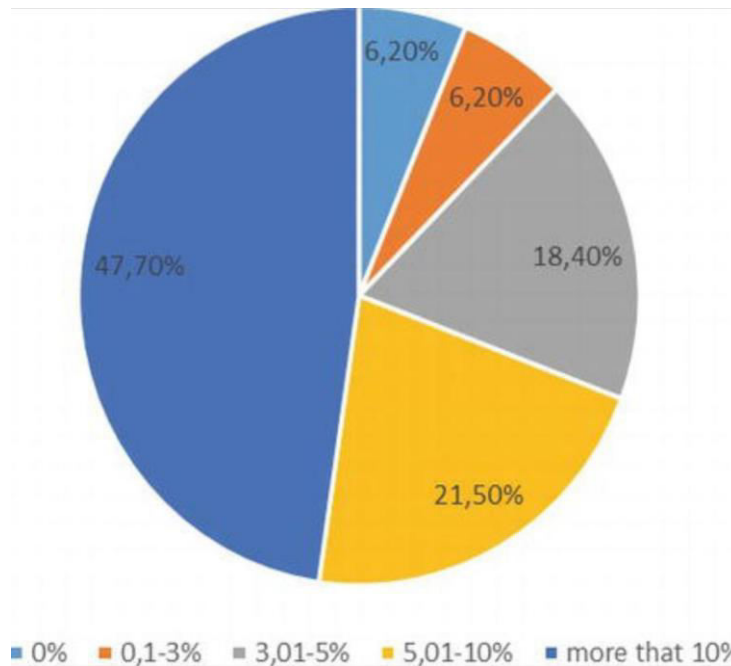
### 6. FLUCTUATION Rate

Respondents were only able to calculate the fluctuation rate if they provided both pieces of information required by the formula.

The majority of enterprises (39.9%) were affected by a volatility rate of more than 10%. In the second-largest category, enterprises with a calculated worker turnover of 0% were found (23.0 percent of the companies). 22.4 percent of the total is made up of companies with fluctuation rates between 5.01 and 10 percent. A new set of fluctuation rate data was used to categorise the businesses into micro, small, and medium-sized organisations, respectively..Figure 4 Fluctuation rate in small businesses categorised by the number of employees



**Figure 5 Small-business clasmall and medium enterprisesfication fluctuation based on employee count**



**Figure 6 A shift in the definition of medium-sized firms based on the number of people working in them**

Using reported data, the fluctuation rates in microbusinesses were only estimated for intervals with fluctuation rates over 10% (representing more than two-thirds of the microcompanies surveyed) and zero (representing the last one-third of the surveyed companies) (met by nearly one-third of the micro-companies).

**Table 1 Median rates of employee fluctuations in companies**

The size of the enterprise according to the given number of employees				
	Micro-enterprises	Small enterprises	Medium-sized enterprises	All enterprises
Median	0	8.3	9.3	8.0

The median calculated fluctuation rate in the assessed population of companies was 8.0. The median values were then also calculated for all company size categories.



**Conclusion :**

In this paper a detailed analysis of the various parameters that affect SME's functioning are carefully studied and analyzed. While a plethora of new measures have been initiated in the recent MSMED Act, much would again depend upon how these function on ground. External orientation and a global outlook for the SME sector must first address persisting basic constraints facing the sector. The garment case brings out this point in some detail. In fact, as the Indian SMEs are looking forward to a newer and larger market space, with its numerous advantages of skills, raw materials and large domestic market as well, networking with various stakeholders both within and outside the country is a worthwhile attempt.

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