

Internationalization of Indian SMEs: Challenges and Road Ahead

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Abstract

Small and Medium scale Enterprises (SMEs) play a vital role in an economy resulting in generation of employment for the society, production of goods and services for consumers, contribution to the GDP, payment of taxes for the government as well as earning of foreign exchange. But the path for internationalization is not easy for an SME. There are several roadblocks that act as inhibitors. The present paper examines the role of SMEs, challenges faced by them and way forward in Indian context.

Keywords –Indian SMEs, Internationalization, Barriers, Government policy, Indian markets

Introduction

Small and medium-sized enterprises (SMEs) plays an increasingly important role in international business, contributing to economic growth and job creation. However, SMEs face a range of challenges when expanding internationally, including limited resources, lack of market knowledge, and regulatory barriers (Mishra,2020, Mishra and Walvekar, 2015).

Recent studies have highlighted the importance of internationalization for SMEs, with evidence suggesting that exporting firms have higher productivity and greater innovation than non-exporters (Wagner & Girma, 2021, Mishra and Walvekar, 2012). In addition, digital technologies have made it easier for SMEs to access global markets and compete with larger firms (Hitt et al., 2021, Mishra and Prakash, 2015). The global trade

environment is constantly changing, and the trend of exports can be influenced by various factors, such as trade policies, economic growth, technology advancements, and consumer preferences. India will experience an increase in exports due to the liberalisation policies (Sunil & Nair,2018).

To support SMEs in international business, governments and international organizations have implemented a range of policies and programs. These include trade agreements, financing programs, and training and mentoring initiatives. For example, the International Trade Centre (ITC) provides support to SMEs in developing countries through its SME Trade Academy, which offers online training and coaching on topics such as market research, product development, and export strategy. When businesses try to seamlessly merge their economic interests with their societal and environmental obligations, the association with all the stakeholders is founded on the ethical values of respect towards the society and environment in general, and individuals in particular(Sunil & Nair 2021).

Despite these efforts, challenges remain for SMEs in international business. These include access to financing, navigating complex regulatory frameworks, and managing cultural differences in business practices. To fully realize the potential of SMEs in international business, it is important to address these challenges and promote policies that support their growth and competitiveness. This paper is an attempt to explore benefits and challenges involved in the process and how SMEs can successfully export to reap benefits.

Role Of SMEs In Indian Markets

Small and Medium Enterprises (SMEs) play a crucial role in the Indian economy. These SMEs are managed by owner/managers whose entrepreneurial capability encourages them to undertake new challenges and explore overseas markets (Mishra and Deshpande, 2023). The role of HR here is also significant in terms of understanding and providing the right skill set to these SMEs (Mishra and Awasthi, 2017). Thus they contribute significantly to employment generation, income creation, and overall economic growth. Here are some of the relevant examples:

1. Employment generation: According to a report by the Ministry of Micro, Small and Medium Enterprises, SMEs contribute around 40% of India's workforce, creating more than 100 million jobs in the country. (Source: https://msme.gov.in/sites/default/files/MSME_Report_2018.pdf)
2. Income creation: SMEs also contribute to the overall income generation of the country. According to a report by the International Finance Corporation, SMEs account for 30% of India's GDP and contribute to 45% of the country's exports. (Source: https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/industries/retail_bank/fi+resources/fi+publications/india+retail+briefing)
3. Innovation and competitiveness: SMEs are often more agile and innovative than larger corporations, driving competition and pushing the boundaries of what is possible. According to a report by the Confederation of Indian Industry, SMEs contribute to the development of new products and services, which can help to improve India's competitiveness on the global stage. (Source: <https://www.cii.in/PolicyAdvocacyDetails.aspx?id=72173&gid=2>)

Overall, SMEs are an essential part of the Indian economy, contributing significantly to employment, income generation, and

competitiveness. As such, policymakers should continue to support and encourage the growth of SMEs in India to ensure the country's long-term economic suc

Challenges Before Indian SMEs

Small and medium-sized enterprises (SMEs) in emerging markets face unique challenges when entering international markets. These challenges include limited access to finance, weak institutional support in emerging markets, governments and international organizations have implemented a range of policies and initiatives (Bedarkar, Mishra, and Khatwani, 2020). These include trade agreements, financing programs, and capacity-building initiatives focused on improving business skills and market knowledge. For example, the International Finance Corporation (IFC) provides support to SMEs in emerging markets through its SME Ventures program, which offers financing and advisory services to help businesses grow and expand internationally.

To fully realize the potential of SMEs in emerging markets, it is important to address the challenges they face and promote policies that support their growth and competitiveness. This includes investing in infrastructure and institutional support, improving access to finance and market information, and fostering a culture of entrepreneurship and innovation.

