



## MSMEs CHALLENGES AND OPPORTUNITIES: THE KEY TO ENTREPRENEURSHIP DEVELOPMENT IN INDIA

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### ABSTRACT

Worldwide, the micro small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and 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 the large enterprises. Indian SMEs sector plays a pivotal role in the country's industrial economy. It also contributes to the growth of foreign exchange earning with low import-intensive operations. Indian SMEs also play a significant role for Nation development through high contribution to Domestic Production, Significant Export Earnings, Low Investment Requirements, Competitiveness in Domestic and Export Markets and Generate new entrepreneurs by providing knowledge and training. SMEs that have strong technological base, innovative, international business outlook, competitive spirit and willingness to restructure them can fight against the Present challenges easily. The MSMEs constitute over 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, the MSMEs play a pivotal role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to 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. As per available statistics (4th Census of MSME Sector), this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country.

**KEYWORDS:** SME, Innovation, Entrepreneurs, Economy.

### INTRODUCTION

SMEs form the backbone of the Indian manufacturing sector and have become engine of economic growth in India. It is estimated that SMEs account for almost 90% of industrial units in India and 40% of value addition in the manufacturing sector. This paper closely analyses the growth and development of the Indian small scale sector from opening of the economy in 1991. Third part looks into the present scenario of SMEs and the problems they phases like lending, marketing, licensing issues in detail. The Micro, Small and Medium Enterprises Act, 2006 is intended to boost the sector. The provisions of the Act are examined closely. The final part provides some future policy framework for the sustainability of the sector. But SMEs in India are facing number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages etc. In order to compete with such issues successfully SMEs need to adopt innovative approaches in their operations. Innovation is an important tool that enables SMEs to reap rewards of scientific achievement. In the growth of the Indian economy, innovation is emerging as a key driver ensuring economic survival and advancement.

While innovation is the key word for every economy, India's challenge is to make innovation work for the masses and create sustainable businesses. A strong culture

of communication between universities and industry helps bridge the gap between science and economy, and can increase country's innovative potential. At this time we require dynamic, self-sustaining culture of innovation for SMEs and in this, continuous Government intervention is highly desirable. Major Key players who can strengthen innovation capacity in SMEs are the government, the academic system and the end users. To empower the SME Sector to take its rightful place as the growth engine of Indian economy, it is necessary to support the SMEs, educate and empower them to make optimum utilization of the resources, both human and economic, to achieve success. The SMEs need to be educated and informed of the latest developments taking place globally and helped to acquire skills necessary to keep pace with the global developments.

### OBJECTIVES

- To analyze the growth of SMEs sector in India
- To study the Role of Entrepreneurs in development SMEs business and to find out the problems facing by MSME sector
- To study Innovative ways that can be introduced in the SMEs business to enhance the economic growth

### RESEARCH METHODOLOGY

The study basically depends on secondary data. The data has been taken for the last five to analyze the performance

of MSMEs. The study attempts to accomplish its objectives by making analysis on the basis of the following parameters:

1. ASSOCHAM report 2011
2. Government of India report published in 2005-06
3. Priority Sector lending by public sector Banks
4. FICCI report 2011 published Grant Thornton "MSMEs vision 2020"
5. Various research papers from journals
6. News published in various websites

### GROWTH OF MSME SECTOR IN INDIA PRESENT SCENARIO

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.

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 sector not only plays a critical role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialization 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.

