



SURVIVAL OF MSME SECTOR IN COMPETITIVE MARKET

By

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Abstract: Micro, Small and Medium Enterprises constitute the backbone of an economy in maintaining an appreciable growth rate and in generating employment opportunities in the world. This sector has been regarded as engine of economic growth of any country and social development in many developed and developing countries including India. Contribution of MSMEs to the Indian economy in terms of employment generation, containing regional disparities, fostering equitable economic growth and enhancing export potential of the country has been quite phenomenal. Despite some infrastructural deficiencies and challenges like flow of institutional credit and inadequate market linkages, this sector has registered remarkable success with regard to increase in number, quantum of investment, scale of production and overall contribution to national GDP. The study makes an attempt to focus on the huge growth potential and opportunities available in India for development of MSME sector, to identify important issues and challenges and offer suggestions to address the same for SURVIVAL OF MSME SECTOR IN COMPETITIVE MARKET.

Keywords: Competitive Market Micro, small & medium enterprises (MSME), growth potential, challenges, market linkages.

INTRODUCTION:

Micro, small and medium enterprises (MSMEs) in India and abroad have demonstrated considerable strength and resilience in maintaining a consistent rate of growth and employment generation during the global recession and economic slowdown. Indian economy during the recent years has shown an appreciable growth performance by contributing to creation of livelihood opportunities to millions of people, in enhancing the export potential and in increasing the overall economic growth of the country. Prompt and appropriate fiscal stimulus, effective monetary policy and huge capital inflows were greatly instrumental in the bounce back situation of the economy^[1] As a catalyst for socio-economic transformation of the country, the MSME sector is extremely crucial in addressing the national objectives of bridging the rural-urban divide, reducing poverty and generating employment to the teeming millions. It is therefore, essential that India adopts a suitable policy framework that provides the required impetus to seize the opportunities and create an enabling business environment in order to keep the momentum of growth and holistic development. It is equally important that the MSME sector must address the infrastructural deficiencies and is well empowered to meet the emerging challenges for its sustainable growth and survival in a globally competitive order.^[2]

OBJECTIVES OF THE STUDY:

The objectives of this study are to briefly highlight on the functional scenario of micro, small and medium enterprises and its Competitiveness in India, to focus on the huge growth potential and opportunities available for development of this sector; to identify some important issues, challenges and constraints confronted by these enterprises and to offer suggestions to overcome the same.

METHODOLOGY:

The study involves a critical analysis of functioning of some micro, small and medium scale enterprises in the country both in manufacturing and service sector and intends to identify the potentialities for growth, opportunities, major issues and challenges experienced by these enterprises.

The data are collected mostly from secondary sources by way of access to various Government policies/ programs including published Annual Reports, Journals, Books and available official websites. The primary data are based on analysis of structured questionnaire and interview of entrepreneurs, industry workers and other stake-holders^[3].

MSMEs as an Indian Perspective

Micro, Small and Medium Enterprises in India offer a heterogeneous and varied nature of fabric in terms of the size and structure of the units, variety of products and services, scale of production and application of technology. These enterprises are quite complementary to the large scale industries as ancillary units. They contribute to the socio-economic development of the country quite significantly. The MSMEs in India constitute about 80% of the total number of industries and produce about 8,000 value added products.^[4] An appropriate definition of Micro, Small and Medium Enterprises and their proper classification in a national or international context offers a varied perspective. The term 'MSME' is normally used to describe small industrial or business units in private sector. MSMEs have been classified differently in different contexts in terms of their nature of assets and scale of production etc. while others have defined those units in term of employment generation, shareholder funds, scale of investment or sale of products etc. The definition according to the World Bank is that, a business classified as MSMEs when it meets two of the three criteria i.e. employee strength, size of assets or annual sales. The enactment of Micro, Small & Medium Enterprises Development (MSMED) Act, in 2006 by the Government of India (GOI) gave a legal basis and framework to the micro, small and medium enterprises by defining and classifying these enterprisers on a uniform basis. This classification covers industries both under manufacturing and service sector and the above limits are excluding the cost of land, building and other specified items. The growth and development of MSME sector in our country has been consistent and remarkable over the preceding decades^[5].

