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## ECONOMIC ROLE OF MSMEs IN INDIA

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### ABSTRACT

India is expected to emerge as one of the leading economies in the world over the next decade. The MSME sector is expected to play a vital role in the emergence of the Indian economy. The development of the said MSME segment extremely crucial to meet the national imperatives of financial inclusion and generation of significant levels of employment across the country. MSMEs are acknowledged as the backbone of the Indian economy, drastically increasing the share of contribution to GDP from the current level of 7 % to 15% by 2020. Generate employment levels to the level of 50% of the overall employment, more than the current MSME workforce force of 106 million across agricultural, manufacturing and services sectors. Several policy interventions along with technology and innovation will continue to play a pivotal role in creating a business friendly atmosphere for the SMEs. Thus it is more critical to focus on development of MSME sector employees.

**Key words:** Economic, Role and MSMEs

## 1.1 Introduction

There are approximately 46 million Micro, Small and Medium Enterprise sector enterprises across various industries employing 106 million people. Overall the MSME sector accounts for 45 percent of Indian Industrial output and 40 percent of exports. While most of the sector is un-organised, informal and un-registered. The contribution of the MSME sector to India's GDP currently stands at 7% and growing at a rate higher than the projected GDP growth rate. The contribution of MSME segment to the GDP in some of the global economies is in the 25-60% range. MSME in India has the potential to enhance the share of contribution to GDP from the current 7% to about 15% by the year 2020. The MSME sector is driven by individual creativity. A major strength of the sector is, its potential for greater innovation both in terms of products and process. While we have large pool of human resources, this sector continues to shortage of skilled manpower due to lack of paying capacity and poor managerial capabilities. The MSME in the country need to learn the best of class manufacturing and marketing practices from across the world.

## 1.2 Review of literature

Popli and Rao (2009) in their article entitled "An Empirical Study of SMEs in Electronics Industry in India: Retrospect & Prospects in Post WTO Era" conducted a Study and analysed that Small and Medium Enterprises (SME) have been globally accepted as crucial components of a domestic economy and major contributor to employment generation in a country, regardless of global barriers. SMEs form the lifeblood of any vibrant economy. In an emerging economy like India, SMEs have a considerable socio-economic role to ensure overall development of the nation. Further, the study reiterate the need to upgrade technology in the Indian SME Sector and developing a strong and supportive environment.

Van de Vrande et al. (2009) argue that most SMEs face challenges that are related with organizational and cultural issues to deal with the increased external contacts. These challenges include venturing, customer involvement, external networking, research and development (R&D) outsourcing and external participations. Moreover, SMEs in developing countries face different challenges from the SMEs in developed countries.

Wynarczyk (2013) said that in the international competitiveness, SMEs are highly dependent on two key internal components - R&D capacity, and managerial structure and competencies, and two external factors – open innovation practices and the ability of the firm to attract government grants for R&D and technological development.

Grimaldi et al. (2013) explored the critical dynamic capabilities of SMEs in the innovation process. They found that SMEs with strong sensing, seizing and configuring capabilities are more tending to develop open innovation process.

The study by Carlson, Upton and Seaman (2006\*) drew on a sample of 168 family-owned fast-growing SMEs in the United States to examine the impact of HR practices and compensation design on performance. Examining the consequences of five HR practices on sales growth and performance, the results propose that competitive

compensation together with training and development, recruitment packages, maintaining morale and use of performance appraisals were more significant for high sales-growth performing firms than for low sales-growth performing firms. In addition, high sales-growth firms were found to make better use of incentive compensation in the form of cash, non-cash and benefits at every level in the organization.

### 1.3 Objectives of the Study

- ❖ To identify the economic role of MSMEs in India.
- ❖ To investigate the merits and demerits of MSMEs in India.

### 1.4 Methodology of the Study

The present study is based on the secondary data. The secondary data are collected from the various websites. The study is based on the Indian Economic growth (GDP) and highlights the roll of MSME sector.

