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MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA- AN ANALYSIS

DR. S. KALIYAMOORTHY
DIRECTOR
ALAGAPPA INSTITUTE OF MANAGEMENT
ALAGAPPA UNIVERSITY
KARAIKUDI

S. PARITHI
RESEARCH SCHOLAR
ALAGAPPA INSTITUTE OF MANAGEMENT
ALAGAPPA UNIVERSITY
KARAIKUDI

ABSTRACT

The socio-economic policies adopted by India since the Industries (Development and Regulation) Act, 1951 have laid stress on MSMEs as a means to improve the country's economic conditions. Micro, Small, Medium Enterprises have registered a remarkable growth in 1980-81 from 8.74 lakh units to an estimated lakh 298.08 units in 2009-0-10. The most recent change was in the year 2006 wherein the "Service Sector" was introduced through Micro, Small, and Medium Enterprises Development Act, 2006. Micro, Small and Medium Enterprises (MSMEs) credited with generating the highest rates of employment growth, account for a major share of industrial production and exports. MSME also play a key role in the development of economies with their effective, efficient, flexible and innovative entrepreneurial spirit. This sector contributes and supports to Indian economy and hence the study has been done to find out the performance of MSME, problems faced by MSME and suggestions for improving MSME. The study is based upon the published data available from government records, reports, books, journals and official government websites. The study explained that MSME have been accorded high priority due to vital role they play by, employment generation, equitable distribution of national income, improvement in entrepreneurial skills and contribution to export earnings. The study also examines the problems faced by MSME. The study concludes that this dynamic sector is now facing number of problems which make them sick. Based on the results, a number of recommendations have been provided at the end to promote the growth of this sector.

KEYWORDS

MSME, Performance, Problem, Employment generation, Suggestions.

INTRODUCTION

The Micro, Small and Medium Enterprises are playing a vital role in the growth of national economies the world over and is considered to be the engine of growth in most countries. The MSMEs are labour - intensive and provide employment to nearly 1.86 crores persons in the country. MSMEs are that they ensure a more equitable distribution of national income, enhance balanced regional industrial development, act as a nursery for Entrepreneurship and facilitate mobilization of local resources and skills which might otherwise remain unutilized. They also play a key role in the development of economies with their effective, efficient, flexible and innovative entrepreneurial spirit. Now the small scale industry is called as Micro, Small and Medium enterprises based on their investment.

The Industrial policy resolution, 1956 clearly stresses upon the role and significance of Small Scale Industries. The economic liberalization process since 1991 has provided opportunities to the small scale sector to access larger markets, improve manufacturing techniques and management processes. Today 95 percent country's industrial units come under Micro, Small and Medium Enterprises. This sector has around 298.08 units (provisional 2009/2010) and produced thousands of products. Small industries in India produce a diverse range of products with the very simple products produced by household enterprises at one end of the spectrum and highly advanced ones at the other end.

The Micro, Small and Medium sector has emerged as a dynamic and vibrant sector of the Indian economy in recent years, displaying extraordinary growth in the field of production, employment and dispersed development in general and exports in particular. Consequently, the Government of India had been encouraging and supporting the promotion of Small-Scale Industries through deliberate policies such as protection from large-scale industries, capital subsidies, differential tax treatment, reservation etc.

REVIEW OF LITERATURE

The role of the Ministry of Micro, Small and Medium Enterprises (M/o MSME) and its organisations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario.(Ministry of Small Scale Industries, Annual Report 2009-2010).

The role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well established. The MSME sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. This sector contributes 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of its exports. The MSMEs provide employment to about 60 million persons through 26 million enterprises. (Report of Prime Minister's Task Force on Micro, Small and Medium Enterprises, January 2010).

India was the first to display special concern towards SSI and developed several support programmes before it became fashionable to do so among many other developing countries. A basic focus of Indian government thinking has been that employment generation is of paramount importance in a labour surplus economy (Mohan, University of Chicago Press, 2002).

Government of India, Planning Commission, and the committee on the Village and Small Scale Industries in its report has stressed that the setting up of small scale industries will provide employment to the people in the rural areas. (Report of the committee on village and SSI ,1970).

It is evident that small scale sector is an improving sector. It is necessary to bring about performance of the sector.

OBJECTIVES

1. To understand the present scenario of MSME in India.
2. To evaluate the performance of MSME.
3. To analyse the problem of MSME.
4. To provide proper suggestions.

