

Role of MSME's in Indian Economy

Vijay Duggappa

Asst. Professor of Economics,

Sri Siddaganga First Grade College of Arts and Commerce.

Abstract

Industrialisation is an effective means for solving the problems of economic and social progress in developing countries of the world. Gunwar Myrdal has rightly described the relationship of industrialization to economical development when he observes “the manufacturing industry represents, in a sense, a higher stage of production in advanced countries. The development of manufacturing has been concomitant with these countries spectacular economic progress and rise in levels of living. Entrepreneurship is indispensable to accelerate the industrial growth. Small and Medium enterprises are an effective means for the development of entrepreneurship. This sector is a only solution to the problems of poverty, insecurity, unemployment, over population he modern world. This article attempted at highlighting the significance SMEs in economic development of India.

Keywords: Indian Economy, GDP, MSME's, Industries.

Introduction

The Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in the economic and social development of the country, often acting as a nursery of entrepreneurship. They also play a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. The MSME sector contributes significantly to the country's manufacturing output, employment and exports and is credited with generating the highest employment growth as well as accounting for a major share of industrial production and exports. MSMEs have been globally considered as an engine of economic growth and as key instruments for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of large enterprises. MSMEs constitute more than 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, MSMEs play an essential role in the overall industrial economy of the country. In recent years, the MSME sector has consistently registered higher growth rate compared with the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession. The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology. The sector not only plays a critical role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialisation of rural and backward areas, reducing regional imbalances and assuring more equitable

distribution of national income and wealth. MSMEs complement large industries as ancillary units and contribute enormously to the socioeconomic development of the country.

Objectives

The objectives of my study stated as follows

- To study the present scenario of MSME's in Indian economy.
- To study the strength and weakness of MSME's.
- To examine the steps taken by the government to the development of MSME's.

Methodology

The Present study is descriptive in nature and mainly emphasis on MSME's in Indian Economy. The study used secondary source of data, which were collected through of Journals, Periodicals, Books and Website.

Small and Medium Enterprises Defined According to new the micro, small and medium enterprises development act, 2006 the MSME Definitions are as follows: In the case of the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951, as – **Micro Enterprise** - A micro enterprise is, where the investment in plant and machinery does not exceed twenty five lakh rupees;

Small Enterprise - A small enterprise is, where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five core rupees; or

Medium Enterprise - A medium enterprise, where the investment in plant and Machinery is more than five crore rupees but does not exceed ten crore rupees.

The definition of small and medium enterprises varies from country to country. In general, the industries all over the world are defined in terms of number of employees or capital investment or both. The employment potential criterion was dropped from Small and Medium Enterprises definition in India due to the following reasons:

- Employment changes seasonally and hence it is difficult to follow this criterion An employment limit acts as an incentive to limit employment to remain within Small and Medium Enterprises. Discrimination between labor intensive and techno sophistication.
- The role of small and medium enterprises in economic development of a country can be explained with relevant parameters.” Increase in the number, production, employment, and exports over a period of time could be common parameters to adjudge the role played by small enterprises in the country.”

Key Challenges faced by the MSME Sector:

- Lack of availability of adequate and timely credit
- High cost of credit • Collateral requirements
- Limited access to equity capital
- Procurement of raw material at a competitive cost
- Problems of storage, designing, packaging and product display
- Lack of access to global markets

- Inadequate infrastructure facilities, including power, water, roads
- Low technology levels and lack of access to modern technology
- Lack of skilled manpower for manufacturing, services, marketing, etc
- Multiplicity of labour laws and complicated procedures associated with compliance of such laws.

Strength and weaknesses of msmes

Major strength of Small Medium Enterprises observed are flexibility, owner management, inexpensive labor, less overhead and favorable capital- output ratio.

Flexibility

Small and Medium Enterprises can easily absorb new innovation and adapt new method. The cost of changing the existing system is also relatively less.

Owner management

In Small and Medium Enterprises owner management is a possibility, which ensures quick decision making. This ensures speed and reduces redtapism. (Dalu & Deshmuke)

Inexpensive

labor and less over head The main reason for sickness of large scale industry is its labor problem and escalating wage bill. Small and medium enterprises strength is its cheap labor and less over head.

Favorable capital-

output ratio Small and medium enterprises are labor intensive. Through proper utilization of resources Small and medium enterprises can keep low level of capital investment per unit of output (Gowda and Krishnamoorthy).