The MSME sector, comprising of manufacturing, infrastructure, service industry, food processing, packaging, chemicals and IT, has emerged as the most vibrant and dynamic engine of growth of Indian economy over the past few decades.

**Number of SMEs in India:** The number is estimated to be at 46 million, registered & unregistered together. A astounding 95% of the total industrial units in the country.

**SME & Employment opportunity:** Employs about 106 million, 40% of India's work force. Next only to the agricultural sector.

**Products:** Products more than 6000 products.

**GDP Contribution:** Currently around 7% of the manufacturing GDP and 24.63% of the Service sector GDP.

**SME Output:** 45% of the total Indian manufacturing output.

**SME Exports:** 40% of the total exports

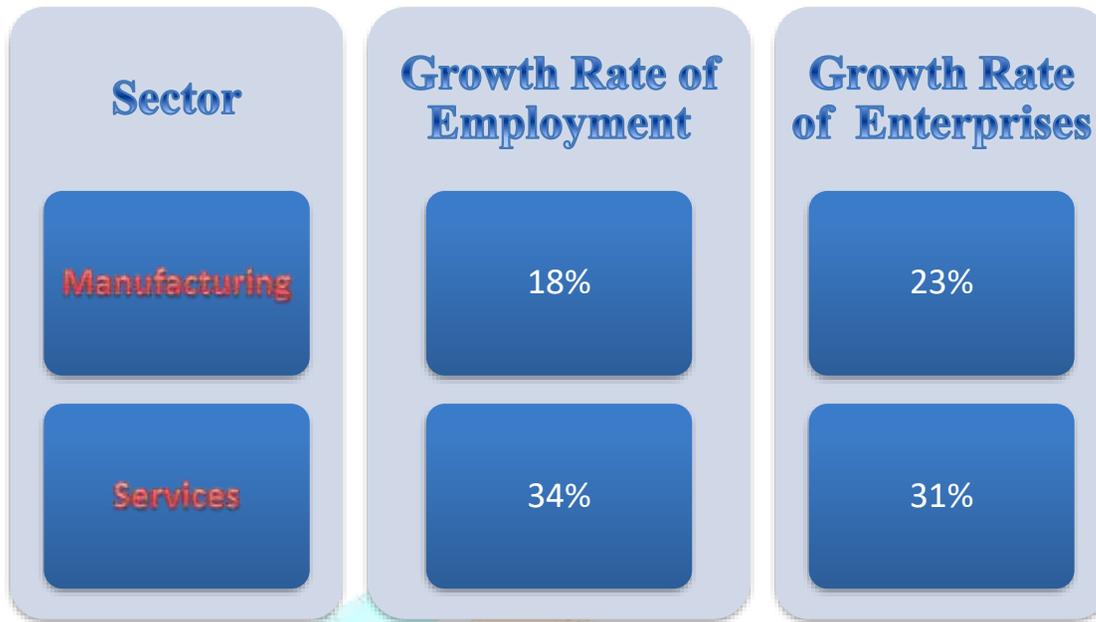
**Bank Lending:** Accounts for 16% of bank lending

**Fixed Assets:** Current fixed assess at INR 1,471,912.94 crore.

**SME Growth Rate:** Has maintained an average growth rate of over 10%.

With the increase in MSME contribution to the GDP there is a potential to enhance its contribution to employment to over 50 % over the next decade. MSME sector can provide relatively larger employment opportunities at reasonably lower capital cost especially in the rural and remote areas. India needs to generate 10 to 15 million job opportunities per year over the next decade to prove gainful employment to its population. Current MSME employment is at 40% of the overall employment. MSMEs account for a large share of industrial units. The total number of enterprises in MSME sector was 46 million with total employment of 106 million.

