

Innovation, Business Models and Entrepreneurship
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Lecture – 29
SME's Strategic Involvement in Sustainable Development

Welcome friends. Today, in this session, we are going to discuss a very important part of our economy that is a small and medium enterprises. And we are going to discuss the involvement of SME's, and sustainable development. Both these terms are highly relevant in our modern context, because you are aware that we say that SME's are main engine of our national growth.

A small and medium enterprises, they are the biggest employer for our youth and those who are doing this course, it is also expected that they will be starting their ventures, they will be using this knowledge to run efficiently and effectively their organizations. And most of the organizations in the beginning are SME's. We will discuss a startups in a separate session, but today we are going to discuss about SME's, a small and medium enterprises.

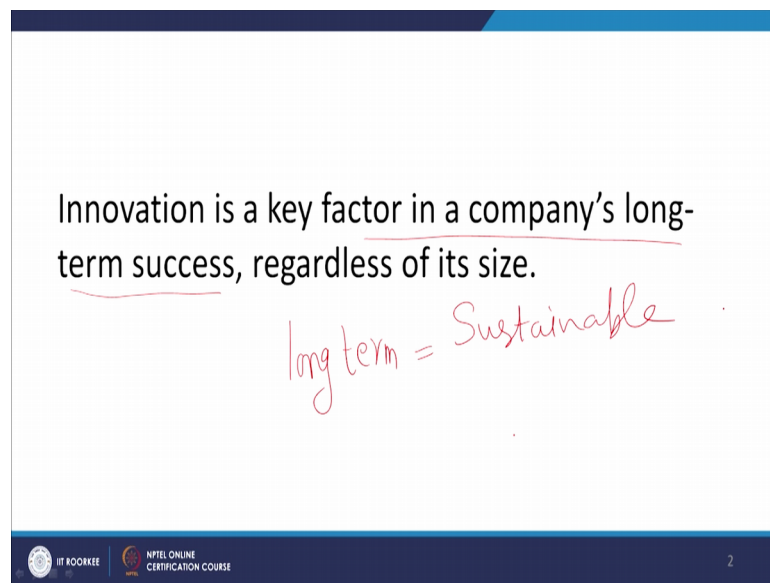
And the other important issue is sustainable development. We all are going for continuous development. One development, which is very much evident around us that is material development, the economic progress, but we are doing this economic progress at the cost of some other important elements. And these other important elements are society, and this planet the environment.

So, the concept of sustainable development is looking for development, which is a balanced development. Development, which is not only economic development, but it is also the development of the society, and the development of the environment, the development of the planet. So, the concept of sustainable development is actually, the holistic concept of development. And development, which is only material development, development which is only the economic development is the lopsided concept of development.

So, in this session we are going to focus that development should be the holistic development, and because SME's are the biggest segment of industrialization in country

like India, or in most of the developing nations. Therefore, the innovations, which we are talking of in this course, those innovations in SME's should lead to sustainable development, so that is the broad context, in which we are going to discuss in this session.

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Now, to start the discussion, the first important point, which I want to make that is innovation is not dependent on the size of a company. And this is a key factor in company's long term success, like many of us understand the word long term equivalent to sustainable, anything which is remaining for a long term that is sustainable that is the meaning of sustainability for us that sustainable development is that development, which can extend for a long term.

If you do a development, which cannot extend for a long term, then it is not sustainable. And for that purpose, innovation is a key factor. But, in this course in this session particularly, we will see that what type of innovations will lead to sustainable success, what type of innovations will lead to success, which are there for the long term. And that is the key of competitiveness for a small and medium enterprises, because of typical nature of a Small and Medium Enterprises.

These organizations are always they are constantly under threat from bigger players. Anytime some big fish may come, and may take them away. Anytime a big fish may come, and may acquire a small company. So, those types of threats are always there.

And now, to overcome those threats, it is important that we think of long term success of these a small and medium enterprises and innovation we expect should play a important role in this aspect in this objective. And we need to be very very clear that size of the organization is of no consequence to the innovation to the sustainable development.

