

## Challenges and Developments in Small and Medium Enterprises: A Review of Kanpur Leather Industry in India

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### Abstract

SME sector in India, especially leather clusters at Kanpur serve as an important employment and GDP generating industry. Despite numerous initiatives undertaken by government for developing this sector, the industry is still facing losses due to allegations of generating environmental pollution. The alarming situation of Kanpur leather industry demands a serious attention both from scholars and government bodies. This paper aims to describe and categorize various issues, challenges and developments in the SME sector in India and leather industry at Kanpur in particular. The paper reviews developments from various SMEs studies and suggests initiatives that can be adopted in the leather industry at Kanpur. The methodology adopted in this paper is to review articles on SME sector and leather industry and categorize the problems and developments in a thematic manner. This paper can provide significant knowledge for understanding the declining situation of Kanpur Leather Industry and can spread awareness among the academia to further research on this topic.

**Keywords:** Leather Industry, Kanpur, Tannery, SME, Pollution.

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## **1. INTRODUCTION**

SMEs are considered as the backbone of country's economy and an important factor in appreciating economic growth and generating employment (Das, 2017). The industry is one of the major contributors to innovation and competition thereby being able to sustain economic downturns and recessions. The employment and economic well-being of country is highly correlated with the degree of vibrancy of SMEs (Thomas Katua, 2014).

### **1.1 Definition of SMEs**

International Finance Corporation (IFC) World Bank has defined Small Industries as units which comprise of less than 50 workers and Medium Industries comprising of workers in the range 50 - 300. The Micro, Small & Medium Enterprises Development (MSMED) Act, in 2006 by the Government of India (GOI) have categorized Small industries with capital range of 25 lakhs to 5 crore for Manufacturing sector and 10 lakhs to 2 crore for Service sector. The act has categorized Medium industries with capital range of 5 crore to 10 crore for Manufacturing sector and 2 crore to 5 crore for Service sector. On the other hand IFC has categorized Small industries with capital range of less than 150 million and Medium industries with capital range of less than 750 million (Das, 2017).

### **1.2 Role of SMEs in Employment and Development**

SMEs are known to create employment opportunities both in developed and developing countries and require small amount of investment. They trigger economic development, stabilize distribution of national income and maintain a balance between urban and rural growth. Apart from economic development, SMEs play a significant role in addressing social issues such as poverty, self-reliance, income disparities and wealth and standard of living imbalances (Kishore, Majumdar, & Kiran, 2012), (Pandey, 2013). They are the major contributors to job and wealth creation helping counter poverty and various diseases. They create employment at low cost including indigenous technology thereby developing local machinery and expertise. While providing immediate large scale employment, SMEs mobilize resources in an effective manner and facilitate equitable distribution of national income (Pandey, 2013). These industries are labour intensive and provide livelihood to large amount of population (Thomas Katua, 2014). They are drivers of growth, jobs and entrepreneurship globally and are major contributors to GDP, exports and employment. In the current scenario of emerging global market they will play pivotal role in achieving national objectives of economic growth with equity and inclusion. The developing countries still rely on their agricultural sector and SMEs provide a good solution for them in stimulating economic growth and reducing poverty (Anand, 2015).

### **1.3 Challenges of SMEs**

The competitive advantage of SMEs in developing countries is downplayed by several issues such as inadequacy of timely finance and lack of international knowledge management which hinder the working of the industry. Moreover, the industries in developing countries are unable to exploit the benefits of globalization and face pressures in domestic market from inflow of cheap foreign goods due to lack of knowledge (Anand, 2015). Even after numerous interventions by the government the SMEs still face issues such as infrastructural deficiencies, inadequate market linkages, poor flow of institutional credit, inadequate capital and credit, dilatory and

cumbersome regulatory practices, lack of skilled workers, upgraded technology, research and development, innovation, limited economies of scale, lack of attention in fostering knowledge and skill development in their workforce, lack of expertise in management and regulatory constraints (Musa & Chinniah, 2016), (Das, 2017). SMEs being labour intensive in nature, they require systematic and effective workforce management to improve quality of their production. The performance of SMEs is hindered by inaccessibility to human and financial resources and lack of managerial expertise (Kishore et al., 2012). As a result the industry faces a lot of workplace issues and employees are mismanaged leading to discontent and poor performance. The small size of SMEs does not permit employing experts for various departments and as a result they are not able to cope with the complexities that arise out of competition.

