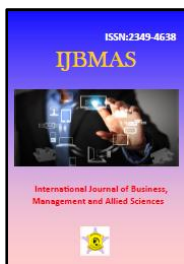

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**A STUDY OF MAJOR PROBLEMS, PROSPECTS AND PERFORMANCE
ASPECTS OF MSME's IN INDIA**

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ABSTRACT

Today worldwide, micro, small and medium enterprises (MSME's) do play a major leading role in propelling sustainable economic growth enhancing livelihood and also promoting equitable regional development. MSME's also contribute to economic development in various ways by creating employment opportunities for both rural and urban population. Besides MSME's also contribute significantly to country's industrial production, highest employment growth as well as exports. Despite an intricate and strict policy framework the progress of MSME's are hampered by few basic constraints which includes lack of technical know-how and skilled manpower, finance accessibility, inadequate in suburban and rural areas. Since 1991, with the introduction of reform measures in India the government has withdrawn many proactive policies for MSME's and introduced promotional policies to increase competitiveness of the sector. In terms of the size of the enterprises MSME's in India is highly heterogeneous with variety of products and services and also levels of technology. It is estimated however in future that in terms of value MSME sector accounts for about 39% of manufacturing output and also around 33% of the total export of the country. Also in recent years MSME sector has consistently registered a higher growth rate compared to overall industrial sector

Keywords: MSME, sustainable economic growth, policy framework, livelihood, skilled manpower

Introduction

Today one of the most vibrant and sensitive sectors in Indian economy is Micro, small and medium enterprises (MSME's). Major significance of micro, small and medium enterprises (MSME's) is attributable to its capacity of employment generation, use of traditional or inherited skill, low capital and technology requirement, mobilization of resources, use of local resources and exportability of products. MSME's by far have been globally considered as an engine of economic

growth and major key instruments for promoting equitable development. Indian economy as such is highly benefitted by the vital role of MSME's by contributing 45% of industrial output, 40% of overall exports employing around 60 million people and also creating 1.3 million jobs every year to produce more than 8000 quality products for both domestic and international markets. An analysis of MSME's contribution towards GDP says that MSME's contributed about 17% to GDP in 2011 and it rose to 22% in 2012. At present there are approximately 30 million MSME units in the country and about 12 million people are expected to join the workforce in the next 3 years or so. In manufacturing and service sectors MSME's are indeed fountain head of several innovations and also act as a major link in supply chain to corporate and PSU's. Rural areas of India can be developed by promoting MSME's which are now exposed to innovativeness and greater opportunities than ever for diversification and expansion across various sectors. Indian entrepreneurs today are making remarkable progress and Indian market as such is also growing rapidly with remarkable progress seen in various industries like precision engineering design, manufacturing, pharmaceutical, food processing, IT and ITES, garments and textile sector, agro processing and service sector.

Definition of MSME's: MSME'S of manufacturing enterprises are classified into micro, small and medium scale enterprises based on the initial amount of investment in plant and machinery which are as follows:

Manufacturing enterprises - Initial investment in plant and machinery		
Description	INR	USD (\$)
Micro enterprises	Upto Rs 25 lakhs	Upto \$ 62,500
Small scale enterprises	Above Rs 25 lakhs and upto 5 crores	Above \$62,500 and upto Rs 1.25 million
Medium enterprises	Above Rs 5 crores and upto Rs 10 crores	Above \$1.25 million and upto \$ 2.5 million

Besides these MSME's of service oriented organizations are classified into micro, small and medium scale enterprises based on the amount of investment and also equipments as follows:

Service enterprises - Investments in equipments		
Description	INR	USD (\$)
Micro enterprises	Upto Rs 10 lakhs	Upto \$ 25,000
Small scale enterprises	Above Rs 10 lakhs and upto Rs 2 crores	Above \$25,000 and upto Rs 0.50020million
Medium enterprises	Above Rs 2 crores and upto Rs 5 crores	Above \$0.5 million and upto \$ 1.5 million

Major objectives of study:

Some of the major objectives of the present study conducted are as follows:

1. Analyze the conceptual framework, growth and performance trends of MSME's in the context of Indian economic development
2. To analyze major opportunities and threats of MSME's in India during liberalization period
3. To reveal the contribution of MSME's towards growth of GDP
4. To analyse various problems of MSME's in India

Methodology adopted for the study: The present study includes secondary data. Secondary data as such is collected from websites of Ministry of small and medium enterprises, Government of India. Relevant information is also collected from various research papers, magazines and journals of National and International publications, annual reports from ministry of MSME's, handbook of statistics of Indian economy and also websites of both public and private sector banks.