But, our mindset is like that, whenever we talk of innovation, we only think of large companies, we only think of multinational corporations. So, therefore, we have specifically designed this session for catering the needs of a small and medium enterprises, where we can discuss examples, where we can discuss the issues related to small and medium enterprises.

(Refer Slide Time: 07:42)

Classification	Manufacturing Enterprises* (Investment limit in Plant & Machinery)	Service Enterprises** (Investment limit in equipment)
Micro	Rs. 2.5 million / Rs. 25 lakh	Rs. 1 million / Rs. 10 lakh
Small	Rs. 50 million / Rs. 5 crore	Rs. 20 million / Rs. 2 crore
Medium	Rs. 100 million / Rs. 10 crore	Rs. 50 million / Rs. 5 crore

Ministry
of
MSME
Govt. of
India.

The term "village industries" has been redefined in amended KVIC, Act, 1956 as "any industry located in a rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head of artisan or worker does not exceed Rs. one lakh (Rs. one lakh and fifty thousand in case of village industry located in a hilly area) or such other sum as may, by notification in the Official Gazette, be specified from time to time by the Central Government"

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Now, just to start the discussion, we also need to know what is a small and medium enterprises. And this definition of a small and medium enterprises may vary from country to country. But, as per Ministry of MSME Government of India, they have defined, micro a small and medium enterprises through their gadget notification.

And in that, they have classified these three types of organizations on the basis of their investment in plant and machinery. And these limits are different for manufacturing and service enterprises. For manufacturing enterprises, the limits of investment in plant and machinery, for a micro company, for a micro organization is rupees 25 lakh or 2.5 million and for service enterprise, this limit is 1 million or 10 lakh rupees.

For classifying your organization as a small organization, the maximum limit in plant and machinery is rupees 5 crore or 50 million. And if you are a service organization, the limit is just rupees 2 crore or 20 million. If you are to be classified as medium organization, so in a manufacturing enterprise, this limit is increased to rupees 10 crore. And if you are investing more than 10 crore, you go into large industry or heavy industry case. Similarly, if you are a service organization, if you are medium enterprise, you can have maximum up to rupees 5 crores investment in plant and machinery or in equipments.

So, that is the way in India, a small medium and micro enterprises are defined. The basis is their investment in plant and machinery, in case of manufacturing enterprises, and in case of service enterprises, it is the investment in equipments.

In some other countries, it may be on the basis of turnovers also that what is the limit of your turnover, and on the basis of that you are known as either a small or medium enterprises. In some other country, it can be on the basis of number of employees in your organization that how many employees you have that may be the classification of micro a small and medium enterprises. But, in India, this is the guidelines given by Government of India, to be known as a small medium and micro enterprises. And as Government says that this is a dynamic limit, you may have a different types of companies coming over a period of time, and because of change in economic environment, this limit may certainly change over a period of time.

Then in India, there is another category of a enterprises, which are known as “village enterprises”. These are village industries, and these village industries come under KVIC act. Now, the KVIC act means, Khadi and Village Industry Commission. And this Khadi and Village Industry Commission act, 1956. It says that any industry located in rural area, which produces any goods or renders any service with or without the use of power. And in which, the fixed capital investment per head of artisan or worker does not exceed rupees 1 lakh, and rupees 1,50,000 in case of village industry located in a hilly area.

So, if you are having five artisans, so the total investment should not be more than 5 lakhs, and you are not using any kind of power, and it should be located in rural area that it becomes the village industry. And this is very recently amended act, where these limits arches. Since, in the hill area, the fixed investment is slightly higher. So, this limit is

raised to 1,50,000 to be known as village industry in a hilly area. So, that is the legal framework for different types of a tax, whether it is a micro organization, whether it is a small organization, whether it is a village organization, or whether it is a village industry.

(Refer Slide Time: 13:20)

ASPIRE: A Scheme for Promoting Innovation and Rural Entrepreneurship

- Livelihood Business Incubators (LBI) under National Small Industries Corporation (NSIC), KVIC or Coir Board or any other Institution/agency of GOI/State Govt. or under PPP mode with these institutions.

① LBI → ② TBI.

