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Overview of Indian MSME-An Exploratory Approach

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Abstract: The industrialisation has facilitated the growth of the world and industries are the backbone of the economic development of the country. The boom of industrialisation along with LPG has contributed terrifically to the development of the civil societies across globe. When speaks about the industries, all big brands & larger firms come to our mind. Nevertheless, the contribution of the small enterprises cannot be ignored. MSME sector's contribution to Indian Economy is incredible and it reveals the fact that 45% of industrial production, more than 8000 products, more than 26 million units & provides employment to over 59 million (<http://www.kvb.co.in/msme/msme.html>). The Indian MSME's contribution to employment generation, mobilisation of resources, wealth distribution, rural development and seed bed entrepreneurial ability are the most appreciable. The research titled "Overview of Indian MSME-An Exploratory Approach" brings out the growth and performance of Indian MSMEs. The research addresses the problems of small enterprises and suggestions if any.

I. INTRODUCTION

The industrialisation has facilitated the growth of the world and industries are the backbone of the economic development of the country. The boom of industrialisation along with LPG has contributed terrifically to the development of the civil societies across globe. When speaks about the industries, all big brands & larger firms come to our mind. Nevertheless, the contribution of the small enterprises cannot be ignored. MSME sector's contribution to Indian Economy is incredible.

Key highlights and significant contribution of the MSME Sector:

- MSMEs account for about 45% of India's manufacturing output.
- MSMEs accounts for about 40% of India's total exports.
- The sector is projected to employ about 73 million people in more than 31 million units spread across the country.
- MSMEs manufacture more than 6,000 products ranging from traditional to high tech items.
- For FY11, total production coming from MSME sector was projected at ` 10,957.6 billion, an increase of more than 11% over the previous year.
- For FY12, the MSME sector is estimated to have an average credit off-take of ` 7.16 lacs for 32.2 million units.

According to report by KPMG, Many developed and developing economies have demonstrated that the MSME segment constitutes the backbone for maintaining growth rates as well employment generation rate and provides stability during economic downturns. It is therefore very crucial that as India embarks on a new wave economy, it adopts an MSME opportunity framework that will provide the necessary impetus to seize the opportunities created by:

- Emergence of domestic demand led by significant increases in spending and consumerism;
- Increase in spending in infrastructure and defence sectors;
- Increase in foreign direct investments in existing and emerging businesses in India;
- Foreign companies investing in India for their global market requirements (Make in India); and

- The double digit growth expected in numerous business sectors.

II. LITERATURE REVIEW

Rajib Lahari studies the problems and prospects of Micro small and medium enterprises in India in the era of globalisation with the objectives to examine the changing patterns of definitions of the Micro, Small and Medium enterprises in India and critically analyse the impact of MSME Act 2006 along with analysing the opportunities and threats of MSME in India during Liberalisation and evaluating the performance of MSME during the pre and post-liberalisation period.

The study conducted reveal that exposure to foreign markets, flow of foreign investment and technology, better performance, better customer satisfaction, less government interventions, employment generation, export contributions, removal of regional disparity are the opportunities for MSME's. The contrast would be the financing problems, extreme competition, and poor technology, lack of infrastructure, skilled labour, marketing & distribution problems, gradual withdrawal of reservation policy. Rajib Lahari concludes that, globalisation has increased competition of MSME's to certain extent; still Indian MSME's are not adequately prepared to compete with global players. There has been a definite change in the attitude of the government from protection to promotion of MSMEs but needs to ensure proper coordination and implementation. The article on "The performance of small-scale industries in India" by **S. Packia Lakshmi** reveals that the contribution of small-scale industries to the economic development is huge in terms of employment generation, mobilisation of industries, opportunities for development of technology, promotion of export and better industrial relations. According to the author, the problems faced by the small-scale industries in India are problems of skilled manpower, inadequate credit assistance, irregular supply of raw material, absence of organised marketing, lack of machinery and equipment, absence of adequate infrastructure, and competition from the large industries.

For sustainable growth of small-scale industrial sector, top priority should be given to financial support. State and central governments should facilitate the growth of SSI by creating conducive environment for production and marketing products.

Study conducted by **Dr Reetu Kumar** aimed at examining the policies and practises relating to small scale industrial units, to find out the differences between problems and prospects of exporting and non-exporting units followed by them and to identify gaps in those practises which have failed to receive acceptance. The important findings were, SSI is at developing stage in regard of marketing activities. It is especially true that marketing activities are pushing force for expansion of any concern, but sustainability is the biggest concern. An effective marketing mix strategy will definitely help firms expand their business.

