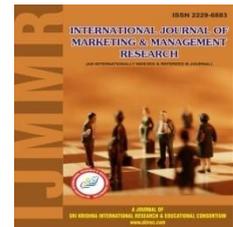




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CONTEMPORARY ISSUES IN SMALL & MEDIUM SCALE IT INDUSTRIES

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ABSTRACT



This article includes importance of IT & SMEs in economy. It throws a light on advantages and tribulations in small and medium scale IT industries.

Accelerating technological change in the IT sector in industrial nation continuously erodes the comparative advantage derived from relatively cheap labor which industrial latecomers could in the past exploit for their own benefit in trade. India is the world's largest exporter of ICT related services and the main market for business process outsourcing. Small Scale Industries may sound small but actually plays a very important part in the overall growth of an economy. Small Scale Industries help the economy in promoting balanced development of industries across all the regions of the economy. The importance of IT companies and SMEs can be combined in Small & Medium scale IT industries. Small scale it industries can be established in a short time, with less labor, less investments, mobility, flexibility etc. But, problems come hand in hand with the advantages like lack of expertise, less salary, burden of work, customer loyalty etc. If company runs successfully it earns a lot of profit, but if it gets disturbed a little bit, it may lead to a complete failure.

The interviews of some experts have strengthened the views of researcher.

INTRODUCTION

IMPORTANCE OF INFORMATION TECHNOLOGY IN ECONOMY

Newly industrializing economies are confronted with particular challenge to their future economic prosperity. Accelerating technological change in the IT sector in industrial nation continuously erodes the comparative advantage derived from relatively cheap labor which industrial latecomers could in the past exploit for their own benefit in trade. This raises the specter of increased marginalization of economically underdeveloped nations in the for world

market in high quality, customized, design- and technology-intensive products. Unless ways are found for these countries to acquire technological capabilities needed to narrow the technological gap that separates them from industrialized countries, newly industrializing nations risks losing world market share in manufactured products.

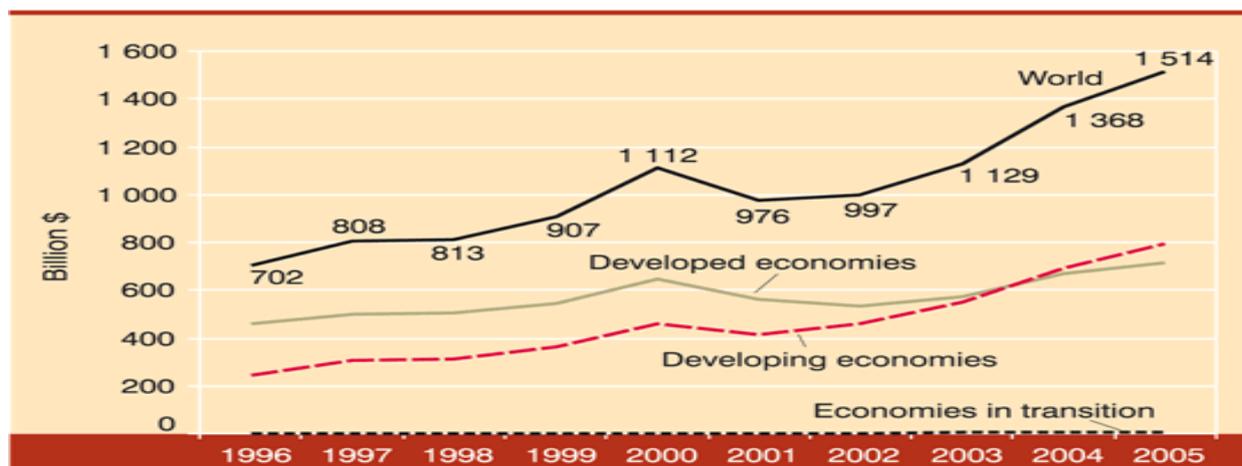
Recent development in information and communication technology is changing our economy and society in a rapid way. Electronic commerce, internet and related activities demand more data processing power, more memory and more speed. Due to this surging demand for ICT, the industries which provide IT goods such as computer, software, telecommunication equipment are growing enormously and are becoming to have growing importance.