### KEY HIGHLIGHTS OF THE MSME SECTOR:

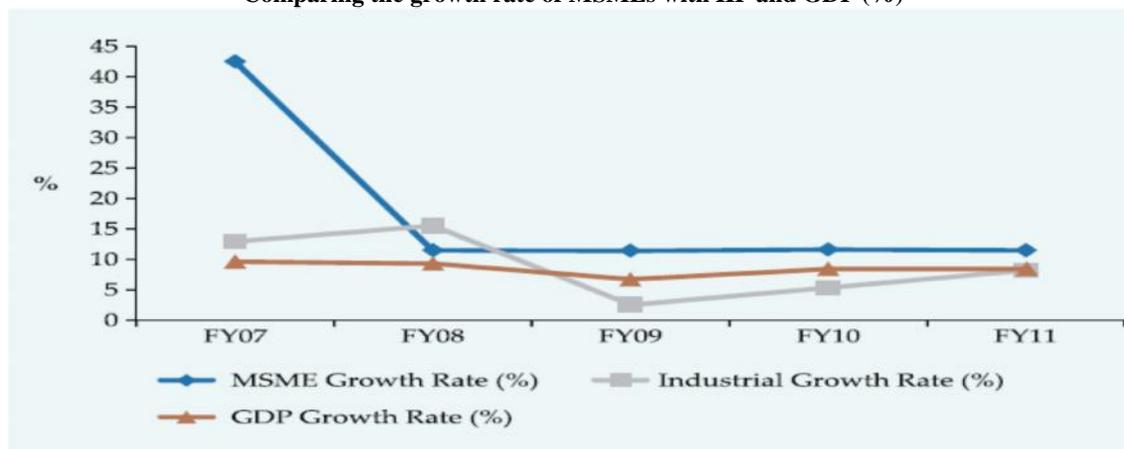
- MSMEs account for about 45% of India's manufacturing output.
- MSMEs account for about 40% of India's total exports.
- The sector is projected to employ 73 mn people in more than 31 mn units spread cross country.
- MSMEs manufacture more than 6,000 products ranging from traditional to high tech items.
- For FY11, total production coming from MSME sector was projected at ` 10,957.6 bn, an increase of more than 11% over the previous year.

### MSMEs outperform GDP and IIP growth rates

MSMEs have outperformed IIP and GDP growth rates in the past five years. The domestic MSME sector has outpaced industrial and GDP growth. During FY12, total production of MSMEs was projected to grow at 11.48% compared to industrial and GDP growth of 8.2% and 8.4% respectively.

In FY11, total production of MSMEs was equivalent to about 14.28% of India's GDP (at current market prices). The total production of MSMEs for FY11 was ` 10,957.6 bn (at 2001-02 prices). Between FY07 and FY11, the sector's total production grew at a CAGR of 11.5%, clearly indicating the substantial contribution of MSMEs to the Indian economy.

Comparing the growth rate of MSMEs with IIP and GDP (%)



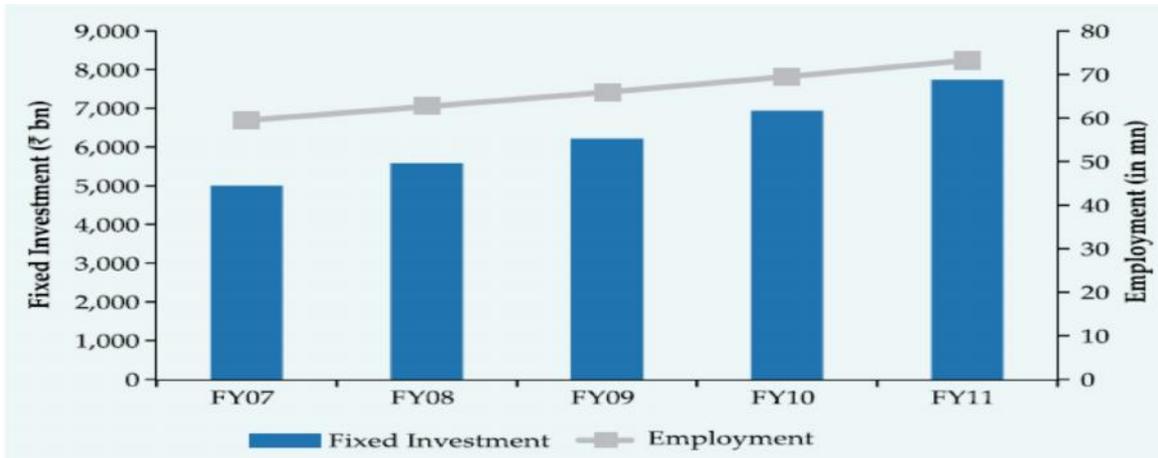
Source: Annual Report 2011-12 of Ministry of Micro, Small & Medium Enterprises, GOI  
Economic Survey 2011-12

### Fixed investment and employment in MSME segment registered mutual growth

Productivity of the MSME sector has been improving tremendously with fixed investment and employment growing consistently in the past couple of years. This is a

direct indication of the efforts in the sector to integrate the work force with technological enhancements to increase production. Fixed investment in the MSME sector between FY07 and FY11 has grown at 11.48% CAGR and employment grew more than 5% y-o-y.

