

The Nursery of Entrepreneurs: Micro, Small and Medium Enterprises (MSMEs)

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ABSTRACT

From the perspective of the economy, from the perspective of spreading opportunities across the country and perspective of spreading social equality, MSME is a critical sector in the economy. Micro, Small, Medium Enterprises (MSME)s are the backbone of an economy, they prevents economy from financial shocks of globe, there are around 38 million such enterprises across country.

This paper aims to present the significance of this sector and recognize the regulatory and operational problems faced by these enterprises. MSME forms a major part of India's industrial base and to ensure the benefits of fourth industrial revolution flow to the villages and country sides, we have to relook into the issues of MSME in the changing arena. It is important to create conditions for the growth of MSMEs and not just for start-up. It is the high time that Indian MSME should explore global market and be competitive.

It is important to first realize the importance of MSMEs, recognize the factors hindering their growth and then not only introduce appropriate policies but also spread awareness about their existence and accessibility.

They are the nurseries for entrepreneurship and innovation. This sector is a only solution to the problems of poverty, insecurity, unemployment, over population. MSME not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

This sector caters to the needs of small entrepreneurs with lower capital and thus renders enormous service to the rural and backward classes who are empowered to contribute to the overall national growth.

INTRODUCTION

MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavors through business innovations.

The Union cabinet on Wednesday approved a proposal to redefine micro, small and medium enterprises, or MSMEs, based on their annual revenue, replacing the current definition that relies on self-declared investment on plant and machinery.

According to the government's new definition, businesses with revenue of as much as Rs 5 crore will be called a micro enterprise, those with sales between Rs 5 crore and Rs 75 crore will be deemed as small and those with revenue between Rs 75 crore and Rs 250 crore will be classified as medium-sized enterprises.

Under the earlier definition, manufacturers with Rs 25 lakh investment in plant and machinery were termed micro enterprises and those with investments between Rs 25 lakh and Rs 5 crore were regarded as small enterprises. Firms with investments of up to Rs 10 crore are classified as medium.

Micro, Small and Medium-sized Enterprises (MSMEs) Day is celebrated each year on 27 June. MSME Day is dedicated to youth and covers topics such as youth entrepreneurship and youth employment.

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.82 lakh in

Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country.

MSMEs in India face a number of problems - absence of adequate and timely banking finance, non-availability of suitable technology, ineffective marketing due to limited resources and non-availability of skilled manpower.

MSMEs are established in almost all major sectors in the Indian industry such as food processing, textiles and garments, agricultural inputs, leather goods, chemical and pharmaceuticals, electrical, sports goods, plastic products, electro-medical equipments and computer software etc.

LITERATURE REVIEW

Lane & Quack (1999) conducted a comparative study on the small industries in the United Kingdom and Germany. The study was aimed to analyze the bank lending norms for the SMEs and risk taking behavior of the entrepreneurs. The authors found that the issue of risk influences the behavior of the entrepreneurs as well as decides the amount of credit sanctioned by the banks.

Alfo&Trovato (2006) highlighted the issues of information asymmetries and agency problem in the SME sector. The authors argued that, the conflict of interests between the shareholders, who are also the owners and the management of the firm, who act as agents on behalf of the owners, leads to the agency problem. They also tried to elucidate the issue of information asymmetries prevalent in the small scale industrial sector.

Tracy & Tracy (2007) acknowledged that appropriate amount of capital is essential for setting up a unit. The small firms can raise capital by taking help from the family members and friends. Friends and family ensure

that the entrepreneur is able to launch his business and sustain it. The business owner mostly uses his own personal savings or puts his credibility on the line to avail credit from his friends and close business associates.

Mwarari (2013) argued that the problems faced by the Micro, Small and Medium Enterprises can broadly be classified into three categories as lack of financial support, lack of business opportunities and absence of good business practices. She considered lack of financial support as the most critical problem for the MSMEs and insisted that the banks should come forward so that the MSMEs can realize their full potential.

Dr. Zakkariya K.A. (May 2014) reviewed that “there exists problem in accessing finance from banks and financial institutions and also viewed that this problem may differ from region to region between sectors, or between individual enterprises within a sector.