## **2. ROLE OF SMEs IN INDIA**

Indian economy is the second fastest growing economy and SMEs sector would serve as an engine to growth by fuelling income generation, employment, and GDP and export earnings. Developing countries like India where unemployment is on the rise and big business are on decline, the role of SMEs become a lot more vital (Kishore et al., 2012). Currently there are around 30 million MSMEs working in India employing 69 million all over the country. The sector contributes to around 45 % of countries industrial output and has been at a consistent rate of 11.5 % per year (Anand, 2015). This sector constitutes around 80% of the total industries and produces around 8000 different kinds of value added products. The industry has been instrumental for the Indian economy generating employment, curbing regional disparities, fostering equitable economic growth and improving export (Das, 2017).

### **2.1 Importance of Leather Industry in India**

Leather industry is one of the important drivers of Indian economy employing intense labour with a price advantage to various commodity lines. Having an abundance of domestic raw material and experienced and cheap labour, India has a comparative advantage in leather production (Sankar, 2006). However, the industry has faced certain barriers including tariff escalation which accounts for discrimination against the value added exports, standard related barrier which come under the category of non-tariff barriers. The industry comprise mostly of small-scale sector which find difficult to comply with the domestic and international environmental requirements. As such the industry faces serious allegation regarding environmental pollution generated by the effluent released from production process. In fact the industry has been considered as highly polluting and has been classified in Red zone category. In order to address this issue there is an urgent need of cleaner production to be adopted at various stages of leather processing (Chakraborty & Chakraborty, 2006; Sankar, 2006).

### **2.2 Challenges faced by Indian Leather Industry**

There are number of issues which cropped up in Indian Leather industry. This paper has identified certain problems and grouped them under various categories as under:

**Table 1: Issues in Indian Leather Industry**

S.No.	Categories	Issues
1	Government	Regulatory scrutiny, stringent regulations on polluting technologies, Banning carcinogenic chemicals
2	Political	Cumbersome bureaucratic procedures
3	Environmental	Internalize the negative externalities generated by environmentally damaging byproducts, exposure to toxic and biodegradable chemicals, poisoning of land and groundwater, air pollution, Water pollution
4	Social	Noise pollution, Child Labor, Low wages, campaign against cruelty to animals, boycott of leather products
5	Economic	Cost concern, limited access to finance, expenditure to meet environmental norms
6	Management	Management of polluting effluents, Poor management and treatment of animals
7	Performance	Working under low economic efficiency
8	Infrastructural	Poor state of infrastructure, lack of effective institutional structures, family owned business hence proper management is not present, irregular power supplies
9	Market	Foreign potential competition, stringent international standards

Source: (Chakraborty & Chakraborty, 2006), (Siddhanti & Srinivasulu, 2016)

### 2.3 The Problem of Tannery Effluent and Sludge

Tannery effluent and sludge have been the major pollutants and are major concern for the government. The effluent has been responsible for number of problems such as declining flower cultivation, groundwater pollution, stomach and skin related diseases, cattle disease and inflow of poisonous metals and chemicals in the food chain. Before the implementation of Ganga Action Plan, the villages in Jajmau were being supplied with untreated city sewage mixed with Ganga water, but after its implementation effluent was mixed with city sewage which then became unfit for irrigation. To aggravate the situation, the failure of effluent treatment plants and poor supply of electricity interrupted the processes in the plants. The government also initiated tannery sludge dumping in the village of Rooma in order to prevent the land pollution near the village. But this initiative was short lived as the sludge was still being dumped in the villages and later on taken to Rooma. Moreover, there was no such preparation to landfill the sludge which was been to taken Rooma (Singh, 2006).

