



Perspective on growth of MSME sector in India: A discussion paper

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Abstract

With India's vast cultural diversity, geographical expanse and entrepreneurial spirit, Micro, Small and Medium Enterprises (MSMEs) have always played a vital role in economic growth and employment generation and overall development of the economy. There are more than 42 million enterprises in various industries, employing over 105 million people. Together, these accounts for 45 per cent (apex.) of the industrial output and 40 per cent (apex.) of the exports. The MSME sector performed well with multidimensional aspects of the socio-economic needs and by increasing of the standard of living of the people.

However, there is an urgent need for institutional arrangements that would facilitate interactive learning through clustering, technology improvement, New modes of financing investment and skill upgradation, and interaction with the universities and public research laboratories across a wider market space which are identified as crucial factors. Moreover, as always, labour continues to receive a shoddy deal in the MSMEs across space and sub-sectors, irrespective of reforms. The key constraints faced by the MSMEs include limited capital, inadequate and timely banking finance, lack of systematic planning, limited access to international market and knowledge management, and red tapism, etc.

The most important change needed is in the attitude of the institutions and the mindset of the policymaker which are engaged in the task of small enterprise development and that MSME policies deserve for achieving the socio justice, along with the individual's aspirations. So, it is time now Indian MSMEs should explore the global market and be competitive; and Innovation is the buzz word for businesses to survive, dynamism and entrepreneurship must exist in its fullest degree for staying fit and relevant.

Keywords: micro, small and medium enterprise (MSME), globalization, reforms, employment, bank, finance

Introduction

The small enterprise sector has continued to contribute immensely in creating large-scale job opportunities across space and, helping reduce inter-regional and rural-urban disparities in growth. MSME sector has successfully catered to a calibrated yet vast domestic market with its remarkably diverse range of products manufactured in the sector (estimated to a staggering over 6000 distinct products), often available at affordable prices. Certain products in this sector have also been consistently figuring in the export basket during the recent decades, although the export performance in the global market has been unimpressive.

Viewed dispassionately, the high rate of entry and exist reflect the dynamism in the sector and indicates why it is often seen as an industrial incubator. MSME's contribution should be seen not only in terms of output, employment, income, investment or exports but also in terms of the more qualitative indicators such as the synergies they promote with large industry, their contribution towards balanced regional growth, their contribution in nurturing entrepreneurial spirit, innovation and in providing a nation-wide pool of skilled and trained manpower.

Since the commencement of planning for economic growth, an adequate emphasis has been given on the development of MSMEs by policy makers, politicians and the intelligentsia alike (Gupta, 2006; Banerjee, 2005) ^[1, 2]. The multi-pronged objectives of increased industrial output, generation of

employment, dispersal of industrial activities across regions and development of entrepreneurship has been successfully met through the propagation of MSMEs. Entrepreneurship is a vibrant assertion of the facts that individual can be developed, then outlook can be changed and their ideas can be converted into action though on an organized and systematic program for entrepreneurs. For taking up business venture can change economic scenario, it was felt that systematic training can be given for a better output and for attracting people.

The paper concludes with policy recommendations to ensure and to integrate, as explicitly as possible, broad-basing benefits to MSMEs across space and sector, innovation system concerns into the trade and investment for the sustenance and competitive growth of the sector in the country.

Objectives of the study

1. To strengthen MSME sector enabling scale higher output, volume growth and provide more employment opportunities;
2. To enable MSME sector building competitiveness with Research & Development focus (R&D), knowledge management, and quality management practices thus help increase its global market share.

Review of relevant literature

Das (2011) ^[12] argued that persistent initiatives of influential global agencies such as the United Nations Industrial

Development Organization (UNIDO), United Nations Conference on Trade and Development (UNCTAD), World Bank, and so on, the so-called cluster development programs were deeply neoliberal in their basic strategies. In tune with the global trend in India, there have been many studies, mostly focusing on the role of innovation in shaping international trade and MSMEs (Bhavani 2002: 2009; Pradhan 2010 among others) [3, 11].