According to Revell and Blackburn, Compliance, competitiveness and value-driven ecological and social concern have been identified as motivations for pro-social and pro-environmental behavior in SMEs.

OBJECTIVES OF THE STUDY

1. To find out the contribution of MSME in economic development of the country.
2. Challenges confronted by MSMEs.
3. To evaluate the government initiatives to revitalize the Indian MSMEs.
4. To make recommendations for further improvement of MSMEs in Indian scenario.

5. To analyze the conceptual framework, growth and performance trends of MSMEs in Indian economic development.

METHODOLOGY

The study is descriptive in nature and based on secondary data. Relevant information have been collected from various research papers, journals and magazines of national and international publications, various issues of RBI, annual reports from the Ministry of MSME, handbook of statistics of Indian economy and also includes websites of both public and private sector banks.

The Nursery of Entrepreneurs : Micro, Small and Medium Enterprises

MSME contribute a commendable portion to the balanced growth of Indian economy. Indian MSME sector is the second largest employment generator next to agricultural sector. These enterprises are quite complementary to the large scale industries as ancillary units. They contribute to the socio-economic development of the country quite significantly. The MSMEs in India constitute about 80% of the total number of industries and produce about 8,000 value added products. The interesting characteristics of this sector are that they need less capital investment as compared to large firms and also provide high job opportunities. This has created a high importance to the MSME sector.

MSME is one of the important and promising sectors which is contributing significantly towards the Indian economy. The foundation stone for this sector was laid by the first Indian government formed right after we got independence in 1947. The present MSME sector is able to emerge as one of the reliable and ever changing sector among all.

Today's Indian economy is characterized by great complexity and its growth mainly depends on the innovation. These innovative firms create employment, generate revenue and also change the people's life style by offering quality products or services. MSMEs try to meet the demands which were unmet by creating incremental and disruptive innovations. MSMEs can distinguish themselves with less bureaucracy in R & D system, ability to react quickly to the market demands and also less of goal conflicts among employee and employer.

The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved change in the basis of classifying Micro, Small and Medium enterprises from 'investment in plant & machinery/equipment' to 'annual turnover'.

This will encourage ease of doing business, make the norms of classification growth oriented and align them to the new tax regime revolving around GST (Goods & Services Tax).

The amendment will provide flexibility to the Government to fine-tune the classification of MSMEs in response to changing economic scenario without resorting to the amendment of MSMED (Micro, Small & Medium Enterprises Development) Act. Section 7 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 will accordingly be amended to define units producing goods and rendering services in terms of annual turnover as follows:

1. A micro enterprise will be defined as a unit where the annual turnover does not exceed five crore rupees;

2. A small enterprise will be defined as a unit where the annual turnover is more than five crore rupees but does not exceed Rs 75 crore;
3. A medium enterprise will be defined as a unit where the annual turnover is more than seventy five crore rupees but does not exceed Rs 250 crore.
4. Additionally, the Central Government may, by notification, vary turnover limits, which shall not exceed thrice the limits specified in Section 7 of the MSMED Act.

ISSUES AND CHALLENGES

The MSME sector experiences several constraints and challenges. Several key issues remain to be addressed properly and measures yet to be taken in the interest of sustainable industrial development. Some of the major challenges confronted by these enterprises include; lack of adequate credit and capital, poor and inadequate infrastructural facilities, inadequate access and marketing linkages, technological obsolescence and inadequate application of new technology, lack of skilled human resources, dilatory and cumbersome regulatory practices for clearance and poor adaptability to emerging international trends. This calls for the need for strategic intervention to improve coordination and linkages between various stake-holders including the Government, industries and other agencies/associations working in this field.

1. Motivation

The motivation of employees is one of the key factors that affect the progress of an industry. In MSME the lack of employees' motivation is a major management deficiency. Keeping employees satisfied on the job

is another important human resource activity in the MSME"s. As financial benefits are not competitive as those of larger and more established firms, the human resource manager of the small firm needs to ensure that its employees remain satisfied on the job.

For MSME the heart of the motivation process lies in ensuring and maintaining smooth and harmonious working and personal relationships among its employees. Respectful language at work place provides support and encouragement and enables employees to develop good working relationships. Mentoring adds up in the strengthening of harmony in the MSME.