### 2.4 International Issues

Due to non-compliance with the environmental standards of production, the leather industry has faced several setbacks at the international level including banning of leather imports in Germany which contained Pentachlorophenol (PCP) and Azo Dyes (Benzidine). The complete list of toxic chemicals in leather for which limits have been prescribed include pentachlorophenol (PCP), azodyes, formaldehyde, chrome VI, short chain chlorinated paraffins (SCCPs), tetrachlorophenols (TCP), nickel, phthalates, specific flame retardants, disperse dyes, extractable chromium, biocides, tri butyl tin (TBT) and N-methylpyrrolidine (Sankar, 2006). In response the

Indian government exercised policies to stimulate innovation in products that were free from such chemicals and improved relationship with the German market (Singh, 2006).

### 2.5 Pollution in Leather Supply Chain

The pollution generated by Leather production is not just limited to the tanneries only. Even at the point of transporting the raw sheep skin to dealers and then transporting it to the tanning industry, pollution is being generated. Even the treatment of the effluent in CEFT and EFT and chrome recovery, some pollution is being generated. The solid waste when treated with trimming, fleshing and shaving, it leads to polluting the environment. After being converted to finished leather, the pollution is again generated while exporting the product to domestic as well as export market. The issue of pollution is not just restricted to tanneries only and there are more areas that need urgent attention. As the tanneries are small in size, they do not have the advantage of economies of scale and hence lack adequate capital to cater to the problem of pollution. In order to properly address this issue, the government needs to step in with certain policies and initiatives and aid the tanneries with financial and infrastructure aid. In the past government has come with some initiatives that proved to be quite successful but could not be sustained in the long run.

### 3. DEVELOPMENT INITIATIVES FOR LEATHER INDUSTRY

Over the years the government has been able to implement certain practices which have been instrumental in the upliftment of the leather industry. With increasing competition in the global market and regulations on harmful chemicals in the international market, the government initiated projects on innovation of chemical free products, reverse osmosis and chrome recovery practices. To stimulate the export of leather products the government liberalized trade barriers and promoted export of high value products. To uplift the tanneries in the country certain schemes were implemented which included promotion of free import of modern technology, machines and chemicals, providing financial support and on-site training of the tannery workers. There have been certain policies and acts that were initiated by the government of India to facilitate and empower the MSME sector. The initiatives include establishment of Small Industries Development Bank of India (SIDBI) in 1990 for the promotion and financial support of the sector, Credit Guarantee Fund Trust of Micro and Small Enterprises (CGTMSE) in 2000 to provide access to credit and Prime Minister’s Employment Generation Program (PMEGP) in 2008 for generating employment in rural and urban areas (Das, 2017).

**Table 2: Existing Developments**

Themes	Developments
Technological	Innovation of chemical free products
Political	Liberalization of trade barriers
	Promotion of export of high value products
	Promotion of free import of modern technology
Government Aid	Financial Support
	On field training
Infrastructure	Small Industries Development Bank of India (SIDBI)
	Credit Guarantee Fund Trust of Micro and Small Enterprises (CSTMSE)
	Prime Minister’s Employment Generation Program (PMEGP)

(Chakraborty & Chakraborty, 2006; Singh, 2006)

