

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. 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: MSME, Innovation, Entrepreneurs, Economy.

INTRODUCTION

Micro, small and medium enterprises (MSMEs), including khadi and village as well as rural enterprises, play a pivotal role in the overall industrial development of the country. They have been the significant contributor to the national income, with their huge involvement in country's industrial production, exports, etc. They not only help in providing employment opportunities to millions of people across the country, especially to the village artisans and rural people, but also check the problem of economic concentration in the hands of a few. They create a sound entrepreneurial base in the economy by developing and nurturing the talents, skills, etc. of small and medium scale entrepreneurs. The labour intensity in the MSME sector is estimated to be considerable higher than the large enterprises. Thus, this sector has been regarded a priority status by both the Central and the State Governments. In spite of this, the MSMEs continue to face several problems in their day-to-day operations, that is, in production and marketing of their products. They find it difficult to sell their output at remunerative prices and cannot spend much on advertising, marketing research, etc. They also face stiff competition from large firms. Inadequate infrastructural facilities and access to credit are other major problems. MSMEs are often unable to procure adequate financial resources for the purchase of machinery, equipment and raw materials as well as for meeting day-to-day expenses. Further, they find it difficult to recruit and motivate skilled managerial and technical personnel. They are mainly reluctant to adopt modern methods of organisation and management.

Although the primary responsibility for promotion and development of MSMEs lies with the concerned State/ Union Territory (UT) Governments. But, the Central Government has always taken active interest in supplementing the efforts of State/UT Governments through its various regulations, as MSMEs have huge potential both in terms of creation of wealth and employment as well as for the proper growth of related sectors of the economy. In India, the Ministry of Micro, Small and Medium Enterprises is the main central authority which assist

the States/UTs in their efforts to promote growth and development of MSMEs. It has been implementing several schemes/programmes and policies so as to enhance the global competitiveness of the MSMEs. These relate mainly to simplified systems and procedures, easy access to capital, positioning the MSMEs in the global value chain by enhancing their productivity, technology upgradation, quality improvement, skill development, access to both domestic and international markets, etc.

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 suboptimal 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

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

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 billion, an increase of more than 11% over the previous year.

MSMEs outperform GDP and IIP growth rates

MSMEs have outperformed Index of Industrial Production and Gross Domestic Product 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 billion (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.

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). MSMEs need to be trained in networking skills if they are to gain from the information sharing and marketing opportunities.

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 the various alternatives and a strong appetite for credit risk of their capacity to repay the loans. Besides these, there is need to take decisions regarding develop SME Sector. These are:-

- **Political Affiliations**
 - Though the government is the major customer for MSMEs especially those that supply seed and transport to the government's farm input subsidy programme, stationery, cleaning, construction and tourism services, many MSMEs struggle with their businesses when the political party that supported them is out of government as the party in power normally award contracts to MSME owners who are loyal or connected to it.
- **Access to Real Markets**
 - The lack of capacity to access better and efficient markets that offer good prices affects MSMEs in the country. The problem is exacerbated by lack of market information, poor negotiation powers, non compliance with quality standards and existence of unscrupulous middlemen.
- **To Control on Corruption**
 - Corruption is another ill that is restricting the growth of a vibrant MSME sector in Malawi. Though most MSMEs dislikes corruption, it is the MSMEs themselves using the little resources they have that are perpetuating corruption e.g. to evade taxes and win road construction and maintenance contracts even when they lack the capacity. MSMEs should be encouraged to operate their businesses ethically and delivery high quality products and services in a timely manner to their customers.
- **Compliance to Contract Terms**

Non-compliance with contract terms, e.g. side selling, which is rife in the agricultural sector, scares potential investors and players away from offering market linkages through contract farming. The seasonality of earnings in

the agricultural sector is one factor contributing to side selling. Building the capacity of MSMEs to determine and plan their financial needs would help address this issue.

- **Good Pricing Strategies**

MSMEs are often guilty of poor pricing, e.g. either over or under charging for their products or services. Buckets, plastic bags and weighing scales, some of which can be inaccurate or rigged, are used for pricing goods. Little knowledge of operational and production costs complicate the whole pricing strategy. It can be fascinating to observe how prices for a product in a market can change in a day with differences between 1% to over 50%.

- **Effective Management and Governance Systems**

Many MSMEs are owner managed and usually they lack proper management and governance structures or operating procedures e.g. internal financial control systems, proper reporting structure. They also avoid offering formal employment contracts to their employee. This is the reason most MSMEs are prone to fraud and non compliance risks e.g. with the taxation laws. Improper governance structure impacts the performance of employees who in most cases are not treated fairly by MSME owners.

- **Low Value Addition**

The inability by MSMEs to add value to their products or services deprives them from achieving higher earnings. This tendency is also contributing to increased competition, since customers whose needs have not been met by local products opt for imported goods (and these sadly enough are sometimes of low quality and very expensive). Furthermore, lack of value addition results in high post harvest losses for MSMEs in the agricultural sector as little is done to preserve the products through value addition e.g. tomatoes whose shelf life can be elongated if processed into tomato sauce. Value addition can be achieved relatively cheaply – e.g. the simple machine below can be used to extract oil from groundnuts.

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.
- 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

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 businesses 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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