With the objective to analyse the role of small scale industries, **Dr Bimal** and associates researched the title "Small Scale Industry: An Engine of Growth". According to them, second generation of economic reforms gave momentum to SSI with more relaxed regulatory frame work to provide further impetus to growth. The small scale industry in India have increased at average annual increase of 3.79 lakh units which indicates that SSI sector has made good progress as for as the number of units is concerned. Small scale industries constitute the key link in the process of socio-economic transformation of underdeveloped social structure. Rural development cannot be operationalized outside the total development process straddling the rural-urban continuum. The increased production, increased number of units and enhanced employment opportunities have definitely contributed to the economic development of the country.

III. OBJECTIVE

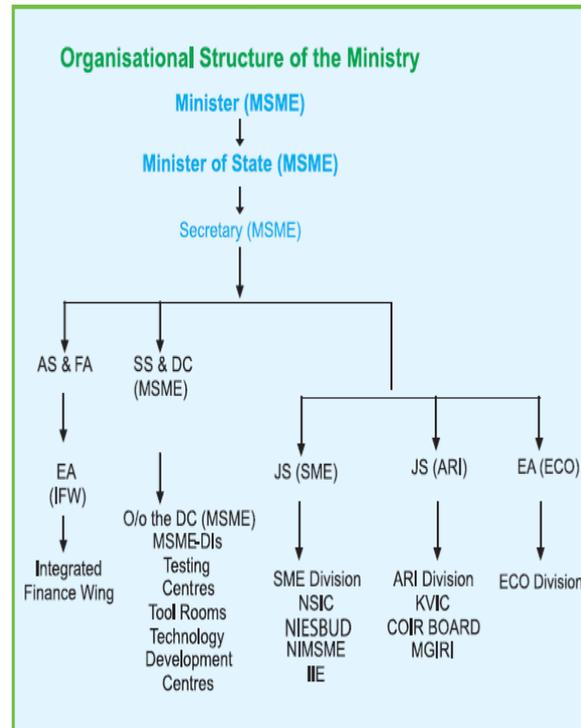
The very purpose of the research is to bring out the growth and performance of MSME to Indian economy and address the challenges faced by the small enterprises.

IV. METHODOLOGY

This study majorly focused on micro, small enterprises located in industrial areas of Gulbarga district. Various manufacturers, service providers, start-ups from the food industry, textile manufacturing, fertilisers, plastic granules and rice & pulses industry were interviewed as a part of the study. The primary data was collected through administering the structured questionnaire to sample items chosen adopting convenient sampling technique and secondary data through the various reports like MSME annual reports, KVB details, KPMG reports, and International and National journals. Thus collected data is been analysed to draw the inference.

The organizational structure of MSME Ministry:

Fig 2: Organizational Chart



Source: MSME annual report 2014-15

The M/o MSME is having two Divisions called Small & Medium Enterprises (SME) Wing and Agro & Rural Industry (ARI) Wing. The SME Wing is allocated the work, inter-alia, of administration, vigilance and administrative supervision of the National Small Industries Corporation (NSIC) Ltd., a public sector enterprise and the three autonomous national level entrepreneurship development/training organisations. The Wing is also responsible for implementation of the schemes relating to Performance and Credit Rating and Assistance to Training Institutions, among others. SME Wing is also responsible for preparation and monitoring of Results-Framework Document (RFD) as introduced in 2009 by the Cabinet Secretariat under Performance Monitoring and Evaluation System (PMES). The ARI Wing looks after the administration of two statutory bodies' viz. the Khadi and Village Industries Commission (KVVC), Coir Board and a Society called Mahatma Gandhi Institute for Rural Industrialisation (MGIRI). It also supervises the implementation of the Prime Minister's Employment Generation Programme (PMEGP).