2. Information gap

Most of the industries today require application of advanced technology in their operations whereas in the Indian context continuance of low technology base results in low productivity by making these enterprises uncompetitive in the ever-widening market contexts.

The owners of these enterprises are unaware or find it difficult to adhere and adapt new technologies, acquiring foothold in the market due to absence of organized marketing, inadequate infrastructure and skilled labor for the survival of business, less visibility in daily lives of people, no company image and minimum exposure.

There is a total information gap, firms are oblivious to the new changes, and knowledge level is low, latest trends and messages gets strucked, lack of knowledge about latest government policies and less recognition. Technological obsolescence should be replaced by adoption of modern and latest tools and technology for increased productivity and quality product for competitive advantage.

3. Innovation

Innovation is a process rather than an event and it is on continuous basis, having taking care of technology, manufacturing and other related activities. The innovation in a firm is an interactive process which happens across the different departments and results in breakthrough products which are ready to be commercialized. MSMEs have a significant potential that favors innovation.

It is the one which increases the comfort level of a common man by offering value added products/services. These innovative firms create employment, generate revenue and also change the people's life style by offering quality products or services. However, more innovation happens only if there exists an ecosystem which nurtures the ideas resulting in the creation of good number of technological innovations.

4. Inadequate Marketing

One of the main problems faced by the micro and small enterprises is in the field of marketing. These units often do not possess any marketing organization. In consequence, their products compare unfavorably with the quality of the products of the large-scale industries. Therefore, they suffer from competitive disadvantages vis-à-vis large-scale units.

Poor marketing linkages characterized by inadequate Government support and patronage, lack of adequate marketing infrastructure/network facilities continue to be a greater challenge for marketing and sale of MSME products. In a non-cluster situation, these enterprises get segregated and are unable to ensure reduction in procurement cost from big companies and fail to streamline the output-supply chain.

5. Problem of Raw Material

The major problem that the micro and small enterprises have to content with is the procurement of raw material. The problem of raw material has assumed the shape of (i) an absolute scarcity, (ii) a poor quality of raw materials, and (iii) a high cost. Earlier, the majority of micro and small enterprises mostly produced items dependent on local raw material. But, ever since the emergence of modern small-scale industries manufacturing a lot of sophisticated items, the problem of raw material has emerged as a serious problem on their production efforts. The small units that use imported raw material face raw material problem either on account of foreign currency or customs duty or any other reasons.

6. Employee Engagement

Small and medium enterprises (MSME) are worst affected during challenging economic era when resources are scarce, competition is intense and customers are more demanding than ever. Thus for MSME it is even important to have emotionally engaged and passionate employees. They play a critical role in driving innovation and propelling the organization forward.

Emotionally engaged employees are generally more willing to recommend the organization to others and commit time and effort to help the organization succeed (Gupta, 2009) In MSME sector, to build a great workplace and increase employee engagement, there are a few innovative practices which can be adopted to leverage the advantage of the companies.

Government Initiatives for MSMEs

Ease of Registration Process of MSMEs- UdyogAadhaar Memorandum:

Based on the Hon'ble Prime Minister's suggestion in his 'Mann Ki Baat' on 3.10.2014, to simplify forms to enable ease of registration of MSME's, Ministry of MSME has notified a simple one-page registration form 'UdyogAadhaar Memorandum' (UAM) on 18th September 2015. The simplified one-page registration form UAM was made after consultations with the states and stakeholders, on the basis of recommendations made by the Kamath Committee on Financial Architecture and observations/approvals by Department Related Parliamentary Standing Committee, National Board for MSME and Advisory Committee for MSMEs.

MyMSME

To facilitate the enterprises to take benefit of various schemes by the Office of Development Commissioner (MSME), his office has launched a web-based application module, namely, MyMSME. This has also been converted into a mobile app. Entrepreneurs will be able to make their applications and track it on their mobile itself.

Direct Benefit Transfer in the M/o MSME

All welfare and subsidy schemes of Governments of India have been brought under Direct Benefit Transfer (DBT) with the aim of reforming Government delivery system by reengineering the existing process in welfare and subsidy schemes, for simpler and faster flow of funds and to ensure accurate targeting of the beneficiaries, de-duplication and reduction of Annual Report 2017-18. As the nodal point for the

implementation of the DBT programs, DBT cell have been constituted in the Ministry. In 2017-18 all the 22 schemes of the Ministry of MSME were onboarded on DBT Bharat Portal out of which 1 scheme (i.e. TREAD scheme) has subsequently been wound up.