Conceptual framework of MSME's: Today MSME's constitute over 90% of the total enterprises in most of the economies and are also credited with generating highest rates of employment growth which account for a major share of industrial production and exports. MSME sector in recent years

has consistently registered higher growth rate when compared to overall industrial sector. In line with provisions of micro, small and medium enterprises development (MSMED) Act of 2006, MSME's are as such classified into two broad categories namely manufacturing and service enterprises

1. Manufacturing enterprises - Refers to those enterprises that which are engaged in manufacture or production of goods pertaining to any industry specified in the first schedule of Industries (Development and Regulation) Act of 1951. Besides the manufacturing enterprises are defined in terms of investment in both plant and machinery.
2. Service enterprises: These are the enterprises which are engaged in rendering and providing services and are also defined in terms of investment in equipment for service/manufacturing enterprises.

Importance of MSME Development Act, 2006

The introduction of new MSME act, 2006 government has tried to resolve some major issues related to MSME's like complicated bureaucratic registration procedures, lack of managerial skills, lack of finance etc. Increasing the significance of the sector is the most important thing the act has done and also offers a clear definition of MSME's. The act also mandated the composition of the national board of MSME with a clear cut long run objective of regulating and overseeing of micro, small and medium enterprises in India. Cluster development, develop infrastructure, and promote financial access and train entrepreneurs to this sector are the broad functions of this board. A strict rule regarding payment of dues by increasing penalties substantially for delay in payment has been framed and worked out according to the MSME act 2006. For instance, the act mandates that all payments should be made within 45 days failing which creditor must pay compound interest which is much higher than the bank rate which is notified by RBI. Registration in MSME sector is voluntary and majority of unregistered firms do constitute a very significant proportion of the overall total. As a result of this proper maintenance of proper records becomes extremely difficult. However new development act of 2006 has made registration process much simpler and less time taking.

Debatable issues which are initiated by MSME Development Act, 2006

Much debate has been initiated by MSMED Act, 2006 which has introduced two policies. Exit policy or Close a business (COB) policy and Procurement preference policy. First policy will determine how much supplies as such should be purchased by the government agencies from MSME's and second policy will determine when and how to close a sick MSME UNIT. First policy as such tends to create a cold war between small and medium enterprises. However a demand for a separate policy exclusively for small units regarding purchasing of supplies. Separate quota for themselves has been asked by many women run small and cottage industries. Hence the issue has taken a complicated shape as such. Two major issues remain unsettled regarding the close of business (COB). First talks about at what level the government should necessarily intervene to close a sick MSME Unit. Second issue is mainly about the relative priorities of different parties associated with the MSME units like shareholders and employees, owners in case of conflict. The act has also expanded the investment range and also has clubbed small and medium enterprises. Also in the process of doing so, it generally considers the 'crowding out' effect of smaller firms within the sector. MSME's have to extend at least 40% of their total portfolio where banks and many other such financial institutions lie. Many of the bigger firms fall into MSME category as the investment level have been increased. The banks also prefer to extend their stipulated percentage of loan to those comparatively bigger firms effectively crowding out smaller firms. Thus some financially strong firms do get benefitted whereas small units again get back to their original position because of lack of working capital. One best possible solution that which can be offered here is to create own priority package for various sectors to negate the crowding off effect of the large firms.

Major opportunities and threats of MSME's in India during liberalization period Policy towards Small-Scale Industries



- Though MSMEs were recognised as important for employment generation and equitable distribution of income from the earliest days of Indian Independence, it appears that the objectives of policies stressing the role of MSMEs are not being realised.
- Since independence in 1947, especially since the late 1950s, development has been wide-ranging, both in terms of programs and regions. Policy measures included inter-alia fiscal concessions, subsidized and directed bank credit, and technical and marketing support, along with reservations of products for exclusive production by the MSME sector.
- These policy measures were in tune with the other policies such as the domestic investment and foreign trade policies that became more restrictive over the years.
- Since the mid-1980s there has been a gradual turnaround in policy, including reforms in the tax system and liberalization of import policy.
- The shift in MSME policy emphasis from protection to the promotion of competitiveness began with the introduction of an exclusive policy for MSME in 1991. Since then, the policy support in the 1990s and early 2000s has been large to enable the MSMEs to overcome key challenges to their performance and growth, namely, finance, technology, and marketing, among others.
- To operate these programs and to monitor their progress, new agencies and institutions have been set up, and the existing ones strengthened at the national, regional, state, and lower levels. There is also a special bank for MSMEs – SIDBI. The SSIs have their own associations and are also represented in the national and state level associations of large-scale industries.