**Fixed investment vs employment in MSMEs**



Source: Annual Report 2011-12 of Ministry of Micro, Small & Medium Enterprises, GOI

**PSBs REMAIN THE LARGEST LENDERS TO MSMEs**

The MSME sector has been accorded high priority in the industrial policy owing to its vital role in the economy. During FY11, the total outstanding credit by banks to MSMEs in India stood at ` 4,859.43 bn, and has grown at a CAGR of 39.8% during FY07-FY11.

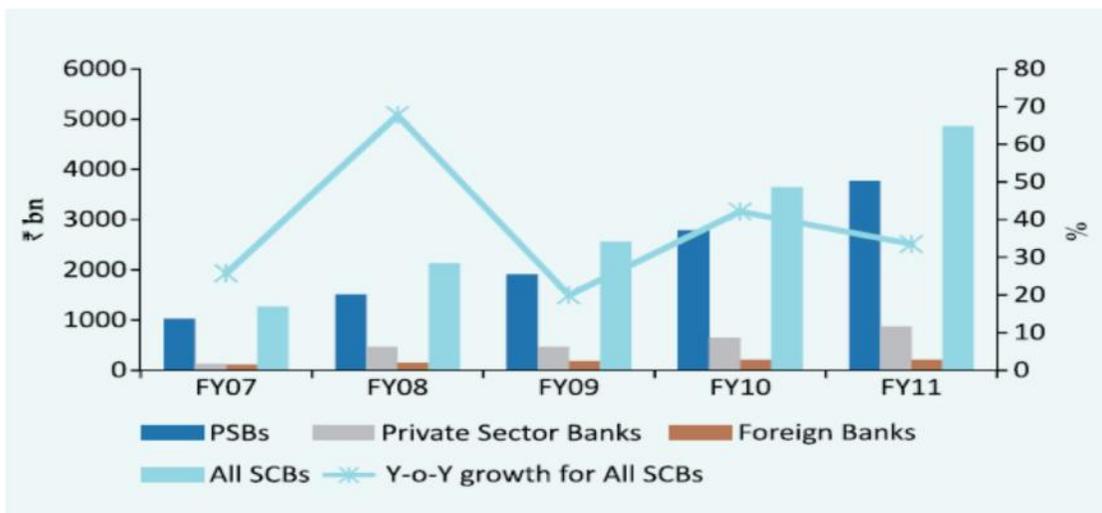
Among bank categories, public and private sector banks have registered impressive growth of 35.28% and 36.14% in MSE lending in FY11. However, Public Sector Banks

(PSBs) account for a major share compared to private and foreign banks.

During FY11, total priority sector advances by PSBs grew by 19.1% y-o-y to ` 10,286.15 bn, as against ` 8,637.77 bn in FY10.

Total advances provided by the PSBs to the MSE sector for FY11 grew by 35.3% y-o-y to ` 3,766.25 bn. Advances to MSE formed around 37% of the total priority sector advances of PSBs, versus the 32% share during FY10. Moreover, the share of MSE credit to net bank credit stood at 9.9 % in 2011 against 13.4% in 2010.

**Bank Category wise outstanding credit to MSMEs**



Source: Annual Report 2011-12 of Ministry of Micro, Small & Medium Enterprises, GOI, Annual Report 2011-12 of Reserve Bank of India

**MAJOR INITIATIVES UNDERTAKEN BY THE GOVERNMENT IN FY12 TO REVITALIZE THE MSME SECTOR**

BSE and NSE got the approval for SME platforms from SEBI and have been operational. This will serve as an

opportunity for Indian SMEs to raise funds from capital markets.