#### **4. SUGGESTED INITIATIVES OF DEVELOPING SME SECTOR**

Government support plays a vital role in fostering SMEs and is evident from countries such as Japan and Korea, which emerged as successful global players. The government is required to assist the SMEs in reducing transaction costs of technology up gradation, market penetration and modernization of infrastructure. The policies set by the government must be participative, transparent and scalable in nature in order to implement initiatives driven by financial literacy. Such policies will be required to support development of entrepreneurial culture and skills, technical learning and capability and create an environment for rewarding business activities (Anand, 2015). As in case of European SMEs, since the social costs are high, they do not have cost advantage. Hence they have to rely on inclusion of innovating technologies in the businesses. (Hogeforster, 2014) has studied the SMEs sector of European countries and found significant relationship between innovation and cooperation. Most of the SMEs that were innovative have been emphasising on internationalization and networking to expand their business. Developing countries like India have a cost advantage of raw material and cheap labour and, therefore, can invest their money in cooperation thereby leveraging their business processes. As most of the SMEs in India are small and family owned, they are financially weak and Government support can play a vital role in the development of the businesses. Financial literacy and knowledge management can greatly help SMEs in India to develop international contacts and expand their business. In the past, internationalization was not an easy option but with well-developed communication and IT system in today's world, it is far much easier for the firms to cooperate and innovate. The major hurdle resisting innovation in SMEs is lack of qualified workforce and skilled managerial personnel. This problem is fuelled by the lack of awareness in management of SMEs regarding beneficial aspects of innovation (Hogeforster, 2014). Companies in Baltic region of European countries studied by (Hogeforster, 2014), indicate that work climate is highly crucial in company for implementing innovation. It includes the communication and cooperation among colleagues, management of company and social and physical environment of the workplace. Moreover, positive workplace culture is a lot more cost effective as compared to technical innovation. Such kind of work culture can also be adopted in developing countries as technical innovation seems to be a tough ask for the small industries without proper support from government. (Hogeforster, 2014) identified three major kinds of innovation including product, process and organizational. He concluded that as the level of innovation increase, the companies become more interested in soft innovations which include process and organizational ones. Innovation is also guided by skilled and educated workforce and managerial personnel who have enough vision to strategize innovations for their businesses. (Musa & Chinniah, 2016) have studied SMEs in Malaysia and identified increased interest in the implementation of green practices specially ISO 14001 Environment Management System (EMS) which is already being widely used around the world. The advantage with ISO 14001 is that it can be used in all sizes of organizations ranging from small to large and has large number of benefits such as competitive advantage, improvement in systemization, efficiency, quality, employee empowerment, improved relations, etc. (Kishore et al., 2012) have identified several human resource strategies fostering innovation which include Knowledge management, recruitment, retention, motivation,

job security, empowerment, employee engagement, workforce diversity, organizational citizenship behaviour, conscientiousness, sportsmanship, courtesy, altruism and civic value. They have stated that recruitment is a focused task of hiring candidates with appropriate skills with suitable evaluation processes to identify the merits of the individual. Since SMEs face financial crunch, human resource transformation can be a cost effective step to ensure high performance of the workforce. (Das, 2017) have suggested certain measures that can be adopted in order to support and facilitate the sector including easing access to finance and credit, stepping up infrastructural and support facilities, creating adequate marketing linkages, skill development and capacity building, access to modern tools and technology and policy interventions and support mechanisms.

#### **5. SUGGESTED INITIATIVES FOR INDIAN LEATHER INDUSTRY**

Even after numerous initiatives, policies and schemes the condition of the Indian leather industry seem to declining and the situation is affecting exports and economic growth. A lot of tanneries have been shut owing to the increase of pollution from the production process. The small tanneries are not being able to implement technologies for cleaner production due to financial crunch. Since leather industry is an important aspect for India's economy, corrective measures need to be implemented in order to stabilize the working of tanneries. Firstly, the problem of pollution arises right from the stage of collection of hides and skin and proper assessment of the skins along with salt less preservation is required. Secondly, the infrastructure of slaughtering needs to be improved and training of personnel is required for carrying out the processes systematically. Thirdly, the tanneries need to erect their own small treatment plants and they must be supported by the government through financial and technical assistance. Fourthly, foreign direct investment is required in the leather industry to facilitate the inflow of capital and modern technologies (Chakraborty & Chakraborty, 2006; Singh, 2006), (Sankar, 2006; Siddhanti & Srinivasulu, 2016).

#### **6. CONCLUSION**

SME sector is a vital industry especially for the growing economies of developing countries and hence needs to be nurtured in a systematic manner. Government support plays a significant role in implementation of policies and regulations for efficient running of the industry. This paper has highlighted various aspects that need to be worked out for SME sector and leather industry in particular. It can be seen that the current situation of leather industry is under serious concern and proper measures need to be taken in order to revive the production and boost exports and GDP.

#### **7. FUTURE RESEARCH DIRECTION**

This paper has been able to identify various issues and development in the SME sector and leather industry in particular. However, there is much more to research and uncover on the aspects of evaluating and comparing various policies of development. Future studies can focus on comparing the impact of development policies in different SME industries and leather clusters within and outside India.

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