Pre-Liberalization

- During the post-Independence period, small firms were expected to play an important role in the development process, especially in absorbing surplus labor and achieving an equitable income distribution. This is the traditional stylized role assigned to small industries.
- At the beginning of the industrialization process, flexibility in production and the ability to offer differentiated products allow smaller firms to grow rapidly.
- Later, large-scale firms come to dominate the size distribution, making up a greater share of output, employment, and value-added because of scale economies, managerial efficiency, better access to finance and infrastructure, and a favorable tariff structure.

Post-Liberalization

- The growth rate of MSME, on an average, has declined considerably in terms of units and even employment but has improved marginally in terms of output and exports, in the post-liberalization period compared to the pre-liberalization period.
- This could be probably due to – (a) With the threat of competition, new MSME units would not have come up as significantly in the liberalization period as compared to the pre-liberalization period (b) The new MSME units that came up after liberalization may have been much more capital intensive than those that have come up in the past – with some proportions of the existing MSME units having modernized themselves to rely less on labour and also to take advantage of developments in the global market (c) Unable to face the competition some MSMEs exited the market, thereby affecting MSME employment and output initially.
- However, though it appears that the MSME growth performance (in terms of employment, output, and exports) might have suffered initially but it has been able to recover impressively subsequently in the decade of 2000s.
- The share of the registered MSMEs in India's GDP more than doubled during this period and its share in total organized sector employment increased to 34% during the same period. Although the share of registered MSME exports declined sharply initially, it bounced back to 12% in 2006-07.
- The improved economic health of registered MSME sector is reflected in another parameter i.e. industrial sickness. Sickness in the registered MSME sector has declined both absolutely and relatively. This may be the outcome of improvements in management deficiencies, insufficient financial control, research and development, obsolete technology, inadequate demand, shortage of raw materials, infrastructure bottlenecks, etc.

Contribution of MSME towards growth of GDP

Flourishing and going very strongly amidst a rapid and challenging environment, small and medium enterprises (SME's) of India certainly experienced several high and low in the past few years or so. Indian economy is expected to emerge as one of the leading economies in the world and also is likely to become \$5 trillion economy by 2025; there is huge fillip and impetus being given to strengthen backbone of our economy –the SME sector. Comprehending and enhancing the significance of the SME sector vis-à-vis lending numbers to the job market, major contribution to GDP and also fostering entrepreneurship and innovation, numerous other initiatives by our present government have been the highpoints and highlights.

SME Trends in 2017

Rise of SME focused B2B ecommerce: The advent of advanced technology is opening newer channels for businesses across several sectors. This is particularly true for B2B ecommerce firms focused on the Indian SME sector. Hitherto overlooked, the presence of innovative technological platforms is bringing on board a rising number of small players including the neighborhood Kirana store. This is a win-win situation for all involved enabling smoother transactions, procurement of raw materials and industrial goods, and forging a better connection between established brands and small shop owners. With SMEs in India touted to be a \$25.8 billion market for emerging technologies by 2020, the rise of B2B ecommerce is a trend that will certainly gain more momentum in 2017.