To achieve the overall target set by the Prime Minister’s National Council on Skill Development, Ministry of MSME and the agencies conducted the skill development programmes for 478,000 persons during FY12. During

FY13, the Ministry aims to provide training to 572,000 people through its various programmes for development of self-employment opportunities as well as wage employment opportunities in the country. To improve the productivity, competitiveness and capacity building of MSMEs, the Government of India has adopted a cluster-based approach. During Apr-Jan 2012, the government has taken 8 new clusters for diagnostic study, 5 for soft interventions, and 4 for setting up of common facility centres. Till Jan 2012, the government has taken total 477 clusters for diagnostic study, soft interventions and hard interventions and 134 infrastructure development projects.

#### **SNAPSHOT OF BUDGET 2012-13 FOR MSME SECTOR**

- Availability of equity to the MSME sector, the Government has set up an India Opportunities Venture Fund with SIDBI worth ` 50 bn.
- Allocation for the Prime Minister's Employment Generation Programme increased by 23% from ` 10.37 bn to ` 12.76 bn.
- Under the Public Procurement Policy for Micro and Small Enterprises (MSEs), Ministries 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.
- Increase in the turnover limit from 6 mn to 10 mn for SMEs for compulsory tax audit of accounts and for presumptive taxation.
- Exemption of capital gains tax on sale of a residential property, if the sale consideration is used for subscription in equity of a manufacturing SME company for purchase of new plant and machinery.
- Reduction in the basic customs duty to 2.5% with concessional CVD of 6% on specified parts, components and raw materials for the manufacture of medical devices such as disposables and instruments.
- Full exemption from basic customs duty and CVD to specified raw materials for the manufacture of coronary stents and heart valves.
- Reduction in the excise duty from 10% to 6% on matches manufactured by semi-mechanised units.

#### **ROLE OF ENTREPRENEURSHIP IN SMES DEVELOPMENT**

Small business is the natural habitat of an entrepreneur. They are really found in Giant Industries. Small businesses provide goods as services as well as serve as a nursery of entrepreneurial and managerial talent. Initially the capital investment in small ventures is nominal and the technology used is low, so it becomes easy for first time entrepreneurs to set up a venture. In the beginning usually these ventures are a "one man show" where the entrepreneur looks after the myriad functions of production, marketing, finance, legal etc. The entrepreneur gets a chance to increase his knowledge, skill and competence. He takes decisions independently and it is in these circumstances that entrepreneurial talent blossoms. In developing economies it is through a large number of such small enterprises started by these imitator

entrepreneurs that a chain reaction is set into motion, which leads to cumulative progress. It is pertinent to note that nearly 70 percent of the total innovations in the world have come from the Small Scale Sector. Many of the big businesses today for example, Siemens, Ford, Eastman Kodak, Lever Brothers, Reliance, Nirma, Rasna were all started small and then nurtured into big businesses. Narayan Moorthy of Infosys spent 20 years in founding, building and nurturing Infosys.

Small business mobilizes small savings, taps the latent entrepreneurial talent across regions and provides a platform for them to develop and fine-tune their 24 entrepreneurial spirit. In the process the entire country benefits in the form of goods and services and higher standard of living. Entrepreneurship is a driving force behind SMEs. Entrepreneurs are the driving force behind SMEs, and SMEs play an important structural and dynamic role in all economies. The main areas where increased levels of entrepreneurial activity can contribute significantly to specific policy outcomes are:

- Create opportunities -Job creation, careers, and new products/services
- Economic growth, productivity improvement, and innovation.
- Poverty alleviation and social opportunities.
- Build new customers and open up new markets.

#### **CHARACTERISTICS OF ENTREPRENEURS**

##### **Need for achievement**

It is the prime psychological derive that motivates the entrepreneur it brings behavior motivation Towards accomplishment, i.e. in achieving a goal that possesses reasonable challenge to an individual's competence such an entrepreneur is energetic but not a gambler. His motivation is the product of a scientific assessment of his energies and the challenge.

##### **Desire for Responsibility**

Entrepreneur prefers to use his own resources and to be personally responsible for the results. he can perform well in groups particularly when he can influence the results in some specific way.