IMPORTANCE OF INFORMATION TECHNOLOGY IN INDIAN ECONOMY

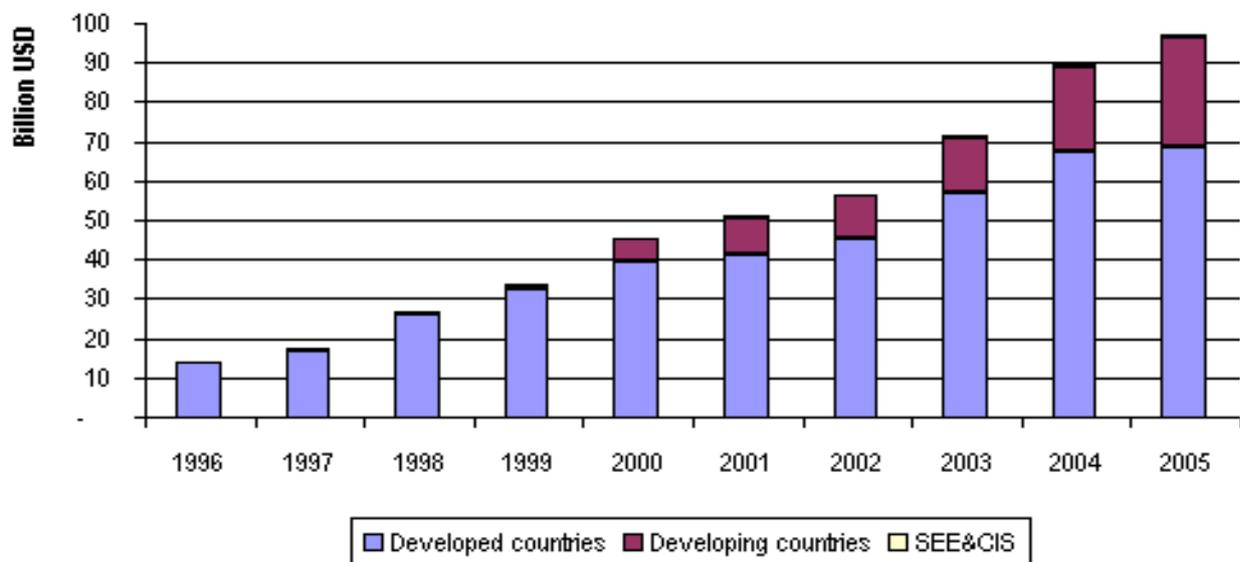
The most dynamic industry sector is computer and information services, where exports grew six times faster than total services exports between 1995 and 2004. The share of developing countries in this export sector increased from 4% in 1995 to 28% in 2005. Most strikingly, in 2005 (the latest year for which global comparable figures are available) developing countries' exports reached the 1998 level of OECD countries' exports of computer services -- in other words they were only seven years behind and probably further caught up in 2007. This is largely due to the dominance of India in the global ICT services market.

ICTs have played a critical role in the expansion of the economies of China and India, the report notes. China specializes in the production of ICT goods, which grew dramatically between 2000 and 2005. In 2004, the value added of the industry reached 7.5% of GDP, a 30% increase in value from 2003. The ICT sector is the country's largest trade sector, accounting for 34.4% of total trade in 2006. In 2004, China overtook the United States as the world's largest exporter of ICT goods. In 2006, its ICT exports reached a value of US\$299 billion.

India is the world's largest exporter of ICT related services and the main market for business process outsourcing. In 2006, the Indian ICT industry accounted for 5.4% of GDP; up from 4.8% in 2005 (agriculture contributed 18% to GDP). The value of software exports alone exceeded that of foreign direct investment (in the same year) in a country which is also a major destination for FDI. Primarily driven by ICT, the share of services in India's total exports increased from 18% in 1995 to 37% in 2006.



Graph: World exports of ICT Goods, 1996 - 2005



GRAPH: EXPORTS OF COMPUTER AND INFORMATION SERVICES BY LEVEL OF DEVELOPMENT

IMPORTANCE OF SMES IN ECONOMY

Companies with fewer than 10 employees are considered as "micro", those with fewer than 50 employees as "small", and those with fewer than 250 as "medium". By contrast, in the United States, when small business is defined by the number of employees, it often refers to those with fewer than 100 employees, while medium-sized business often refers to those with fewer than 500 employees.

Small Scale Industries may sound small but actually plays a very important part in the overall growth of an economy. Small Scale industries can be characterized by the unique feature of labor intensiveness. In India, the Micro and Small Enterprises (MSEs) sector plays a pivotal role in the overall industrial economy of the country. The total number of people employed in this industry has been calculated to be near about one crore and ninety lakhs in India, the main proponents of Small scale industries. It is estimated that in terms of value, the sector accounts for about 39% of the manufacturing output and around 33% of the total export of the country. Further, in recent years the MSE sector has consistently registered higher growth rate compared to the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost. As per available statistics, this sector employs an estimated 31 million persons spread over 12.8 million enterprises and the labor intensity in the MSE sector is estimated to be almost 4 times higher than the large enterprises.

The importance of this industry increases manifold due to the immense employment generating potential. The countries which are characterized by acute unemployment problem especially put emphasis on the model of Small Scale Industries. It has been observed that India along with the countries in the Indian continent have gone long strides in this field.

Advantages associated with Small Scale Industries

- This industry is especially specialized in the production of consumer commodities.