NEED FOR THE STUDY

Micro, Small and Medium enterprises as per MSMED Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. The defined limit on investment for enterprises to be classified as micro, small and medium enterprises is as follows,

Classification	Manufacturing Enterprises*	Service Enterprises**
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

- Investment limit in Plant & Machinery ** Investment limit in equipment
- Source: MSME Annual Report 2009-10

Now-a-days small scale industries have undergone enormous changes. In 2006, "Service Sector" was introduced through Micro, Small and Medium Enterprises Development Act. It segregated the manufacturing enterprises and service sector units and accordingly defined and raised the investment ceilings to provide the small scale sector an opportunity to compete globally. This sector contributes and supports hugely to our economy and hence the study has been done to find out the performance of Micro, Small, Medium enterprises in India.

RESEARCH METHODOLOGY

This study is based on secondary data. Data has been collected from books, journals, periodicals, newspapers and websites. The fourth Censuses on SSI conducted in 2006-2007 were mainly referred to for data analyses. The data collected was tabulated, analyzed and interpreted for drawing conclusions. After the analyses of the data, few suggestions are made at the end.

PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

The Micro, Small and Medium enterprises are one of the most essential sectors of the Indian Economy in terms of employment generation, the strong entrepreneurial base. It helps to create and its share in production. The Micro, Small and Medium enterprises sector contributes significantly to the manufacturing output such as production, employment and exports of the country. The sector accounts for about 45% of total production and 40% of the total exports of the country. The sector provides employment opportunity to 59 million units throughout the country. There are over 6000 products ranging from traditional to high-tech items. The products are Food parts, Metal products, Rubber and plastic products, Electrical and Machinery parts, Basic metal industry, Chemical and Chemical products and so on.

TABLE: 1.1 PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

Sl.NO	Year	Total MSMEs (lakh numbers)	Production (Rs. Crore)	Employment (lakh person)	Exports (Rs. Crore)
1	1992-93	73.51	84413	174.84	17784
2	1993-94	76.49	98796	182.64	25307
3	1994-95	79.60	122154	191.40	29068
4	1995-96	82.84	147712	197.93	36470
5	1996-97	86.21	167805	205.86	39248
6	1997-98	89.71	187217	213.16	44442
7	1998-99	93.36	210454	220.55	48979
8	1999-00	97.15	233760	229.10	54200
9	2000-01	101.1	261297	238.73	69797
10	2001-02	105.21	282270	249.33	71244
11	2002-03	109.49	314850	260.21	86013
12	2003-04	113.95	364547	271.42	97644
13	2004-05	118.59	429796	282.57	124417
14	2005-06	123.42	497842	294.91	150242
15	2006-07	261.01	709398	594.61	182538
16	2007-08	272.79	790759	626.34	202017
17	2008-09	285.16	880805	659.35	N.A.
18	2009-10	298.08	982919	695.38	N.A.

Source: Ministry of Micro, Small and Medium Enterprises, Government of India.

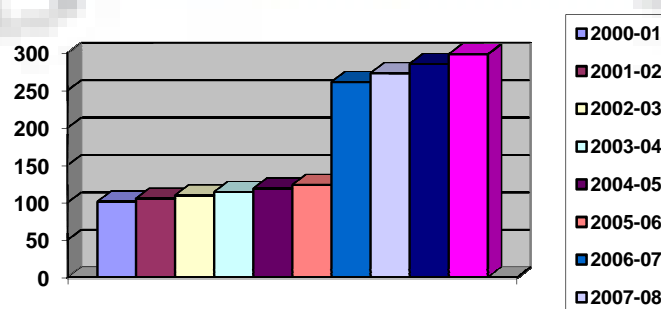
GROWTH OF SMALL SCALE UNITS

The MSMEs are played a very important role in the socio-economy development of the country during the past 50 years. It has significantly contributed to the overall growth in terms of the Gross Domestic Product (GDP), employment generation and export. The performance of the SSI, therefore, has a direct impact on the growth of the overall economies.

The MSMEs registered a remarkable growth from 1992-93 till 2009-2010. Sluggish growth is seen in number of units till 2005-2006. In 2006-2007, growth in small scale units is rapid level. This also pointed out that government protection is helped the growth of units under the competitive business environment.

The growth of the SSI unit is drawn in a bar chart. It reveals SSI units are rapidly increased after 2006. Government policies are motivated to SSI units and protect them.

GROWTH OF SSI UNITS



Source: Ministry of Micro, Small and Medium Enterprises, Government of India.

PERFORMANCE OF MSME PRODUCTION

Preference of Micro, Small and Medium products have discouraged of large scale industries from specializing in labour intensive products in which India has a comparative advantage. In fact, the growth rate of large scale industries had been at least 1.5 times larger than small scale growth. When we compare to 2005 to 2006, the production rate has increased as a twice. The Gross output of MSME in the year 2006-2007 was estimated to be Rs. 7, 09,468.15 crore whereas in the manufacturing sector and service sector it was 6, 68,937.31 crore (94.29%) and Rs. 40, 530, 84 crore (5.71%) respectively.