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You can refer this page that what is the different types of organizations as per Government of India, ministry of MSME. Now, this ministry of MSME, for the promotion of innovation in a small and medium enterprises, they have different types of scheme. And one of the very popular scheme is aspire. At this scheme of aspire is basically to promote innovation and entrepreneurship at the rural level.

So, this idea is not alone, the Government of India is also supporting the idea of innovation and entrepreneurship at the rural level. And the very unique point of this aspire kind of a schemes is the establishment of Livelihood Business Incubators LBI. And in this LBI, different types of institutions can support financially for the establishment of LBI.

I just want to inform my students that first such LBI was established in the state of UP. And now, more and more LBIs are coming in different part of country. And it can be established with the help of organizations like NSIC, KVIC, Coir Board, and these all are the institutions of a ministry of MSME. And but, government is liberal, and they say that it can be established with the help of any other institution agency of Government of

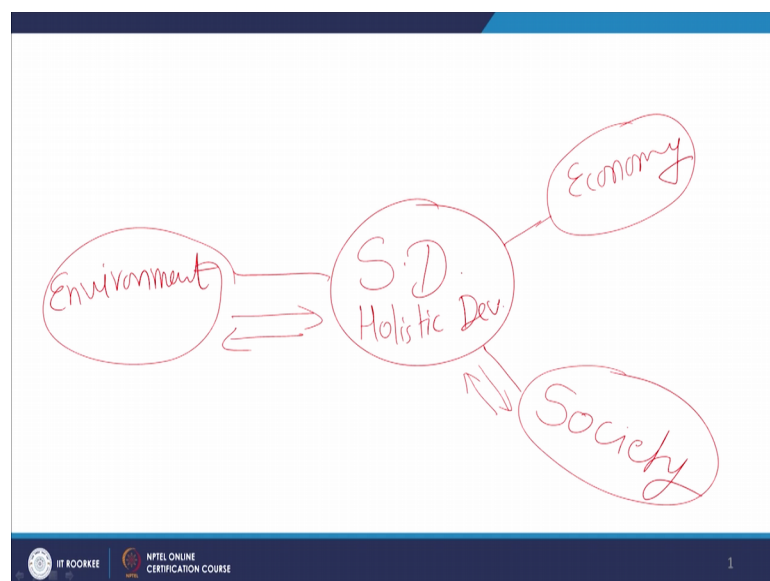
India, State Government, or it can be done with PPP mode, Public Private Partnership mode with the help of these institutions.

So, Livelihood Business Incubator, which is very very important, because at the rural level, we are facing the problem of basic livelihood; these business incubators, which are developing products, which are facilitating the farmers, the villagers to generate their livelihood. So, these are more focused around agro based activities. So, these Livelihood Business Incubator, their particular mandate is to have agricultural activities under their embed and the next level of this Livelihood Business Incubator.

So, under this LBI, under this aspire, the first stage is to have LBI. And then, the next stage is to have TBI also that is Technology Business Incubator. So, Government is committed that we need to bring innovation, and a spirit of entrepreneurship at the rural level, and for that purpose programs like LBI and TBI. So, first it should help you to generate your basic livelihood.

And once you are able to generate your basic livelihood, then the Technology Business Incubator, where to develop the new technology, incubators will help will support those types of schemes are there, so that is we are particularly discussing that the focus of business world is not alone in the area of SME, rather Government of India is also very keen to develop innovations to develop entrepreneurship at the grass root level.

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Now, let us see, because we have just discussed about sustainable development. And now, we need to see that how sustainable development is related to innovations at SME level. And before that, let us further go slightly deep into the concept of sustainable development.

So, sustainable development, which we have with the three piece, or three important dimensions are there. In one of the earlier session also we have discussed these three dimensions. So, one dimension is about economy. Where we look for economic profits, where we look for the monetary benefits. The other dimension is society, people around us, if people are not there what is the use of that business, if I do a business, where no people is involved, where no people is there, there is no point of business, it becomes a non sense question.

So, I can do business only, when people are around us, if robots are around me, there cannot be any business. So, it is very important that I need to care, I need to think about society around us; if society around us, is not happy with our business, if society around us, is not positive about my business, then that business is not going to have long term success. And third is environment. If environment around us is not up to the mark, if it is not helping me, or if I am not helping the development of the environment, this is a mutual relationship, this is a reciprocal relationship. Where both these parties, the environment and the business must help each other. I take lot of resources from the environment, I take air, I take water, I take land resources, so all take different types of minerals. So, I take large number of resources from the environment.