SMEs And Benefits From Internationalization

Small and medium-sized enterprises (SMEs) can benefit significantly from internationalization, which involves expanding their business operations beyond their domestic market to reach customers in foreign markets. The knowledge economy has been a key driver of this adoption, as digital technologies have enabled the creation, dissemination, and application of knowledge-based goods and services (Nair, 2021). There are several theories of internationalization given and discussed such as Uppsala model, resource theory, institutional theory etc (Mishra, Paul and Czinkota, 2022). As found in literature, there is a paucity of women

leaders especially in SME segment who can a role model for others to include them and make a part of the team (Kulkarni, Mishra, 2022). The presence of heterogeneous consumer groups, the entry of new brands, and the availability of Indian-based retailers with ambitious expansion plans are the primary factors that lead to a growth in Indian Markets (Nair 2019). Here are some benefits of internationalization for SMEs:

1. **Increased revenue and profitability:** Internationalization allows SMEs to access new markets, which means they can increase their customer base and generate more revenue. Additionally, by sourcing materials and manufacturing in countries where labor and materials are cheaper, SMEs can lower their costs and increase their profitability.
2. **Diversification of risk:** Internationalization helps SMEs to spread their risks across different markets and currencies. This reduces their exposure to economic downturns in their domestic market and helps to mitigate the impact of fluctuations in exchange rates (Khatwani, et al. 2023).
3. **Enhanced competitiveness:** By expanding their business internationally, SMEs can gain a competitive advantage over their rivals. This can be achieved by accessing new technologies, adopting innovative business models, and leveraging the expertise of local partners.
4. **Access to new talent:** Internationalization can also provide SMEs with access to a broader talent pool. This can help them to hire highly skilled employees and expand their knowledge base, which can lead to increased innovation and productivity (Pandita and Khatwani, 2023).
5. **Improved brand recognition:** Entering new markets can help SMEs to build brand recognition and raise awareness of their products or services. This can lead to increased brand loyalty and customer engagement, which can drive growth in the long term.

Indian Government Policies To Support Sme Internationalization

The Indian government has implemented several policies and initiatives to support the internationalization of Small and Medium-sized Enterprises (SMEs). Here are some examples:

1. **Make in India:** This initiative aims to promote India as a global manufacturing hub and encourage foreign companies to invest in the country. The program provides incentives and support to SMEs to boost their manufacturing capabilities and export potential.
2. **National Manufacturing Competitiveness Programme (NMCP):** The NMCP provides financial assistance to SMEs to upgrade their technology and enhance their productivity. It also provides support for skill development and training to improve the competitiveness of SMEs in the global market.
3. **Export Promotion Capital Goods (EPCG) Scheme:** This scheme allows SMEs to import capital goods at zero or concessional customs duty, provided that they export their products within a specific period. This helps SMEs to enhance their production capabilities and become more competitive in the global market.
4. **Trade Infrastructure for Export Scheme (TIES):** The TIES scheme aims to develop export infrastructure in the country by providing financial assistance to state governments and other agencies. It helps SMEs to access international markets by improving logistics, connectivity, and other facilities.
5. **Foreign Trade Policy (FTP):** The FTP provides a framework for promoting exports and enhancing the competitiveness of Indian SMEs in the global market. It includes measures such as export incentives, duty drawback schemes, and market access initiatives.
6. **Digital India:** The Digital India initiative aims to promote the use of technology in

all sectors of the economy, including SMEs. It provides support for the development of e-commerce platforms, online marketplaces, and other digital tools that can help SMEs to reach customers in foreign markets.

Roadmap Of Indian Smes Internationalization

India has a large number of Small and Medium-sized Enterprises (SMEs) that are increasingly looking to expand their business operations internationally. Here is a roadmap for Indian SMEs internationalization, along with some references: A) Identify target markets: Indian SMEs should identify target markets that are suitable for their products or services. This requires market research and analysis of the regulatory environment, cultural differences, and competition in the target markets. B) Build export capabilities: SMEs should focus on building their export capabilities, including product design, quality control, logistics, and marketing. They can also leverage the support provided by government schemes such as the Export Promotion Capital Goods (EPCG) Scheme and the Trade Infrastructure for Export Scheme (TIES) to enhance their export capabilities. C) Partner with local firms: Partnering with local firms in the target markets can help Indian SMEs to navigate cultural differences, regulatory requirements, and logistical challenges. This can be done through joint ventures, franchising, licensing, or distribution agreements. D) Leverage digital technologies: Indian SMEs can leverage digital technologies to reach customers in foreign markets, including e-commerce platforms, online marketplaces, and social media. The Digital India initiative provides support for the development of digital tools that can help SMEs to expand their business operations internationally. E) Establish a global brand: Indian SMEs should focus on building a global brand that reflects their unique value proposition and differentiates them from competitors. This requires a strong marketing strategy that includes branding, advertising, and public relations.

Conclusion

We can thereby conclude that SMEs are vital for the growth of Indian economies and contribute significantly to the income and employment generation. In spite of multiple barriers faced in the process of internationalization, it brings numerous benefits to company as well as nation. Thus, various governmental schemes and support are providing to increase the pace of their internationalization which is much needed for the growth of company as well as nation.

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