The Government of India has introduced several major policy initiatives for support and promotion of micro, small & medium enterprises in the country. These include; establishment of Small Industries Development Bank of India (SIDBI) in 1990 for promotion and financing of MSME sector, Credit Guarantee Fund Trust of Micro and Small Enterprises (CGTMSE) was in 2000 to offer credit facilities to eligible borrowers and the Prime Minister's Employment Generation Programme (PMEGP) in 2008 to generate employment opportunities in rural and urban areas through new self-employment ventures / projects / micro enterprises^[6]. This sector contributes 45%-50% of the Indian exports out of which direct export accounts for nearly 35% and indirect 15% to the total exports. Needless to emphasize that while the organized industrial sector with large scale industries requires substantial amount of investment for generation of employment, the MSME sector creates larger employment opportunities with

POTENTIALITIES FOR GROWTH: OPPORTUNITIES

Micro, Small and Medium Enterprises have some contributed to the economic development towards country. The MSME sector in India occupies the second position next alone to agriculture in terms of employment generation. This sector accounts for about 95% of the industrial units, 45% of manufacturing output, 40% of exports total exports of the country. MSMEs have greater opportunities to grow as ancillary industries to unleash higher industrial growth. MSMEs being less capital intensive and more employment-friendly have easier access to raw materials, subsidies and other incentives under cluster programs. The country has huge growth potential to create and enhance the capacity of enterprises both in the manufacturing and service sector by using the available resources^[7]. There are huge opportunities for the MSMEs to grow as ancillary industries to unleash greater industrial growth. The growth can be increased investment in infrastructure, abundant job opportunities, emergence of a robust private sector with small and big companies/ corporate houses and high rise in consumerism. The MSME sector has the potentialities to emerge as the backbone of Indian economy and to continue as an engine of growth provided an environment-friendly policy framework and enabling infrastructural support are made available for its functional operations.

This sector has been performing appreciably better than the overall rate of GDP (average 8% growth per annum) and the overall industrial output (measured by Index of Industrial Production-IIP) and the Indian MSME sector globally competitive to address the emerging challenges and help ensure their sustainability^[8]. The roadmap for MSME development should include a target for increase in the share of their contribution from the present 8% to 20% by 2022, a substantial increase in generation of employment avenues up to 50%, an enhancement in MSME contribution in the key public and private industry sector by meeting the growing domestic demand, indigenization and important substitution and growth in foreign exports^[9].

The recent 'Make in India' initiative by Government of India would make a substantial impact in the area of indigenization and would also attract sizable foreign investment. Similarly, the 'Digital India' program offers huge opportunities to MSMEs to participate in big way in the Information and Communication Technology (ICT) sector^[10].

ISSUES AND CHALLENGES:

In spite of the pivotal role and strategic importance in the context of industrial development and economic growth of the country, the MSME sector experiences several constraints and challenges. Several key issues remain to be addressed properly and measures yet to be taken in the interest of sustainable industrial development. Identified some key issues are: i) Equity as a source of financing is underutilized and the prevalence of investment by venture capital and angel investors is low, ii) MSMEs face the problem of delayed payments from their buyers which adversely impacts their working capital as well as

their next cycle of production, iii) MSMEs lack adequate information about various schemes and benefits available by the government, iv) Financial institutions/Banks face challenges in credit risk assessment of MSMEs, v) The utilization of the available credit guarantee and insurance schemes by banks has been low^[12].

Some of the major challenges confronted by these enterprises include; lack of adequate credit and capital, poor and inadequate infrastructural facilities, inadequate access and marketing linkages, technological obsolescence and inadequate application of new technology, lack of skilled human resources, dilatory and cumbersome regulatory practices for clearance and poor adaptability to emerging international trends^[13].