Analysis of various problems of MSME's in India:

MSME's do face some major problems. Some of the major ones are discussed below as follows:

- **Poor infrastructure facilities:** MSME's infrastructure is very poor eventough they are developing very rapidly. Their production capacity is also very low while production cost also is pretty high

- **Lack of credit from banks:** Presently getting credit from banks is one of the major problems faced by MSME's. Adequate amount of loan is not provided by banks to MSME's. Banks which provide loans have a lengthy process and much documentation is also required to prove their worthiness and high cost also.
- **Unavailability of raw materials:** For most of the MSME's required quantity of raw materials, skilled workforce and other such inputs are not available in the market. It is hence difficult to produce these products at affordable prices due to unavailability of these essential commodities
- **Lack of advanced technology:** Owner's of MSME's are not adopting innovative channels of marketing. When compared to multinational companies their advertisement and sales promotion are comparatively weaker. Poor marketing channels and ineffective advertisements lead to poor selling in the long run.
- **Complex labour laws and red tapism:** All the laws related to all the aspects of manufacturing and service concern are very complex and compliance with these laws are practically difficult. The various decisions of factory depend upon the factory commissioner and inspector, so there are so many chances of red tape in the operation of MSME'S.
- **Lack of training and skill development program-** The training and development programs in respect of MSME'S development concern is very low .So, skilled manpower is not being available to MSME'S. where the owners are aware of the innovative methods of production there is lack of availability of skilled labour, the skill developmental schemes conducted by the government are not sufficient

Suggestions for improvement of MSME's:

1. A detailed survey should be conducted as such to assess the financial and technical needs of MSME's. Hence in this regard proper arrangement should be made to fulfill needs of MSME's
2. There should be mutual exchange of technologies among MSMEs. A comprehensive list of all sorts of technologies should be prepared and made available accordingly to the MSMEs requiring it.
3. For the purpose of technological advancement and guidance a panel of experts and consultants should be prepared by including owners of different sectors, who can help the MSMEs within the region for effectively transfer the available technologies.
4. There must be conduction of training and development programs by the MSME ministry. The currently running programs are not so effective and sufficient
5. The current knowledge dissemination system is limited in its outreach. There is a need to develop a better communication strategy and use of new age media tools.
6. Availability of credit according to the requirement at cheaper rate.
7. There should be relaxation in complex labor laws to avoid the inconvenience in compliance.
8. There should proper research and development in respect of innovative method of production and service rendering.

Critical Prospects of MSME's: In the field of MSME's huge prospects are available. Some of the major prospects are described below as follows:

1. **Customer satisfaction oriented:** According to needs or expectations of customers MSME's produce goods. Besides they also produce goods considering taste and preferences, likes and dislikes of local consumers. Thus they are more customer oriented
2. **Employment generation-** There is numerous possibilities in the field of manufacturing and service rendering of MSME'S. In recent year, the MSMEs are generating different and ample amount of employment in the field of retail and manufacturing sector. The rate of employment generation extended more by promoting the Indian MSME's

3. **Minimization of regional imbalance**-The MSME'S can be a good vehicle to minimize or remove the regional imbalances. The rural areas of the nation can equally developed through the running of MSME units in such areas. The MSME'S will utilize the work force of rural areas and lead to the removal of regional imbalance.
4. **Enhancement of export**- The MSME'S can be a mean to enhance the export of India. There will be a great demand of Indian product at international level of market. The Indian items like -basmati, toor dal, wooden items and other hand- made souvenir articles highly demanded in the world.
5. **Attracting foreign direct investment**-Though, the Indian MSME'S are the booming field and the growth rate and return on investment is satisfactory. This sector is more responsive than other sector of economy. Therefore, this sector might be a source to attract foreign investment in India.

Conclusion

MSME's should be considered as growth engines of Indian economy to empower them. Besides it is very much necessary to support MSME's, educate and empower them to make optimum utilization of the resources, both human and economic to achieve readily success. MSME's should also be informed and educated of latest developments taking place globally which helps to acquire skills which is very much necessary to keep pace with global developments.

Though, 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 they are providing the uniform development to the society and can be a strong mean to utilize the natural resources of the India. The MSME's are very helpful to remove the regional imbalances if it is established in the underdeveloped areas. However, presently, Indian MSME'S are facing the various problems at different levels. The MSME owners are not innovative and their entrepreneurial skills are very low. Ultimately, the government is not providing any types of satisfactory training or skill development schemes. The problem of unawareness towards technological advancement can removed after running effective training and skill development programs. There should be low cost credit to the MSME'S. The foreign banks are not taking so much interest in sanctioning loan to the MSME sector. The outstanding bank credit is less than 50% of total fixed assets employed in MSME'S while the owners invest their own fund in working capital. The rules and regulations related to labor laws must be relaxed. The panel of experts must constitute to assess the status and the needs of the MSME'S. The future of MSME sector in India is bright and it will grow the economy.

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