

## Shunting of Micro, Small and Medium Enterprises Sector with Global Economy-A study in India

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### Abstract

*The main purpose of this paper is to explore the complex relationship between the growth of micro, small and medium enterprises (MSMEs) sector and the current policies and institutional, historical and cultural forces that shape the fate of India in terms of export potentials. Achieving sustained growth for MSMEs is not only a function of production efficiency but also of the ability to continuously innovate and technically develop. This paper will provide a platform to harmonize the growth of micro, small and medium enterprises. Indian economy cannot depend only on a few large industrial houses and capitalists for driving our industrialization process. It also focuses on the export markets which help MSMEs to reduce their dependence on the relatively price-sensitive domestic market.*

**Key words:** Entrepreneurship, liberalization, technological, industrialization.

### INTRODUCTION

The micro, small and medium enterprise (MSMEs) sector is widely regarded as the engine of the Indian economy, which contributes greatly to growth with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of export, directly or indirectly. It contributes significantly to industrial, technological and regional development in all development and developing economies. In the context of current trends in trade liberalization and increased globalization of production, small firms have to survive in more competitive environments.

Micro, small and medium enterprises are the backbone of all

economies and are a key source of economic growth, dynamism and flexibility in advanced industrialized countries as well as in emerging and developing economies. It is playing a very significant role in terms of balanced and sustainable growth of the economy by way of employment generation, development of entrepreneurial skills and contribution to export earnings. These units produce a wide range of items employing traditional to state-of-the-art technology.

It is a universally acclaimed fact that for the development and prosperity of country, industries are its back bone and small scale industries are playing a vital role as ancillaries for the smooth functioning of the parent industries and increasing the employment potentiality. During the period before the independence of our

**Shunting of Micro, Small and Medium Enterprises Sector with Global Economy-A study in India**

country, there were no major industries except the iron and steel industries established by the Tatas at Jamshedpur (Jharkhand State) and a few others which could be counted on the finger tips. After the country became independent, Pd. Jawaharlal Nehru, the first Prime Minister of the Country visited the then USSR, United States of Soviet Republic – the most powerful and richest country in the world of that period and he could surmise that the potential growth and development of that country is mainly due to its industrialization under the Five Year Plans and visualized that our country, India can also prosper by following the same programme. Thus the Five Year Plans were introduced in the country. On account of the planned implementation and systematic execution of the development programme, our country today after 60 years of independence has been transformed from that of a poor under developed country to that of a powerful developed country attaining self-sufficiency in all the fields of industries, nuclear, scientific research, education, irrigation, electricity power, health and education.

## LITERATURE REVIEW

According to the report of National Knowledge Commission, 'Entrepreneurship is the professional application of knowledge, skills and competencies and/or of monetizing a new idea, by an individual or a set of people by launching an enterprise *de novo* or diversifying from an existing one (distinct from seeking self employment as in a profession or trade), thus to pursue growth while

generating wealth, employment and social good'.

The Micro, Small and Medium Enterprises (MSME) sector has been an integral component of the industrial sector. The MSE sector has been accorded special status and importance in the Five-Year Plans since inception in view of the advantages it offers for better utilisation of resources of capital and skill at the local level. The continuous support provided to the sector in the form of incentives, infrastructural facilities and other assistance in the industrial policy resolutions has facilitated the sector to acquire a place of prominence in the socioeconomic development of the country. The number of enterprises in the MSE sector is estimated to be over 13 million, providing employment to estimated 42 million persons. As per the latest estimates, the micro and small enterprises (MSE) sector accounts for about 39 per cent of the manufacturing output and 33 per cent of the national exports of the country (the estimated contribution is 45% and 40% respectively for the micro, small and medium enterprises (MSMEs) as defined under MSME Act, 2006). Further, in recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector (*Rai, 2009*).