Rajender and Kumar (2012) [4] 2 (4) conducted an empirical study to analyze the Knowledge Management practices in the SMEs. Out of 4 samples of SMEs considered, only one was a manufacturing firm. According to them, the Central and the State governments and industrial associations need to promote the SMEs by providing financial assistance to up-grade technology, liberal tax policies, interest rates and R&D facilities etc. Studies by Flynn *et al.* (1994) [5] and Ahire *et al.* (1996) [6] indicated the importance of TQM towards customer satisfaction. Similarly, Malcolm Baldrige National Quality Award (MBNQA, 1992) and Garvin (1983, 1988) [7] highlighted the importance of customer satisfaction on financial performance.

The strategy paper prepared by the Office of the Advisor to the Prime Minister (2011) states “while we do need to increase R&D investment and efforts, this view of innovation is based on a myopic perception that restricts it to the confines of formal R&D”. The incidence of R&D (units undertaking R&D) is found to be very low and the R&D intensity (R&D expenditure as a proportion sales) declined in the 2000s as compared to 1990s (Pradhan 2010) [11]. The innovation system perspective has emerged as the most widely used approach in innovation studies published during the last two decades (Fagerberg and Sappasert 2011) [9]. A recent study has argued that while India is home to many natural industrial clusters dominated by SMEs, and subcontracting has been systematically promoted through varied policy initiatives, learning, innovation and competence building systems as articulated in the National Innovation System framework is yet to evolve in its real sense (Das and Joseph, 2013) [8].

Methodology of research

This study is descriptive in nature. Therefore, secondary data have been used from the authentic websites and publications of MSME ministry-GoI, MoSPI-CSO, RBI, CII, FICCI, ASSOCHAM, IMC, CRISIL, CMIE, MCCIA, and other relevant available data source.

Scope

The scope is limited to Indian MSME sector and as outlined in the objectives for the period: 1991 to 2017.

Discussion and analysis

Due to their contribution to their respective national economies, the importance and emphasis on MSMEs have been accentuated in the minds of policy maker, planners and the industry in the recent past. This is a consequence of the recognition that the shift from agrarian to industrial and to post-industrial knowledge-based societies shall not be through the large industrial houses but through individual and small initiatives by visionaries the MSMEs.

A. Characteristics of MSMEs

- Born out of individual initiatives and skills;
- High employment orientation;
- Low cost of production;
- High capacity to innovate and export;
- Utilization of locally available human and material resources; and
- High propensity to adapt technology

Micro, Small and Medium Enterprises, have for long remained an integral part of businesses in India. In fact, globally too, be it the developed nations or the developing nations, MSMEs have been recognized as a vital component of the domestic economy (Sisodiya, 2006) [10]. The below table shows the total number of working MSMEs in India with the reference year of 2006-07:

Table 1: Number of MSMEs – Registered and unregistered

Type	Registered	Unregistered	Total
Manufacturing	1035102	6418294	7453396
Services	517390	18130011	18647401
Total	1552492	24548305	26100797

Source: Annual Reports, Ministry of Micro, Small and Medium Enterprises, Government of India 2009-10

Under the MSMED Act 2006, the earlier, rather limited, concept of ‘Industries’ has been widened to that of ‘Enterprises’. Enterprises have been classified broadly into two categories, namely enterprises engaged in the manufacture/production of goods pertaining to any industry; and enterprises engaged in providing/rendering of services. The clear thrust of the recent policy initiatives has been three-fold:

1. increase links with multiple stakeholders with a view to benefit from networks both nationally and globally;
2. enhance competitiveness through encouraging an innovative ethos amongst firms and being quality conscious, and
3. Strive for a larger market presence beyond the domestic.