Digital Payments

Government of India is making efforts for promoting a less cash economy and to provide the facility of seamless digital payment to all citizens of India in a convenient manner. Promotion of digital payments has been accorded highest priority by the Government of India to bring each and every segment of our country under the formal fold of digital payment services. The Vision is to provide facility of seamless digital payment to all citizens of India in a convenient, easy, affordable, quick and secured manner.

MSME SAMADHAAN: To Address Delayed Payment to MSEs

Section 15-24 of The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 deal with the issues relating to the Delayed Payments to Micro and Small Enterprises (MSEs) by the buyers to the MSE supplier. In the case of delay in payment beyond 45 days, MSMEs suppliers may approach the Micro and Small Enterprises Facilitation Council (MSEFC) constituted under the Act in all States/UTs. Under Section 16 of the MSMED Act, delayed payment to supplier units, attracts compound interest with monthly rests at three times of the bank rate notified by the Reserve Bank.

MSME-SAMBANDH

The Ministry of Micro, Small and Medium Enterprises notified the Public Procurement Policy for Micro and Small Enterprises which mandates 20% of annual procurement from MSEs including 4% from enterprises

owned by SC/ST entrepreneurs by the Central Ministries / Departments and Central Public Sector Enterprises (CPSEs). For effective implementation and monitoring of the policy, the Ministry launched the Public Procurement Portal titled “MSME-SAMBANDH” on 08.12.2017.

Special Marketing Assistance Scheme (SMAS)

SC/ST entrepreneurs shall be allowed reimbursement under SMAS for maximum of 2(two) international events and 4 (four) domestic events in a financial year.

Performance of the MSME Sector

- The contribution of Manufacturing MSMEs in the country’s total Manufacturing GVO4 (Gross Value of Output) at current prices has also remained consistent at about 33%, i.e. one third during the last five years.
- Analyzing the findings of the NSS (National Sample Survey), 73rd Round on Unincorporated Non-Agricultural Enterprises in Manufacturing, Trade and Other Services Sectors (Excluding Constructions). This also gives the latest and most comprehensive account of the performance of the MSME Sector as of the estimated number of 633.92 lakh enterprises, only 4000 enterprises were large and thereby out of the MSME Sector. The Report on Key Indicators of the Survey is available at www.mospi.gov.in.

. As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were 633.88 lakh

unincorporated non-agriculture MSMEs in the country engaged in different economic activities (196.64 lakh in Manufacturing, 230.35 lakh in Trade and 206.84 lakh in Other Services and 0.03 lakh in Non-captive Electricity Generation and Transmission,) excluding the MSMEs registered under (a) Sections 2m(i) and 2m(ii) of the Factories Act, 1948, (b) Companies Act, 1956 and (c) Construction activities falling under Section F of National Industrial Classification (NIC) 2008.

CONCLUSIONS & SUGGESTIONS

The main purpose of data collection was to study how the entrepreneurs managed the micro, small and medium enterprises. What are the various problems faced by these enterprises. It also showed how the role of MSMEs helped in economic restructuring and development of India.

There is urgent requirement of managing such enterprises, to lift their visions to higher sights by motivating them, rising business performance to higher standards, especially 'Tiny', 'Micro' and 'Small' enterprises having annual turnover lesser than Rs. 5 crore.

Simple and clear policies and acts are to be made so that these enterprises can understand them and utilize as well as implement them in their business for compliance and secure benefits. There are many government schemes but from the study it was observed that most of these enterprises are not aware and do not understand how they can benefit out of them.

Appropriate strategies should be evolved for creation of an enabling ecosystem where these enterprises are able to access the benefits meant for themselves under a formal and friendly ecosystem and are further capable of meeting the emerging challenges of a globally competitive order.

The MSMEs are providing uniform development to the society and can be a strong mean to utilize the natural resources of India.

“Lifted visions, Motivated Souls and Educated Minds”.

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