The micro, small and medium enterprises (MSMEs) have an important place in the Indian economy and the downfall in the economy will affect this sector as well. It is the crucial phase that demands that the entrepreneurs should focus more on the survival and development of their enterprises. In fact the problems of over

## Shunting of Micro, Small and Medium Enterprises Sector with Global Economy-A study in India

production with low marketability and export have necessitated increased attention to pay in MSME sector with the ongoing global crisis, which need a focused attention by the entrepreneurs at intra firm level. The entrepreneur needs to focus on ways and means for not only to reverse the negative effect of the crisis in short run but also chalk out the long-term plan to meet the challenges of the coming time from manufacturing to marketing in an integrated manner (Mehta, 2009).

Entrepreneurship development is not just a function of capital and technology but is greatly accelerated when a package of services like training (management, skill and entrepreneurship), project profiles, consultancy, marketing and export assistance, economic information and technical services are provided. Today, Micro, Small and Medium Enterprises (MSME) contribute about 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of our exports. The labour and capital ratio in MSME and the overall growth in the MSMEs is much higher than in the larger industries (Gupta, 2010).

Majority of the MSME units lack dimensions and motivation arising out of information gap about benefits of existing policies and

procedures; keep track of changes occurring in policies and procedures; availability of adequate financial resources; market intelligence, ways and means of promotional activities to cater to a broad customer base; weak linkages with the technology providers and utilize technical facilities at available S & T infrastructure created by the Government. They are unable to harness their competitive strength to avail of unfolding opportunities emerging as a result of globalization (Sareen, 2010).

### MSME AT A GLANCE

Micro, small and medium scale enterprises play a significant role in the Indian economy by not only providing various means of livelihood for a large part of the population but also by helping in the socio economic development of India. The Micro, Small and Medium Enterprises Development Act, (MSMED Act) came into effect in 2006 to support and promote MSMEs in globally competitive world. According to the MSMED Act, 2006 enacted by Government of India, MSME are classified into two classes i.e., Manufacturing Sector and Service Sector as shown below:

Category	Investment Ceiling for Plant, Machinery/Equipment	
	Manufacturing Enterprises	Small Scale Service and Business Enterprises
Micro	Upto ` 25 lakhs	Upto ` 10 lakhs
Small	More than ` 25 lakhs upto ` 5 crores	More than ` 10 lakhs upto ` 2 crores
Medium	More than ` 5 crores upto ` 10 crores	More than ` 2 crores upto ` 5 crores
Large	Above ` 10 crores	Above ` 5 crores

### DISCUSSION: Problems of micro, small and medium enterprises:

## Shunting of Micro, Small and Medium Enterprises Sector with Global Economy-A study in India

In India, the micro, small and medium enterprises (MSMEs) are playing a major role and this sector produces a wide range of products, from simple consumer goods to highly precious and sophisticated end-products. In spite of having huge potentialities of MSMEs in India, there are many problems faced by them. The major problems of a MSME unit are given below:

1. **Problems of raw materials:** Non-availability of quality raw materials is one of the main problems faced by micro, small and medium enterprises. There is acute shortage of even the basic materials required by small scale units. Raw materials are the basic materials from which a product is manufactured. Due to shortage of raw materials, many of the MSME units are under a handicap situation.
2. **Problems of finance:** *Finance* is the life blood of every business. It is also sometimes considered that finance is also the soul of business body. Even blood is transferred in human body and saved in any human being's life, but without adopting proper financial system in the business, business body may be dead within some movement of time.
3. **Problems of production:** Many of the micro, small and medium enterprises is following primitive methods of production. Production is a process developed to transform a set of inputs like men, materials, money, machinery and energy into a specified set

of outputs like finished products and services in desired quantity and quality in order to achieve the objectives of the enterprise.