##### **Preference for Moderate Risk**

Seeking high level of performance consistent with the possibility of achievement.

##### **Perception for the Probability of Success**

This consists in collecting and analyzing facts and thereafter falling upon own self confidence for accomplishing the task.

##### **Future Oriented**

He plans and thinks in the future. He anticipates possibilities that lie beyond the present.

##### **Stimulated by Feedback**

Irrespective whether the signals about his performance are good or bad, he draws his inspiration from the feedback.

#### **QUALITIES REQUIRED FROM AN ENTREPRENEUR TO DEVELOP SME SECTOR**

##### **Mental Ability**

It consists of (a) overall intelligence, (b) creative thinking, i.e. the ability to adapt to various situations, (c) analytical

ability, i.e. ability to systematically analyze the business problems.

#### **Human Relation Ability**

It is demonstrated by emotional stability, skill in interpersonal relations, sociability, tactfulness, empathy (to put oneself to another's place).

#### **Communication Ability**

It is the skill in conveying information to others so that understanding is created.

#### **Technical Knowledge**

The expertise in such areas as personal selling techniques, operating a Complex piece of equipment, analysis and interpretation of financial records etc.

#### **Decision Making Ability**

The skill in selecting satisfactory course of action from among various alternatives.

### **PROBLEMS FACED BY ENTREPRENEUR OF SME SECTOR**

The small-scale sector has emerged as an engine of growth. In India the SSI has played a catalytic role in socio-economic transformation of the country. This sector has exhibited tremendous capacity for employment generation, greater resource use efficiency, and technical innovation, promoting inter-sectoral linkages, raising exports and reducing regional imbalances. but still there are many problems faced by entrepreneurs to establish themselves as a part of SME sector. Some of these challenges are listed below-

- 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
- Lack of viable concept.
- Lack of market knowledge.
- Lack of technical skills.
- Lack of business know-how.
- Complacency (lack of motivation)
- Social stigma attached to certain vocations.
- Job "Lockins", "Golden Handcuffs" or attachment with the job.
- Time Pressures, Distracter.
- Legal constraints.
- Monopoly- Protectionism.

### **INNOVATIVE STEPS THAT CAN BE INTRODUCED IN SME SECTOR**

To transform invention into innovation successfully requires a range of complementary activities, including organisational changes, firm-level training, testing, marketing and design. Innovation today encompasses much more than research and development (R&D),

although R&D remains vitally important. Innovation rarely occurs in isolation; it is a highly interactive process of collaboration across a growing and diverse network of stakeholders, institutions and users.

- Regulatory barriers that increase with firm size limit growth and need to be reviewed.
- Policies that can help lift the performance of existing SMEs are also important.
- Access to finance is crucial if innovation is to flourish.
- Financing innovation requires well-developed financial markets and policies to ease access finance for new and small innovative firms.
- Policy should support early stage financing and networks for venture capital and business angels. Sound framework conditions are an essential basis for policies to strengthen innovation. Stable macroeconomic policies help reduce uncertainty
- Tax policy affects investment in innovation.
- Demand-side policies can help stimulate innovation when matched with effective supply-side measures.

### **ASSISTANCE FROM GOVERNMENT**

The lack of access to new and better technology has prevented Indian MSMEs from growing at a rate that's equivalent to their potential. The Ministry of MSME may provide the following assistance to MSMEs for technology up-gradation:

#### **Access to foreign technologies**

Promote low-cost ICT solutions: the Ministry of MSMEs in India should facilitate MSMEs in procuring complete and low-cost ICT solutions to improve their capacity and productivity. Awareness of these tools should also be increased among MSMEs

#### **Support for R&D**

Provide opportunities for international partnership for industries and clusters where Indian MSMEs have an inherent competitive edge, the Ministry of MSME should create platforms through institutions like the NSIC and also form private partnerships to allow Indian MSMEs network with MSMEs abroad pp

#### **Create and promote an innovation and R&D culture**

Government sector institutions that are at the cutting edge of research and innovation should be opened up for use by MSME innovators who are struggling to get funds and technology.