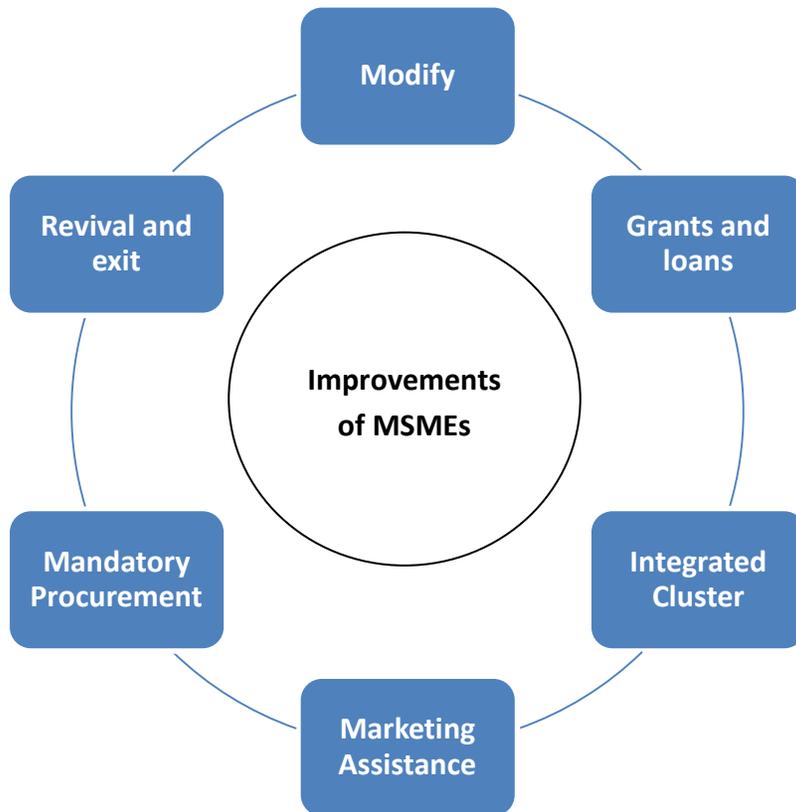
## 1.5 MSME – Growth rate



## 1.6 Economic Development of MSMEs

- ❖ The medium, small, and micro enterprises play a vital role in ensuring the goals such as balancing regional development, and equality of income, economic.
- ❖ The scanty investment in comparison to the large-scale public and private enterprises, the MSMEs turn out to be more efficient, thus providing enlargement employment opportunities at the low cost.
- ❖ The employment intensity of medium, small and micro enterprises is estimated to be four times greater when compared with other large enterprises.
- ❖ 36 million INR SMEs generate 80 million employment opportunities, which thereby contributes 8% of the GDP, and 45% of total manufacturing output, lastly 40% of the exports from the country. Basically, India is creating around 8000 value-added products.
- ❖ The effects of the large enterprise are limited as compared to the small industries wherein ‘fruits of percolation’ of economic growth are highly visible.
- ❖ The large enterprise is busy creating the island of growth and prosperity in the aspect of poverty, on the other hand, a small enterprise is successful in providing the social goals through equitable growth.
- ❖ It helped in the industrialization of backward and rural areas, by assuring equal distribution and reducing imbalances.
- ❖ Urban area around 857,000 enterprises accounted for almost 54.7% of the total working enterprises in ‘Registered MSME’ sector whereas in rural areas somewhere around 707,000 enterprises are located.
- ❖ Another criterion is – small industries help the large industries by supplying them with ancillary products.