In 2011, the production rate has been estimated to increase 100, 00, 00 crores.

EMPLOYMENT OPPORTUNITY

The MSMEs provide employment to about 60 million persons through over 26 million enterprises producing over six thousand products. A major strength of the sector is its potential for greater innovation both in terms of products and processes. An inherent strength of the sector is that these enterprises can be set up with very small amounts of investments and have the location flexibility to be located anywhere in the country. Their employment potential is higher compared to large enterprises and are presently estimated to employ 6 crores persons. The total employment from the MSE sector in the country as per the Fourth Census of MSEs with Reference Year 2006-07 was 594.61 lakh numbers. As per the estimates compiled for the year 2009-10, the employment was 695.38 lakh persons in the sector. However, employment generated by the SSI has not solved the problem of unemployment in rural areas.

EXPORTS

The MSMEs contributes hugely to India's exports. The total exports of MSMEs increased from Rs.400 crores during 1973-74 to Rs.13883 crores in 1991-92. In 2005-06, the total exports from MSMEs accounted for Rs.150242 crores. Surprisingly, the total exports in 2007-08 accounted for Rs.202017. India uses low level technology and low level capital but compete with other countries. New opportunities are being created for linkages among MSMEs across the globe under the World Trade Organization (WTO) regime. The Garments exports are main contribution of MSMEs sector. Other sectors, such as bio-tech, IT and IT-enabled services, footwear, etc. have shown a promising potential.

PROBLEMS FACED BY MSMEs

The MSMEs in India could not progress satisfactorily due to various problems that they are confronted with while running enterprises. In spite of huge potentials, the MSME faces the following problems,

1. PROBLEM OF SKILLED MANPOWER:

The success of MSMEs revolves around the entrepreneur and its employees, provided the employees are skilled and efficient. Inefficient human factor and unskilled manpower create innumerable problems for the survival of MSMEs. Non-availability of adequate skilled manpower in the rural sector is the major problem of MSMEs. While we have large pool of human resources, this sector continues to face shortage of skilled manpower due to lack of paying capacity and poor managerial capabilities. Some of the MSMEs entire manufacturing process is based on the craftsmen's memory. Normally the skills used to get transferred to the new generation as the craftsmen's children. But now the youngsters are selecting white coloured job and are leaving their traditional business.

2. INADEQUATE CREDIT ASSISTANCE:

Most of the time, the equity is coming from savings and loans from friends and relatives rather than through banking systems. Very often, the credit is coming from operations or domestic savings rather than established systems of cheap banking credit for working capital. This problem is particularly acute for the village industries as well as the lower end of micro industries. Whereas, the Government of India has taken several steps to increase the lending of this Sector, this remains even now the most difficult problem faced by the MSME.

3. IRREGULAR SUPPLY OF RAW MATERIAL:

MSMEs are faced problems in procuring the raw materials. So, they are used locally available raw materials. The problems arise due to faulty and irregular supply of raw materials. Poor quality of raw material affected the MSMEs quality product. Non-availability of sufficient quantity raw materials affected the day to day work. The fourth all India census of MSME sector indicates some reasons given by the units suffering from sickness. Non-availability of raw material is one of the reasons. Its proportion of sick is 15.1%.

4. ABSENCE OF ORGANISED MARKETING

MSMEs products compare unfavourably with the quality of the product of large-scale units because large scale units has well organised marketing strategy. They also fail to get adequate information about consumer's choice, taste and preferences of the type of product. MSMEs depends very few buyers. There are no possibilities for sales promotion. MSMEs are lag in proper distribution system and they follow in poor delivery schedules.

5. LACK OF MACHINERY AND EQUIPMENT

Small-scale units are striving hard to employ modern machineries and equipment in their process of production in order to compete with large industries. Most of the small units employ outdated and traditional technology and equipment. Lack of appropriate technology and equipment create a major stumbling block for the growth of small-scale industries. Unsatisfactory performance of certain machines results in low production due to lack of routine and preventive maintenance leading to frequent breakdown. The most of the MSMEs follows obsolescence of the manufacturing process ie; without technological development.

6. ABSENCE OF ADEQUATE INFRASTRUCTURE

Indian economy is characterized by inadequate infrastructure which is a major problem for small units to grow. Most of the small units and industrial estates found in towns and cities are having one or more problems like lack of power supply, water and drainage problem, poor roads, raw materials and marketing problem. Thus absence of adequate infrastructure adversely affects the quality, quantity and production schedule of the enterprises which ultimately results in under-utilization of capacity.