The policy attaches importance to networking with stakeholders both upstream and downstream in the entire global value chain, from raw material procurement to processing/manufacturing to marketing to customer services. The MSMED Act, 2006 has identified the category of ‘medium’ enterprises as a vital section in the manufacturing stream and, has taken special note of distinct roles to be played by what is termed business service enterprises for others.

Following is a list of the sub-schemes under the national manufacturing competitiveness programme (NMCP).

Sub-schemes under NMCP # Sub-Schemes under NMCP

1. Market assistance/SMEs and technology upgradation activities (the Ministry of SSI in co-operation with TIFAC/CSIR)
2. National Programme on Application of Lean Manufacturing
3. Mini-Tool Rooms to be set up (by the Ministry of SSI)

4. Support for Entrepreneurial and Managerial Development of SMEs
5. Enabling manufacturing sector to be competitive with quality management standards and quality technology tools
6. Design Clinic scheme to bring design expertise to the manufacturing sector
7. Promotion of ICT in Indian manufacturing sector
8. The National campaign for investment in Intellectual Property
9. Marketing Support/Assistance to SMEs
10. Technology and Quality Upgradation Support for SMEs
Source: <http://www.nmcc.nic.in/NMCP.aspx> (as of January-2008)

The National Commission for Enterprises in the Unorganized Sector (NCEUS) was appointed in September 2004 to examine issues specific to the unorganized sector. Over and above, the Prime Minister appointed a taskforce in 2010 which made wide-ranging recommendations on all the aspects of concern for the MSMEs. This Task Force also recommended the establishment of Prime Minister's council on MSMEs in the Prime Minister's office. It is evident from the fact that the Inter-Ministerial Committee (Government of India 2013) that submitted its report in October 2013, consequent to six high-level Committees were appointed by the Central Government since 1991 to study the varied issues confronted by the small-scale sector.

B. Developing MSMEs in India

Government's development strategy for small business enterprises in India has evolved around the following:

1. Protective discrimination e.g. Reservation, Priority Sector Lending, etc.
2. Integration between large and small e.g. subcontracting ancillarisation and vendor development.
3. Institutional support through a network of testing centers, tool rooms, entrepreneurship development institutes etc.

It is by now generally recognized that in the globalized world without tariff barriers there is hardly any easy option for the enterprises to survive other than being internationally competitive. The Ministry of MSMEs introduced an incentive scheme to enhance the competitive strength of the SSIs, for their technological upgradation/ quality improvement and environment management. Small-scale/ ancillary undertaking who have acquired ISO 9000/ ISO 14001/ HACCP certifications are being provided incentives under the scheme. The ministry also has Product-cum Process Development Centers (PPDCs) to promote R&D, product design, and innovation, product and process improvement and development of improved packaging techniques, common facility center and manpower development and training.

Though knowledge management is not a new concept, however, it is a major area of concern in recent times around the world, as businesses go through turbulent phases especially in the knowledge-driven economy. Therefore, the role of knowledge management in business strategy should be justified in the context of survival in the competitive market today. Among the ten identified global drivers of

manufacturing competitiveness index ranking, the talent-driven innovation ranks first and has the highest index rating. They have identified two sub components of this main driver. The first sub component is the quality and availability of researchers, scientists, and engineers and second sub component is the quality and availability of skilled labour. Certainly, it has given a clear-cut understanding that knowledge management will play a vital role in getting India towards being a global manufacturing destination.

Knowledge sharing attitude differs from person to person. Production workers feel that sharing knowledge may affect job security. This is the major concern reported by many SMEs. Production workers have limited job-specific knowledge of machines. The same machines may not be available with other SMEs. They have limited scope of changing job in a similar industry. They make a mindset of not sharing knowledge with others and resist adapting new techniques. This is the main reason; the organization structure gets disturbed. Many SMEs and senior manufacturing consultants have reported fear of sharing market secrets with others.