#### **Assistance from large firms**

Involve large enterprises in the development of MSME clusters: a long-term strategic plan should be implemented by the Ministry of MSME to facilitate and build long-term relationships with large enterprises and research supply institutes

#### **E-governance & E-procurement**

E-governance and E-procurement, a must for easier compliance: online mechanisms should be provided to MSMEs to carry out all the necessary transactions for conducting business in the domestic and international markets. The government should also provide online access to rules and regulations, electronic methods for registration and electronic applications for government

schemes, certificates, licenses and realisation of incentives.

### **GOVERNMENT INITIATIVES**

**Some of the key initiatives undertaken by the Government include**

- Implementation of the Micro, Small & Medium Enterprises Development ("MSMED") Act 2006
- Identifying existing and potential clusters
- Providing strategic information such as benchmarking or trends
- Boosting to investing in technology and infrastructure
- Filling in investment gaps with FDI
- Linking firms to training programs from local universities and centers
- Fostering networking service centers and associations

The aim of further streamlining policies pertaining to SME is to encourage inter-industry and inter-sectoral relationship, which lead to focused cluster growth and would enhance inter-dependence.

#### **Updated vital facts of the MSMED Act**

- It classifies industries based on the investment in plant & machinery, and not on turnover or employment, as is the case elsewhere
- It defines the Indian SME segment at par with the existing concept of SMEs worldwide
- As per its definition, an SME is an entity engaged in the production of goods and services involving investment from INR1 million to INR100 million in plant and machinery.

**The Small Industries Development Bank of India ("SIDBI"), which is the main financial institute for the SME sector, plays a pivotal role. It is:**

- Responsible for the development of venture capital financing in the country to support the risk capital requirements of the sector
- Investing in several venture capital funds for onward investments in the SME sector

**Some key funds, the SIDBI has invested in:**

- India leverage fund
- India advantage fund
- India development fund

#### **SMERA Initiatives**

With a view to further streamline the process of SME financing, a dedicated rating agency called SME Rating Agency of India ("SMERA") was launched by the SIDBI in association with a number of leading public and private sector banks of India, in 2005. The organization provides independent third-party assessment of the overall condition of an SME. The rating consists of two parts: a composite appraisal/condition indicator and a size indicator.

#### **Initiatives by NASSCOM**

According to the National Association of Software and Service Companies ("NASSCOM"), SMEs operating in the technology segment contribute significantly to the total revenues of the sector. Recognizing its significance, a special SME forum has been created to support and promote these SMEs. The forum serves as a platform to

address key challenges facing the industry and conducting discussions for tapping growth opportunities.

#### **Initiatives of NSIC**

The National Small Industries Corporation Ltd ("NSIC") aims and works towards bolstering the growth of SMEs and its allied industries. The NSIC has been contributing since the last four decades, and has demonstrated its strengths within as well outside the country by promoting Indian SMEs. This organization also professes upgrading of technology and introducing quality control measures in the systems implemented in SMEs.

To enable SMEs gain competitive advantage, the NSIC has a comprehensive charter of activities to meet challenges amidst the scenario of growth and competition.

#### **SME Exchange**

In view of the growing number of SMEs, the Securities and Exchange Board of India ("SEBI") is set to give its clearance for the formation of the SME Securities Exchange. This would establish an entity for SMEs to register their scripts on an exchange, at a relatively low cost. Furthermore, it provides SMEs the foundation and ability to raise capital from an alternate platform; addressing the issue of dependence on banks and financial institutions, at the same time.

### **CONCLUSION**

SMEs play a significant role as one of the growth engines of the Indian economy. In fact, they have been playing a critical role in the socio-economic development of the country while further facilitating the achievement and streamlining the objectives relating to mass employment generation, low investment etc. SME will need to align their offerings with the prevailing market conditions and in the process they will need to adapt more efficient business practices backed by fruitful innovations. Major Key players who can strengthen innovation capacity in SMEs are the government, the academic system and the end users. The future will see the growth of SMEs as a result of the growing economy and continuous efforts of entrepreneur. If these small fledging businesses need to survive alongside the big giants they will need to retain their key people and ensure that they are shown a clear vision, goal and career prospect in order to keep contributing to the organisation for a long time.

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