Weaknesses

Lack of quality consciousness: It is the major weakness of the small industries. Small and Medium Enterprises pay less attention to total quality programme and hence importance is less felt leading to quality problem (Derrick). Study reports show that under utilization capacity leads to reduction in level of productivity in Small and Medium Enterprises sector in India .

Lack of Financial Strength: The Small and Mediunor brand image and hence mobilizing capital through other sources is a challenge m Enterprises depend largely on banking finance. They don't have corporate image.

Lack of Industrial Work Culture: Labors give more weight-age to their personal work and don't maintain regularity, discipline in reporting on time. Getting and continuing with trained workers and satisfying them is difficult. Study reports show that in India many small and medium enterprises are sick and some are closing down. The main reason is lack of quality and increasing competition. It is necessary for Small and medium enterprises to face new challenges by adopting best strategies Hence the SMEs should take immediate step to create quality awareness, and adoption of continuous improvement techniques.

Measures Taken For MSMEs Growth

Some of the measures taken by government to improve the performance of MSMEs are as under –

- Government has set up an India Opportunities Venture Fund with SIDBI worth INR 50 bn to provide equity to the MSME sector.
- Under the Public Procurement Policy for Micro and Small Enterprises (MSEs), government organizations and Central Public Sector Enterprises (CPSEs) are required to make a minimum of 20% of their annual purchase from MSMEs. Of this purchase, 4% to be earmarked for procurement from MSEs owned by SC/ST entrepreneurs.
- To improve the productivity, competitiveness and capacity building of MSMEs, the Government of India has adopted a cluster based approach.
- Credit disbursed to micro and small enterprises is considered part of priority sector lending by banks.
- Around 20 items have been reserved for exclusive manufacturing by MSMEs. Large scale enterprises cannot produce these items.
- In order to build the capacity of MSMEs, central government has initiated National Manufacturing Competitiveness Programme (NMCP). It would help them in facing stiff competition from global MNCs.

Apart from the aforesaid measures, the most important prerequisite for the unbridled growth of SMEs is ensuring the availability of enabling environment and requisite infrastructure. If government can ensure the double digit growth for the SMEs, it would definitely help in achieving the long cherished goals of equality of income and promoting the growth in rural hinterlands and stop the avoidable migration to the urban areas.

Findings

- 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.

Conclusion

Human Resource is one of the most essential growth indicators for organizations today. There is a lack of formalization in the management of HR issues. This is in contrast to multinational companies operating in India who have adopted structured and formalized HR systems. As the studies showing very less msme have formal HR dept and in new small business units owners only handling the HR practices. So with skill training there should be some procedure to provide basic HR functional training to owners so that initially

they can handle HR Functions and understand the importance of HR in organizations. Later on after small units become profit oriented units, they can have formal HR dept to run each HR function systematically.

References

- [1] Madhan, P. M. (2012, February 11). SME's as Growth Driver of Indian Economy: Strategic HR Issues and Perspectives. Business Strategies and India's Economic Growth Conference (RBCON - 2012).
- [2] Contribution made by msme at heart of Indian economy. (2013, August 24). New Indian Express .
- [3] India's MSME sector growing faster than overall GDP: Michel Botzung. (2013, December 30). Business Standard.
- [4] Recommendations of the Inter-Ministerial Committee for accelerating Manufacturing in Micro, Small & Medium Enterprises Sector. (2013, september). Retrieved from msme.gov.in: <http://msme.gov.in/Accelerating%20Manufacturing%20in%20the%20MSME%20Sector.pdf>
- [5] Agarwal, H. (2011). HR Issues in Micro, small and Medium Enterprises. International Journal of Research in Finance & Marketing, 1(3), 232-246.
- [6] Data.gov.in. (n.d.). Retrieved from www.data.gov.in: <http://data.gov.in/dataset-group-name/fourth-all-india-census-msmeregistered-sector-0>
- [7] DR.P.Uma. (2013). Role of SMES in Economic Development of India. Asia Pacific Journal of Marketing & Management Review, 2(6).
- [8] Garg, B. (2014, February). Role of human resource in MSME in india Researchjournali's Journal of Entrepreneurship. Researchjournali's Journal of Entrepreneurship, 2(2).
- [9] Kishore, K., Majumbar, M., & Kiran, V. (2012, July_Aug). Innovative HR Strategies for smes. IOSR Journal of Business and Managemen, 2(6), 1-8.