4. **Problems of skilled manpower:** The success of a small enterprise revolves around the entrepreneur and its employees. Non-availability of adequate skilled manpower in the rural sector poses problem to small-scale industries. MSME employs unskilled, semi skilled and skilled manpower. Skilled workers may be reluctant to work in their areas and small scale enterprise may not afford to pay the wages and other facilities demanded by these persons.
5. **Problems of marketing:** It is probably the most important expenditure for any business. The MSMEs are facing competitions from large scale units in marketing their products. The potential demand for their goods remains under developed. It causes damage to the growth and stability of MSMEs. The entrepreneur cannot afford to spend lavishly for advertisement to promote their sales. Another marketing problem facing the small-scale business is transportation and cost of advertisement.
6. **Problems of technical feasibility:** Most of the small entrepreneurs depend upon old techniques and equipments. These units find it very difficult to modernize their plant and machinery due to limited capacity and capital. The quality of products and

productivity tend to be low in the absence of modern technology and that too at higher cost.

7. **Problems of under utilization of capacity:** Many of the small entrepreneurs are suffering from the under utilization of capacity as they utilize 40 to 50 percent of the installed capacities. They face various problems regarding the shortage of raw materials, power, under developed markets for their products.
8. **Problems of project planning:** Poor project planning is another problem faced by small entrepreneurs. Project planning is a discipline for stating how to accomplish something within a certain timeframe. Inexperienced and incompetent entrepreneurs often submit unrealistic feasibility reports and incomplete documents which invariably result in delays in completing promotional formalities.
9. **Problems of Infrastructure:** Inadequate infrastructures are adversely affecting the quality, quantity and production schedule of the enterprises which ultimately results in under-utilization of capacity. Most of the small units found in towns and cities having one or more problems.
10. **Other problems:** Besides the above problems, micro, small and medium enterprise units have been often constrained by a number of other problems. Following are the various categories of other problems:
  - a) **Managerial problems:** The managerial competence of

the entrepreneur is very important for the success of any venture. Many of the entrepreneurs lack proper vision, knowledge, skill, aptitude etc.

- b) **Competition from large scale units:** MSME units find it very difficult to compete with the products produced by large-scale units.
- c) **Lack of machinery and equipment:** MSME units are striving hard to employ modern machineries and equipment in order to compete with large scale industries.

#### **How can MSMEs overcome inherent difficulties?**

Micro, small and medium enterprises contribute immensely to the industrial landscape of the country. This sector provides jobs to millions of people in different segments such as readymade garments, leather, gems and jewellery, light engineering, handicrafts etc. Following are the various steps which will overcome the MSME sectors problems:

1. **Clear vision and purpose:** Vision, purpose, mission and values give clear picture about the business. It is rightly said that a journey of a thousand miles begins with the first step, fits well in regard to achieving a mission and vision. According to **John F. Kennedy**, '*Efforts and courage are not enough without purpose and direction.*'
2. **Building strong management team:** It is very essential that an entrepreneur has to specify the vision of his business, the

business objectives, defining the business plan and then determine the management skill required to achieve the business vision.

3. **Developing a culture of learning and sharing:** In order to survive and to be successful, MSME unit must continue to improve and learn. Willingness to learn and sharing knowledge among the colleagues will make the organization transformation much easier and it will reduce the resistance to change. In order to upgrade the skill of the employees, regular training of management team and staff are necessary.
4. **Effective communication:** Some top management often ignores communicating their plans or intentions to their staff. The reasons may be the usual busy work schedule of the top management or their intention to keep the plans confidential.
5. **Getting external support:** In order to carryout day to day activities, an entrepreneur needs the help of various external supports to build the brand image of the business. There are many good external advisors or consultants available in India and abroad, who are looking at the business and develop expertise in some specific areas.
6. **Availability of raw materials:** In order to solve the problems of raw materials, National Small Industries Corporation (NSIC) and State Small Scale Industries Development Corporations (SSSIDC) are involved in making efforts for providing some raw materials to MSME sectors in India.

7. **External financial assistance:** There are different sources of external financial assistance available to the entrepreneur. A key consideration in choosing the source of external finance is to strike a balance between equity and debt to ensure that the funding structure suits the business.
8. **Government support:** Government has taken several measures to solve the problems faced by micro, small and medium enterprises and enable them to play an effective role in the country's economy.