- Small scale industries can be characterized with the special feature of adopting the labor intensive approach for commodity production. As these industries lack capital, so they utilize the labor power for the production of goods. The main advantage of such a process lies in the absorption of the surplus amount of labor in the economy that was not being absorbed by the large and capital intensive industries. This, in turn, helps the system in scaling down the extent of unemployment as well as poverty.
- It has been empirically proved all over the world that Small Scale Industries are adept in distributing national income in more efficient and equitable manner among the various participants in the process of good production than their medium or larger counterparts.
- Small Scale Industries help the economy in promoting balanced development of industries across all the regions of the economy.
- This industry helps the various sections of the society to hone their skills required for entrepreneurship.
- Small Scale Industries act as an essential medium for the efficient utilization of the skills as well as resources available locally.

Small Scale Industries enjoy a lot of help and encouragement from the government through protecting these industries from the direct competition of the large scale ones, provision of subsidies in the form of capital, lenient tax structure for this industry and many more.

SMEs always represented the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs; labor intensive mode of production; employment generation; no concentration of diffusion of economic power in the hands of few (as in the case of big houses); discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations. It was also coupled with the policy of de-concentration of industrial activities in few geographical centers. It can be observed that by and large, SMEs in India met the expectations of the Government in this respect. SMEs developed in a manner, which made it possible for them to achieve the following objectives:

- High contribution to domestic production
- Significant export earnings
- Low investment requirements
- Operational flexibility
- Location wise mobility
- Low intensive imports
- Capacities to develop appropriate indigenous technology
- Import substitution

- Contribution towards defense production
- Technology – oriented industries
- Competitiveness in domestic and export markets

SMALL & MEDIUM SCALE IT INDUSTRIES

The significance of IT companies and SMEs can be pooled in Small & Medium scale IT industries. Since long time there was a monopoly of multinational IT companies in the IT zone. At a standstill the picture has not been changed utterly, but now there are many IT companies of small size which have come into existence successfully in the market of Information Technology. At the moment hundreds of small & medium scale IT companies is available.

These companies are commonly formed of very few people like 3-5 or more like 100-200 people. Investment in this kind of companies is less. There are examples of college students who are running this kind of company with ease.

Many times products of these companies are outsourced by large IT companies or they may have their individual customers also. Drawback is that they have to compromise with the price because most of the times their clients itself are SMEs.

ADVANTAGES OF SMALL & MEDIUM SCALE IT INDUSTRIES

Small scale it industries can be established in a short time with less labor. The advantages are as follows:

- Investments costs are less. It requires computers, internet facility and place which are easily available.
- There is flexibility in operations.
- Mobility as per convenience.
- Very less charges of trading because generally products are delivered online.
- Due to less number of employees management becomes easy.
- Labor can be available at a cheap rate.
- Many skilled people who could not got absorbed by large companies due to non-criteria or other problems can be absorbed by these companies.
- If open source products are used, investment cost becomes very less.

PROBLEMS IN SMALL & MEDIUM SCALE IT INDUSTRIES

Though there are many advantages of Small Scale IT industries, problems come hand in hand with the advantages. If company runs successfully it earns a lot of profit. But if it gets disturbed a little bit, there are chances of complete failure. Many live examples are available where company got closed at the beginning itself. Failure of a single project may also lead to a huge loss.

Problems are as follows:

- Expert labor is difficult to become available.
- Since a single employee has to play many roles during software development, workload of each employee becomes heavy.
- Due to less payment and heavy work, employees are unsatisfied and their attitude is towards switching the job.
- Though initial investment is less, it investment can also become a problem if business partners are fresher.
- Convincing customers is very difficult at initial stage.

REAL CASES

I conducted an interview of Ms. Anuja Desai, an expert in SugarCRM (PHP), Pune and her friends. They shared their experiences and views with me. After having experience of working on 'SugarCRM' in a medium scale IT Company, Anuja and her expert friends decided to run their own company. They got their first project and they started to work enthusiastically on it. But the project remained incomplete and they had to stop the company.

Anuja said, "We faced many problems during this period. It is very difficult to convince customer that though being a new company, we can provide quality products to them. The recession was going on, so everyone was in trouble. Again it was difficult to find expertise in the same area. Training would have become hectic and time consuming. The agent, through whom we went, was not trustworthy. Due to her misbehavior we had to stop the project. We got another project too, but since during this period everyone was frustrated and our internal clashes were increased, we had to stop all over."

When I asked her that whether she has completely removed the idea of her own company from her head, she smiled and said, "No, no. We just have taken a break. May be it is not the right time for us. We are trying to earn more money by working in other companies for a good investment."

This interview is not just the only case. Many small scales IT companies have faced and facing these kinds of problems. But these problems can be solved with continuous efforts and experience.

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