So, doing business without environment is impossible, but the resources in environment are available in limited quantity. And these resources need to be replenished regularly. So, therefore, it is very very important that I need to understand that what is the rate of replenishment of natural resources. And if the collective rate of exploiting those resources is more than the rate of replenishment of the natural resources, certainly that equilibrium will not be there. And when, the equilibrium will not be there, we will face we will face the consequences and the problems will come.

So, therefore, you need to have a good equilibrium between the environmental resources, and the rate, at which you are consuming those resources. You need to have equilibrium between society and your organization, because society is your input, society is your

output also, your products are going to the same society, your products are being consumed by the society, your services are being consumed by the society. So, if society is not positive, if society is not there, then what will you do with your business, the very existence of the business will be in question, and same is with the profit.

If your business is not able to earn profit, it is not going to survive. So, for survival, you must earn profits also. So, all these three point are very very important for sustainable development, holistic development. Let us write this holistic word also. So, for a very complete picture of development, we need to see that whether our innovation plan is taking care of all these three aspects or not. And for that purpose, we can discuss some of the examples, that how in a Small and Medium Enterprises with a small small changes, with a small small initiatives, innovations you can address all three dimensions of sustainable development.

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Innovations resulting from economic initiatives

- Reduced expenses; *Inventory Policy*
- Productivity gains through modernization of the production tool
- Ability to meet growing demand for eco-responsible and personalized products
- Diversification of business through consulting activities in sustainable development *Addition Revenue Stream*

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So, now if you do some innovations in a small and medium enterprises, some of the benefits, which are related to economics, which are related to profit like it can reduce your expenses. You do not know, that what type of things are there, which are eating away your profits. For an example, if you are not following in a small and medium enterprises, it is we have already discussed the technology strategies. It is not always required to have a offensive or defensive strategy, in case of a small and medium enterprises.

You can think that if some type of a let us say, inventory policy is already available. But, you are not able to implement in inventory systems are there, but you are not able to implement. So, you find some innovative way. So, that you do not incur losses by holding inventory in your organization. You will find in lot of a small and medium enterprises that inventory is held up for no reason, nobody knows the reason. And when, inventory is held up, you have blogged your flow of cash, and that is criminal.

So, therefore, you can reduce your expenses by analyzing your entire process carefully. And you yourself will see that there are large number of opportunities, where you cut down your expenses. Then particularly, SME's are very slow in adopting modern tools, modern production tools. By adopting modern production tools, you may get lot of productivity gain. Product production tools, modern production tools means, lean manufacturing like value stream mapping, like six sigma, all these things will help you in improving the productivity level of your organization. And productivity is directly related to economic benefits.

So, in a small medium organizations, we need to see that how can we apply, the modern tools of productivity improvement that itself, will be an innovation. Then you need to see how you are going to meet the growing demand of eco-responsible and personalized products, because it is the time of marketing, and we need more and more customized products. And in SME sector, we can produce more customized products than in the large companies. Large companies believe in mass production.

So, their ability to produce customized products is under question. But, certainly, a small companies, medium companies, can produce more customized products. But, the problem is the problem is you need to be eco-responsible also. Eco means, the environmental responsibility is also to be seen. If you are making a readymade garment company, a fashion company, so for you developing the personalized product is a challenge. You will make 100 shirts of same type, you will make thousand shirts of same type, but when you go to a local tailor, which is much smaller than that readymade garment company.

So, the readymade garment company for me is a large company, and the local tailor is a micro company. And that local tailor gives you more personalized service; he stitches your dress as per your specification. So, now, this is also a very interesting economic

aspect, this is going to give you benefit, this is going to give you the economic sustainability. If you develop that ability to meet the growing demand of personalized, because it is the marketing type as I mentioned, and we all look for more and more personalized solution, we are looking for customized solution as per my requirement.