- **Lack of Adequate Capital and Credit** : One of the greatest challenges which constrain the growth of MSMEs in our country relates to inadequate capital and credit facilities.
- **Poor and Inadequate Infrastructural Facilities**: Deficiencies in the infrastructure and poor support facilities marked by inadequate access to basic facilities like water, power supply, road/rail connectivity etc. adversely affect this sector and contribute to enhance their operational cost by rendering the MSMEs less competitive in the challenging market situations.
- **Inadequate Access and Marketing Linkages**: Poor marketing linkages characterized by inadequate Government support and patronage, lack of adequate marketing infrastructure/ network facilities continue to be a greater challenge for marketing and sale of MSME products^[14].
- **Lack of Skilled Human Resources**: Non-availability of skilled workforce and better managerial/entrepreneurial expertise at affordable cost near the location of enterprises is another such big challenge for the MSMEs in our country. Lack of managerial competence, absence of proper training on resource planning and capital management etc. hinders the growth of enterprises.
- **Lack of Access to New Technology**: Most of the industries today require application of advanced technology in their operations whereas in the Indian context continuance of low technology base results in low productivity by making these enterprises uncompetitive in the ever-widening market contexts.
- **Dilatory and Cumbersome Regulatory Practices** : Cumbersome and dilatory regulatory clearances relating to sanction and disbursement of loans from commercial banks, collateral securities/guarantees, for construction permits, resolving insolvency and taxation etc. continue to be the constraining factors for many MSMEs^[15].

SUGGESTIONS

Although the performance of the MSME sector has been commendable over the years in terms of employment generation, growth of exports and in bringing about social transformation, a lot more need to be done for their continued growth and sustained development. Various measures to resolves issues and constraints to make path for their growth and success are suggested as under:

i) **Easy Access to Finance and Credit** : Institutional finance/credit from banks and other financing institutions should be promptly available without long and cumbersome procedures. Sanction of credit / loan applications by public sector banks should be made within a reasonable time frame at affordable and reduced rate of interest.

ii) **Stepping up Infrastructural and Support Facilities**: Deficiencies in basic infrastructural facilities like water, power supply, road/rail and telephone connectivity, etc. should be addressed on priority basis. Use of solar or renewable energy as an alternative source should be encouraged in rural areas on subsidized basis.

iii) **Creation of adequate Marketing Linkages** : For enhancing sale of products, regular trade fairs/exhibitions etc. should be conducted for creation of a larger platform for better marketing facilities. The Govt. of India policy regarding 20% mandatory procurement of MSME products by government Departments/ State PSUs should be ensured.

iv) **Skill Development and Capacity Building**: Initiatives should be taken for skill / competency development of human resources. Infrastructural and professional support from Rural Self Employment Training Institutes (RSETI) and suitable training institutes may be obtained for conducting training of entrepreneurs and workers engaged in different activities.

v) **Access to Modern Tools and Technology**: MSMEs today need to adopt and adhere to quality parameters of international standards in the context of a globalized market. Technological obsolescence should be replaced by adoption of modern and latest tools and technology for increased productivity and quality product for competitive advantage.

vi) **Policy Intervention and Support Mechanisms:** Industry-friendly policies should be initiated by the government for promoting infrastructural support facilities and for easy availability of finance by the scheduled banks.

CONCLUSION:

MSMEs over the years have assumed greater significance in our burgeoning national economy by contributing to employment generation and rural industrialization. This sector possesses enough potential and possibilities to push- button accelerated industrial growth in our developing economy and well poised to support national programme like 'Make in India'.

This sector has exhibited enough resilience to sustain itself on the strength of our traditional skills and expertise and by infusion of new technologies, capital and innovative marketing strategies. Appropriate strategies should be evolved for creation of an enabling ecosystem where these enterprises are able to access the benefits meant for themselves under a formal and friendly ecosystem and are further capable of meeting the emerging challenges of a globally competitive order.

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