

CHALLENGES FACED BY THE MSME SECTOR GROWTH

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Abstract: The MSMEs(Micro, Small and Medium enterprises) foster entrepreneurship and generate largest employment opportunities at comparatively lower capital cost, next to agriculture. In addition to providing employment this sector plays an important role in the industrialisation of rural areas and reduces regional imbalance and supports equitable distribution of national income. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country.

Introduction:

Micro, Small and Medium enterprises (MSME) sector play a remarkable role in the global economy and particularly (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy. It serves as the back bone of Indian economy. As India gears up to retrace the high growth path, this sector assumes a pivotal role in driving the growth engine.

According to the provisions of Micro, Small & Medium Enterprises MSME Development Act 2006, the MSMEs are classified into two segments.

- a) Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the Schedule I of the Industries (Development and Regulation) Act 1951. The Manufacturing Enterprises are classified in terms of investment in plant and machinery.
- b) Service Enterprises: The Enterprises engaged in providing or rendering of service are classified in terms of investment in equipment.

| Classification | Manufacturing enterprises (investment limit in plant and machinery) | Service enterprises (Investment limit in plant and machinery) |
|----------------|---|---|
| Micro | Rs.25 lakhs | Rs.10 lakhs |
| Small | Rs.5 Crores | Rs.2 Crores |
| Medium | Rs.10 Crores | Rs.5 Crores |

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MSMEs Scenario in India

The (MSME) sector is of special significance for the Indian government, as it forms a key component of the government's 'Make in India' and 'Skill India' programme. According to the reports of the Ministry of MSME this sector generates around 100 million jobs through 46 million units across the India. This sector contributes 38% to the GDP and it represents 40% of

the overall exports and represent 45% share in the manufacturing output. This sector manufactures over 6000 products ranging from traditional to high tech products and wide range of services are also provided by this sector.

Challenges to the MSME sector growth

Despite the substantial contribution to the Indian economy MSMEs confronts several changes such as nonavailability of timely credit, limited access to market, technological obsolescence, inadequate infrastructure, scarcity of skills, regulatory issues related to taxation (GST) laws and environmental issues.

The threat from Corporates to tap the wealth at the bottom of the pyramid, Reluctance from Millennials to work in MSMEs are real challenges or to take up the small family run business pose a real threat to MSMEs.

Limited access to timely credit and finance

India's MSME sectors face a major challenge in terms getting adequate credit. The present market conditions do not provide enough opportunities to MSME to raise low cost finance. The sector is dependent on public sector banks for their working capital requirements. The cost of credit to MSME sector is high than other sector. The Banks are reluctant to lend to MSME due to their high risk profile owing to zero collateral and lack of transparency, regarding their financial position, As the most of MSME are owned as proprietary or partnership firms the accounting disciplines are not followed. The accounts are maintained on cash basis instead of accrual basis. Hence banks hesitate to extend loan facilities to MSME. Only 25% of funding for MSME are made through banks and rest of the funding has been sourced through alternative funding sources, which are naturally very high. Working Capital requirements in case of retail is very high initially, MSMEs struggle to get right amount of working capital loan.

Limited Market Access

MSME needs to respond readily to evolving market needs and innovations. The technology solution and tools are available to cater to their marketing needs, only by optimising their presence in the web, MSMEs can generate huge business opportunity.

The marketing strategies like Brand building, Specific marketing and Relationship marketing are vital for the growth of the business, to apply all these marketing strategies they should have a good access to technology. Unless MSMEs embrace the technology, like mobile first approach, digital marketing, and AI applications such as 'Chatbots' it will not able to penetrate in to the market highly influenced by social media marketing.

In addition market infrastructure, technological assistance, access to ecommerce and infrastructure in terms of R&D labs are also inadequate. Internationally MSME are using web marketing tools to reach out and generate markets.

Due to lack of ICT exposure and innovative marketing approaches at grass root level, MSMEs are not able to tap the low investment online marketing tools to establish new business relationship and to retain the existing customers.

Technological Challenges

With intense competition and rapid changes in the technology, MSMEs have to continuously update the technology and incorporate it in the production, marketing and manufacturing process for cost cutting and to gain efficiency in overall process. The study made by Intuit India observed that the MSME sector is very backward in technology adoption. The cost involved for applications such as SaaS(Software-as-a-Service) that are important to run every business activities like accounting, invoicing, customer relationship management and data management is very high. Due to budget constraints MSME's are not able to upgrade the technology. Technology budgeting is also the main challenge for MSME.