And therefore, if assembly see SME's can help us, if we do the innovation, where the personalized products can be developed that will help SME's for sustainable development. Then if we are doing the sustainable development, all SME's can have this additional stream of revenue. This is the additional stream of revenue, additional revenue stream.

The additional revenue stream is by providing consultancy of doing sustainable business. How you can do a sustainable business, because now you know the art of sustainable business, now you know the concept of sustainable development, so obviously, because it is the time of knowledge economy with the knowledge you have now, you can transfer this knowledge, you can share this knowledge with other industry members, and then for the knowledge you can also get some kind of additional source of revenue. So, these are the benefits for the economic activities.

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Innovations resulting from Social initiatives

- Improvement in working conditions by automating the recovery of waste and reducing the amount of dust employees were exposed to
- Recognition from the community for the reduced noise pollution following roof renovations

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Then for these social initiatives also, which are related to SME's. What are the social initiatives. Now, the social initiative first is you improve the working conditions by

automating the recovery of waste and reducing the amount of dust employees were exposed. That is the first important thing, which is possible.

If you visit to any micro and medium level organizations, it is really very much very sub situation, the condition of the working environment in those organizations. Open electricity wires are there, so much dust is there, so much pollution is there, no safety regulations are being followed, and with the help of these type of initiatives, innovations resulting from social initiatives you can take care of your employees. And by doing some automating work, wherever possible, includes some kind of automated machines.

And particularly this dust related things; you need to take care seriously, because this is going to give birth to lot of diseases. So, if you can take care of your employees, so they are the first thing, do not consider it as an as a cost, rather this is the part, where you are going to care your employees. So, they will also care for you for rest of their lives, so it is very important thing.

Second is recognition from community for the reduced noise pollution. If you simple do, one kind of innovation. If you change your roofs, SME's normally work under teen shades. So, when you are working under teen shades you, at whatever machines are there creating lot of sound, and that sound is going outside the boundaries of your organization. So, the nearby people are always suffering with the noise pollution. So, just by changing the roof, you can create a soundproof kind of environment. So, that these are the simple things, which I am sharing that if you take these initiatives, this itself will create a positive social environment within the organization, and outside the organization.

The first point is focusing about your employees the second point, where I am suggesting that we can do roof renovation that is focusing on creating a positive at relations with your surrounding people.

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Innovations resulting from environmental initiatives

- Reduction of environmental impacts at the source (e.g. recovery of paper waste)
- Use of sustainable materials such as eco-designed and recyclable materials
- Protection of local biodiversity through the creation of a regional reforestation association
- Innovations in products, processes, organization and marketing thanks to an approach rooted in a sustainable development strategy.

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Then you may have innovations for environmental initiatives. And lot of type of innovations are possible for environmental initiative depending upon the nature of your organization. So, first is the reduction of environmental impact at the source. If you are a paper industry, so you can do lot of recovery of paper waste, so that you can minimize the use of wood, in making the paper, so that itself is a positive initiative by you, so that you can make a positive impact at the source level itself you are minimizing the use of fresh wood.

Then, use of sustainable material, and like eco means, environmental friendly design, and recyclable material. If we use those material, that is again going to impact the source, and you will help minimum use of new products. Then protection of local biodiversity through the creation of a regional reforestation associations.

SME's are present almost in each city of this country, whether your industrial area is large, or a small, irrespective of that, you have some industries in each city,. And it is good if those industries, those companies make some kind of association for reforestation of the local area so that more and more plantation can be done. And that way you can have some kind of again positive impact on the environment, because you are taking resources from the environment. And now, with this reforestation initiative, you are replenishing the environment also so that is also one type of innovation, which is easily doable by SME's.

Then, innovations in products, processes, organization and marketing, and all these innovations should be rooted with the approach of sustainable development. Whether, you are making new products, these new products should be the green products. You are doing some innovation in the processes you want to make more efficient process. And efficient processes means you your processes, new processes should consume less electricity, so that again becomes the environmental friendly processes.

The marketing the structure of the organization , wherever, you are doing some kind of innovation, these innovations should lead to sustainable development that is the baseline of this discussion, because then only then only SME's can enjoy a long term competitive advantage. So, with this we come to end of this session.

Thank you very much.