#### **FINDINGS: Indian MSME losing their edge in world Market:**

As per the web information, India's micro, small and medium enterprises (MSMEs) sector losing their exports dips from 46.2% in 2009-10 to 43% in 2012-13 in the world markets. According to **Raman Saluja**, Chairman of Confederation of Indian Industry's northern region committee on MSMEs, 'While the dip in exports is chiefly attributed to the continuing contraction of global markets, Indian industry is aware that inadequate market development, limited R&D and innovation, and physical infrastructure bottlenecks have also contributed to the slowdown.' It is high time for the MSMEs stepped up their innovation drive to gain a larger share of global markets and become more responsive to emerging global markets. Export markets also help MSMEs reduce their dependence on the relatively price-sensitive domestic market. The main markets for the 20 most exported product groups, accounting for more than 90 per cent of MSME exports between

2009 and 2012, include the US, EU, UAE, Turkey, Singapore, Hong Kong, Israel and Saudi Arabia. Industry believes that Indian

MSMEs need to diversify their export destinations and gain a larger share of emerging markets as well.

#### DOWNWARD TREND OF MSME EXPORTS

Year (S)	Total Exports	MSME Exports	Share in %
2009-10	1,78,751	82,494	46.20
2010-11	2,51,136	1,11,403	44.40
2011-12	3,05,964	1,31,483	43.00
2012-13	3,00,274	1,28,978	43.00

(Export value in \$ mn)

Source: DGCI&S and Ministry of MSME

In December 2013, the ministry and the National Innovation Council (NInC) jointly set up the India Inclusive Innovation Fund (IIF), which will invest in innovative ventures that are scalable, suitable and profitable but address social needs of less privileged citizens in areas such as health care, food, nutrition, agriculture, education and skill development, energy, financial inclusion, water, sanitation and employment generation. The Union Cabinet has approved the fund, which will have an initial corpus of ` 500 crores, of which ` 100 crores is being contributed by the ministry of MSME. The balance will come from banks, insurance companies and overseas financial and development institutions. Since lack of capital is a key reason why MSMEs fail to take off, at least 50 per cent of its investments initially will be in MSMEs.

#### RECOMMENDATIONS

Following are the few recommendations:

1. Proper credit appraisals of the loan application form must be scrutinized to appraise the

technical feasibility, economic viability and bankability including credit worthiness of the prospective borrower.

- An entrepreneur must be given a chance to express his/her views before the loan sanctioning authority rejecting the loan application form.
- Joint appraisal of the loan application form should be conducted by the concerned bank and District Industries Centre.
- The personal relationship between the banker and the entrepreneur is much more important than the name of the bank. The entrepreneur and the banker are clearly in an interdependent relationship—the banker is the primary provider of debt capital to smaller firms and the entrepreneur is a major source of business for banks. If one loses, they both lose.
- The project cost should be decided by the market not by the individual banker as the bankers have no engineering background to assess the project.
- Project finance is based on available collateral only.

#### Shunting of Micro, Small and Medium Enterprises Sector with Global Economy-A study in India

Markets and other considerations are not taken into account.

7. Undue reliance is not to be placed on the collateral security for the repayment of loans.
8. According to the recommendations of the P.R.Nayak Committee, need based finance is not collateral based finance, but now-a-days all finance are based on collateral because of this there is large NPAs.
9. The credit manager must understand that all projects are viable on certain conditions. Rejection of any proposal should not be whimsical or on the basis of collateral consideration.
10. Proper scale (max-min) must be developed while appraising the proposal.

## CONCLUSION

Micro, Small and Medium Enterprises (MSMEs) plays a significant role in the global economy and particularly in our country where MSMEs constitute nearly 94% of the industrial enterprises in the economy. The sector contributes 36% of the total value of exports of the country and employs over 80 million people. The contribution of the MSME sector to the output of the country is 40% and to the GDP is over 8%. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. Worldwide immense importance has been placed on this sector, considering its valuable contribution towards the economic development. In Indian economy its contribution are

remarkable. We shall endeavor to create an ideal ecosystem for the development of vibrant MSME sector as envisioned in the country vision 2020 and to make India as model country for MSME sector.

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