7. COMPETITION FROM LARGE-SCALE UNITS AND IMPORTED ARTICLES

The term globalization refers to the integration of economies of the world through uninhibited trade and financial flows, as also through mutual exchange of technology and knowledge. Small-scale units find it very difficult to compete with the product of large-scale units and imported articles which are comparatively very cheap and of better quality than small unit's product. India's production and export of specialized handicrafts was simply unmatched to exchange relations. India is a developing country, so minimum volume of customers purchased the MSMEs product.

8. OTHER PROBLEMS

Besides the above problems, small-scale units have been of constrained by a number of other problems also. They include poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence and huge number of bogus concerns. Increase in project cost, delay in getting power connection, water connection, permission of concerned authorities to discharge effluents etc. affects the MSMEs prosperity. Co-ordination and control of the sector is very much essential. But it is very lack in that sector. Due to all these problems the development of small-scale industries could not reach a prestigious stage.

MAJOR FINDINGS OF THE STUDY

The major findings of the study are as follows:

1. There has been continuous growth in the number of MSME in India.
2. Production from MSME sector has been increasing over the years but the protection to this sector has not indicated very impressive results.
3. MSME has generated large employment though employment from manufacturing sector is not growing.
4. Exports from MSME sector have shown an increasing trend and show a great potential for exports from this sector.
5. There are many more problems faced by MSME. Problems are fallen in Production, Marketing, Human resource and Finance.
6. The problems are lead to create the sickness of the sector.

There is a remarkable scope for increasing the potentials of MSME in India.

SUGGESTIONS

On the basis of review of literature and data analyses, the study makes the following suggestions to promote the growth of MSME further:

1. Compulsory Registration for MSME is required. It is essential to create authenticated data and statistics for growth of the sector.
2. Government should institute proper monitoring system for implementation of Government laws and schemes and control the working of small scale units
3. Manufacturing capabilities should be developed to a level where products are competitive across global markets in terms of price, quality, technology, delivery of services. To achieve this, Indian firms should be enabled to access the latest technology from across the globe.
4. To improve standard of living through manufacturing growth, workers should be enabled to move from lower value added to higher value added jobs. MSMEs and cottage industries should be encouraged to grow and become competitive.
5. State governments and industry bodies have to take a lead to identify MSME clusters, promote cooperation between business and local authorities for cluster development, and formulate policies that attract investment to these clusters.
6. FDI restrictions in retail need to be removed to support by actions in associated areas like granting tax benefits, enabling ease of technology transfer, easing labour regulations, removing MSME restrictions, facilitating easy setting up of business and enabling infrastructure in the country.
7. It is recommended that a State Technology Development Fund for small industries be established in the state to act as the main conduct of transmission mechanism of the State Mission on Technology.
8. The industrial estates can provide the following facilities in addition to developed plots and buildings such as (i) common utilities like power, water, electricity, industrial gas, compressed air etc., (ii) offsite facilities like water tanks, storages, fuel supplies etc., (iii) common effluent treatment and disposal, (iv) communication facilities, (v) secretarial facilities, (vi) staff housing, (vii) transport facility, (viii) medical facility, (ix) fire protection services etc.
9. The recommendations of the various circulars and committee reports of RBI should be implemented minimize the financial problem, authorities can minimize the time taken for loan sanctioning and ensure the collateral free loans at the time of requirement.
10. Maintaining the prices of several raw materials is essential to foster the growth of MSMEs. Investment in research and development has so far been negligible for the MSME sector, hence more allocations to this arena are required.

CONCLUSION

With the liberalization, privatization and globalization of economy, competition has increased and changed the business environment. Significantly, with the flood of foreign brands of products, Indian MSME brands are facing a serious challenge to survive and companies are forced to redesign their marketing strategies for effective marketing and penetration in markets. Firms are making efforts to improve manufacturing capability. This is being done through building alliances as well as through initiatives within the firm. Quality up gradation seems to be their key priority. The efforts at improving manufacturing capability may still prove to be inadequate to meet the competitive challenges. The inclusion of service sector is indeed a good initiative to have new schemes to promote this sector. However, to achieve greater growth, it needs to achieve technological excellence and increase its competencies in the areas of finance management, business management and labour management. It needs to improve its product and service quality to global standards and seek ways of innovation. Ministry of Micro, Small and Medium Enterprises gives marketing support through buyer seller meet, Exhibition and technology support. For meeting credit needs of MSMEs are through tie-up arrangements with Banks.

LIMITATIONS OF THE STUDY

The study is based on secondary data collected from books, articles in newspapers, magazines, journals and websites only.

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