Per the finding made by few studies, there are many small firms that do not take up ISO 9000 and related quality models and many that appear to be disinterested. There are arguments to suggest that small firms are resource constrained and hence disadvantaged. As found by a few research studies, many the small-scale units specifically the micro level units, use old techniques of production and outdated machinery and equipment. Up-gradation of the technology and achieving economies of scale is one of the major problems since MSME cannot afford new machines and equipment and are therefore not able to use the latest techniques of production. They do not find it possible to conduct research and development on a continuing basis. Therefore, productivity and quality in small-scale units tend to be low while unit cost of production is generally high. Most of the micro level companies are still in belief in *Jugaad* technology.

With the liberalization of the economy, the MSMEs are facing stiff competition from imports and need technological up-gradation to produce better quality products at cheap rates. MSMEs act as a vital component of growing in an economy and contribute positively in development of a country's growth by creating employment for both urban and rural workforce and by providing much-needed flexibility and innovation in the economy. If TQM policies and practices are applied in true essence in Indian MSMEs, they can increase their performance in terms of both quality and profitability.

C. Credit

Credit is the lifeline of business. Small businesses have a major constraint and lack access to capital and money markets. As such, Investors and lenders are unwilling to invest in proprietorship, partnerships or unlisted companies. Their cost of capital is high, as risk perception about small businesses is also high. In India, many of the small manufacturing enterprises do not access bank finance and only about 16 per cent of total bank credit finds its way to the sector. Despite being a priority sector for lending, small manufacturing enterprises get just about 8 per cent of their annual turnover as working capital against 20 per cent

requirements.

However, a sound data base on MSMEs, which is a precondition for informed policy making, is yet unavailable in India. Though India has undertaken four censuses thus far on the small-scale sector, the data gathered during different surveys are hardly comparable because of the lack of a uniform conceptual frame. More importantly, information on some crucial factors like the use of ICT, import of embodied technology in the form of capital goods is yet to be collected. The business environment has gone through a rapid transformation, which, however, is turbulent and laced with uncertainty which is continuously changing. The need of the hour is to learn from other countries, be they Asian or OECD, who have policies which aim at similar goals, support each other, drawing upon experiences and identify “best practice policies”. These, in turn, must meet local conditions and circumstance. MSMEs are the powerhouse of growth, jobs, and backbone to the nursery of entrepreneurship globally.

Some challenges MSMEs are facing

1. Inadequate statement of purpose or objective;
2. Ignoring competition and letting them steal customers;
3. Poor corporate identity leading to low recall;
4. Maintaining cashflow is one of the most difficult task as at times big corporate delay and/or stall the payment of MSMEs (including outstanding bills);
5. Poor company brand recognition by buyers;
6. Inadequate arrangement of staff;
7. Inadequate control of budgets, capital expenditure resulting in poor ROI.

Conclusion

Based on the discussion, it can be concluded thus that the government through its ‘Make in India’ initiative, must offer a unique scope to MSME sector and help make its presence enhanced in foreign markets by:

- Developing skill based knowledge workers who will develop niche products and compete in global markets. Tailor-made short courses on specific categories can be offered to MSME personnel while assisting them creating design and developing required equipment by different organizations.
- Organizing seminars, workshops, bring experts and practitioners to share ideas, knowledge and perspectives for learning best practices – who are part of domestic as well as foreign trade.
- Building community of thought leaders who are interested for the cause of growth through innovation and R&D measures. Politicians, business leaders, think-tank leaders need to contribute their lion’s share in developing a complete eco-system to help MSMEs thrive.
- Promoting ‘Cluster Approach’ which favors the emergence of specialized technical, and financial services for MSME sector thereby promoting local production, with cooperation from public and private local institutions.
- A few research studies have mentioned that benefit of *Corporate Social Responsibility* to MSMEs could help them getting contracts of large businesses as MSMEs would form part of entire supply chain and thus be made

accountable for ethical practices.

- An experience IT solution partner would be of a great help in providing MSME for adoption of systematic approach thus ensuring their Vision is appropriately and fully captured.

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