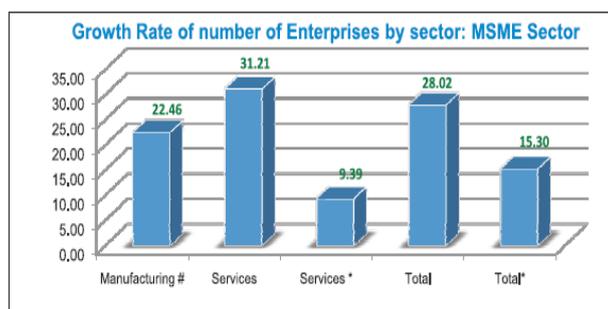
Figure2: PERFORMANCE OF MSME, EMPLOYMENT AND INVESTMENTS

Sl. No.	Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (Rs. in Crore)
I	II	III	IV	V
1.	2006-07	361.76	805.23	868,543.79
2.	2007-08 [#]	377.36	842.00	920,459.84
3.	2008-09 [#]	393.70	880.84	977,114.72
4.	2009-10 [#]	410.80	921.79	1,038,546.08
5.	2010-11 [#]	428.73	965.15	1,105,934.09
6.	2011-12 [#]	447.64	1,011.69	1,182,757.64
7.	2012-13 [#]	447.54	1,061.40	1,268,763.67
8.	2013-14 [#]	488.46	1,114.29	1,363,700.54

- Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) for which data were extracted Economic Census 2005, Central Statistics Office, MOSPI.
 - Estimated on the basis of per enterprises value obtained from sample survey of unregistered sector for activities wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing(except cold storage) which were excluded from Fourth All India Census of MSME, unregistered sector.
 # - Projected.

As per the results of Fourth All India Census of MSME, the sector contributes significantly to the number of enterprises, employment and output of the country. Based on the data sets of Fourth All India Census of MSME, augmented with data sets of EC, 2005 and growth rate observed during Fourth (1998) and Fifth (2005) Economic Census, the performance of MSME Sector is summarised as below. It may be noted that the Fourth All India Census of MSME, unregistered sector was assessed by conduct of sample survey of the sector (MSME annual report 2014-15).

Fig3: Growth rate of enterprise by sector: MSME

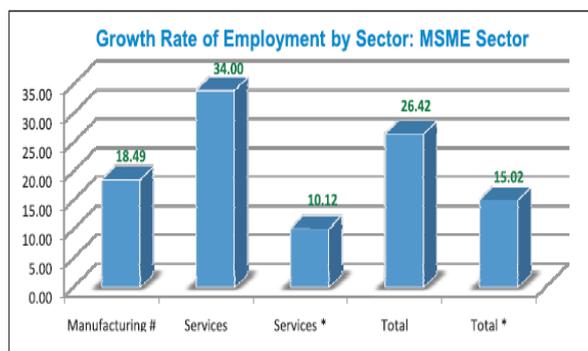


- In view of the fact that the activities excluded in the coverage pertaining to service sector only, there is no change in growth rate of manufacturing sector

* - Excluding growth on account of expansion of coverage.

Source: MSME annual report 2014-15

Fig4: Growth rate of employment by sector: MSME sector



Source: MSME annual report 2014-15

- a) While on a strictly comparable basis, growth rate recorded during the year 2001-02 to 2006-07 was 15.30% and 15.02% for estimated number of Enterprises and Employment respectively, the sector as a whole recorded a growth

rate of 28.02% and 26.42% in cases of estimated number of enterprises and employment respectively, taking into account the definitional changes during the period 2001-02 to 2006-07.

- b) As the activities brought under the coverage of MSME sector due to definitional changes in 2006-07 were limited to services sector, the growth rate for manufacturing sector is comparable. The growth recorded during the year 2001-02 to 2006-07 in manufacturing sector was 22.46% and 18.49% for estimated number of enterprises and employment respectively.
- c) For service sector, while the growth rate in estimated number of enterprises and employment recorded was 31.21% and 34.00% respectively, during the period of 2001-02 to 2006-07 taking into account the expanded coverage of the sector, the same was 9.39% and 10.12% respectively on strictly comparable basis.

V. CHALLENGES FACED BY MSME SECTOR

1. Credit crunch: Issues related to credit, like adequacy, timely availability, cost and mortgages continue to be a concern for MSMEs
2. Infrastructure: infrastructure shortages are the leading constraint to rapid growth as well as in spreading this growth more extensively. These shortages have resulted in a tilted pattern of growth that is not sustainable.
3. Marketing: These firms basically fail to identify the prospect market due lack of the strategic orientation, fail to formulate marketing objectives, inefficient communication, advertising and packaging strategies. Most of the them are exploited by the middlemen and they are deficient of managerial expertise.
4. Others: other problems faced by the small enterprises include, shortage of raw material, power cuts, technology, cost of production etc.

VI. CONCLUSION

MSME sector is the backbone of the economic and social development of the country. The contribution of MSME in terms of employment, production, resource mobilization and wealth distribution, innovation cannot be ignored. This sector lacks the strategic approach and managerial expertise to overcome the challenges.

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