## 1.7 Improvements of MSMEs



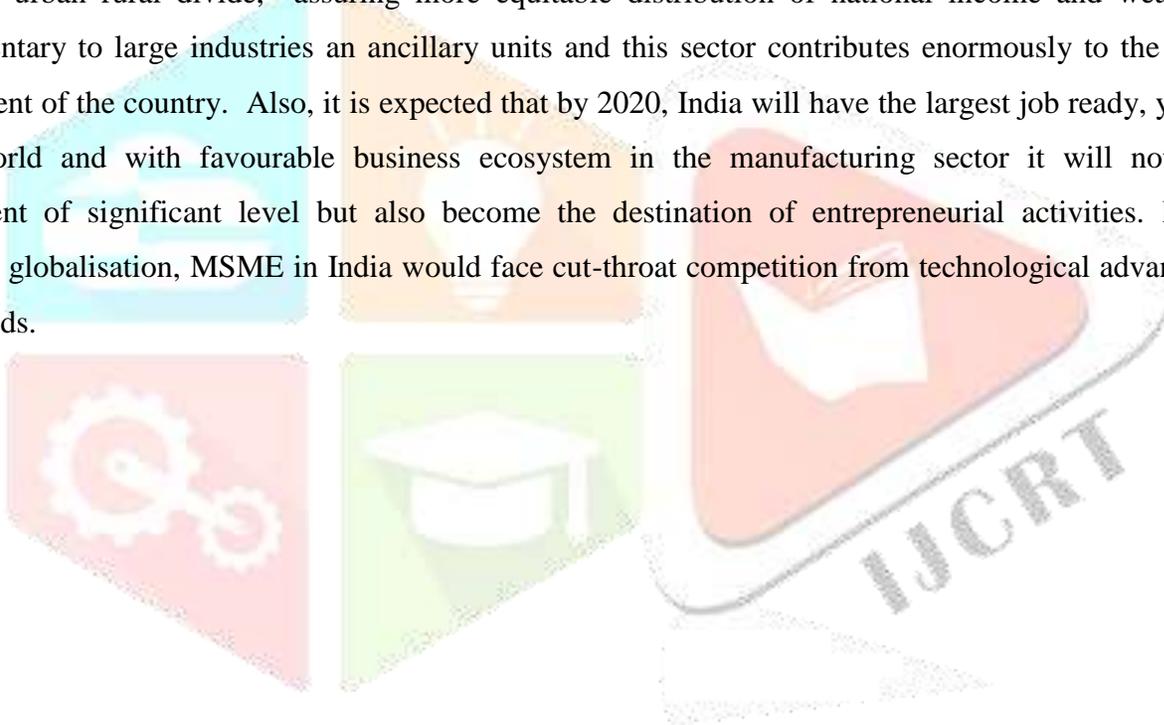
## 1.8 Difficulties of MSMEs

- ❖ The High-interest rates charged and collateral requirements by banks are one of the major issues when MSMEs want to raise their capital
- ❖ Equity capital also has only limited access. The reason behind this is that most of the investors do not risk investing in unknown/small companies.
- ❖ Market access for MSMEs is still very limited. This is due to lack of capital and various other reasons they cannot tap profitable export markets.
- ❖ Revival mechanism for sick companies is virtually non-existent in the MSME sector, therefore a company never gets a chance to reinvent itself and become profitable.
- ❖ Outdated technology and innovation can be one of the issues since the use of such technology impedes MSMEs' competitiveness and growth.
- ❖ The need for skill development and training has not been addressed adequately which can be another issue.
- ❖ Marketing and Procurement of raw materials and lack of market information due to lack of awareness and financial assistance are constrained in this sector.
- ❖ For MSME's required raw material skilled work force and other inputs, which are not available in the market. Due to unavailability of these resources, it becomes very difficult to produce the products at affordable prices.

- ❖ The MSME'S are not adopting the innovative channels of marketing. Their advertisement and sales promotion are comparatively weaker as compared to the multinational companies. The ineffective advertisement and poor marketing channels lead to a very poor selling.
- ❖ All the laws related to all aspects of manufacturing and service concern are very complex and compliance with the laws are practically difficult. The various decisions of a factory are depended upon the factory commissioner and inspector, so there are so many chances of red tape in the operation of MSME'S.

## 1.9 Conclusion

MSME sector has emerged as highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play fundamental role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialisation of rural and backward areas, thereby, mitigating urban rural divide, assuring more equitable distribution of national income and wealth. SMEs are complementary to large industries an ancillary units and this sector contributes enormously to the socio-economic development of the country. Also, it is expected that by 2020, India will have the largest job ready, youth population in the world and with favourable business ecosystem in the manufacturing sector it will not only generate employment of significant level but also become the destination of entrepreneurial activities. In the event of increasing globalisation, MSME in India would face cut-throat competition from technological advance industries of distant lands.



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