Lack of infrastructure facilities

Industries are one of the most important components for the growth of any economy. The MSME sector is vital for the overall growth of the industry. The lack of adequate infrastructural facilities can hamper the production, consumption and distribution of the products. The MSME sector lack required work space for industrial clusters to compete in national and international market. Lack of integrated work space and lack of awareness about the common tool rooms pose a great challenge to this sector.

Existing MSME are located in industrial parks set up many years back and newly set up MSME are located in urban areas, both these msme functions in a unorganised manner. The state of basic infrastructure such as power, roads and water supply are poor both in industrial parks and urban areas, leading to the increased cost of transportation. The space for extension of the existing MSME are not available.

Environmental Impact

There is a growing negative impact of the industrialisation on the environment due to increase in the pollution level. The tolerance level are becoming very stringent. The MSME do not have proper waste management system to control or treat waste. Both Indian market and international market are watching the environmental impact of MSMEs. The lack of awareness about the environmental impact is a serious concern for MSME. The enterprises which do not have means to control the environment impact will loose their business nationally and globally.

GST Challenges:

MSME grapples with challenges regarding frequent amendment's in the GST law and penalties for non compliance. Under GST regime, the Service sector will be further impacted as the concept of centralised registration has been taken off, and each unit in different states will have to take separate registration.

The taxes on stock transmission affect the working capital requirements. This varies with factors such as stock reversal time at depository, credit sequence to the consumer. The higher working capital requirement and its high cost leads to increase in the cost of the final goods. The delay in receiving input tax credit (ITC) directly affects MSME industry. In addition the burden of lower threshold, lack of tax differentiation for luxury items, selective tax levying pose a significant challenge to MSME.

HR Challenges :

Human resources is one of the essential indicators for the growth of an organisation. MSME generally consider HR practices as non priority task. This sector struggles to fill the talent gap, to identify the skill compentices required by an employee, and to find and retain key talent. Indian with great manpower of young educated and English enabled population there still exists a skill gap.

Although MSME absorb good percentage of human resources they lack adequate skill to perform the job and finally end up in doing routine job. This skill gap is addressed only by few MSME's which invest a share of their profit to training and development of their employees.

Large firm that are targeting high growth rate hunt the market for talent and MSME offer fail to compete with them in terms of compensation. MSME often fail with large companies in attracting and retaining the best talent

Limited Access to Government Initiatives

Majority of the MSMEs are unaware of the various schemes run by the government for supporting and developing MSMEs. On account of this, there is mismatch between what the government intends to achieve and the ground reality. MSMEs are conservant about the several schemes of the government like (i)Lean manufacturing competitiveness (ii) Design clinic (iii) Marketing assistance and technology upgradation (v) Promotion of ICT tools for clusters (vi) Tooling and training centres. The government should take initiative to address this challenge.

Entry of Corporates to tap Bottom of the Pyramid

Large companies are targeting the wealth at the bottom of the Pyramid. This is a great concern to micro, small & medium sector enterprise. Due to large investment economies of large scale and adoption of advanced technology these large companies would be able to offer quality product and services at lower cost. Eg Recently Indian Oil Corporation has launched Gas Ironing service which cost just Rs 2/- per garment, which will take away the business of micro and small scale laundry business.

Lack of Willingness from Millennials

The real challenges faced by MSMEs is the lack of interest on the part of the next generation, either to take up their family owned small business or start-ups. Millennials prefer to work or large multinational companies in white collar jobs than taking up small business ventures. Barring few IITians & IIMs students are reluctant to start new business ventures. The family culture and parents objection towards their children starting a small business instead of taking placement in MNC's, funding requirement and social security stands as a stumbling block for new start-ups.

Conclusion

The Make in India campaign has the potential to transform the MSME sector. To make the make in India campaign successful the government should address the challenges faced by MSME sector which plays a vital role in removing regional imbalances in the industrial development across the country.

Recently government is taking large initiatives to address the challenge of MSMEs. But these initiatives are not reaching the grass root level. The Government should announce and pronounce the initiatives and should appoint task force to take it down to the bottom level.

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