



Challenges and Issues in Micro, Small and Medium Enterprises (MSMEs) in India: A Current Scenario of Economic Growth

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ABSTRACT

In the recent years, a number of emerging issues are posing serious challenges to the micro small and medium sized enterprises (MSME's) in India. Hence, these enterprises enter the new era, faced with dramatic challenges such as constraints in establishing new enterprises, globalization, financial constraints, indeterminate turnover, low motivation among employees, lack of human capital building etc., Hence understanding the problems and challenges are fundamental solutions to expand and strategize SME's towards their future growth. This article examines the background and challenges faced by SMEs which play a vital role in the nation's economic growth. The uniqueness of this paper is the emphasis on the human resource development perspective which is important for the progress SMEs and their competitiveness. This article maps out how future research can be crucial to SME's to actually develop their own human resource development for future development.

KEYWORDS : Economic Growth, Global Market, Liberalization, Globalisation

Introduction

The Micro, Small and Medium enterprises (MSMEs) segment is considered as the engine of economic growth in 21st century and the vital link in promoting equitable development at all levels around the world. There may be many categories of countries (Developed, Developing and Under Developed), but the existence and expansion of MSMEs is inevitable for economic and social progress. The major advantage of the sector is its pivotal role through its contribution to Industrial output, exports, and most importantly in employment generation at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. 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.

India SMEs represent the model of socio-economic policies of Government, which emphasise job creation at all levels of income stratum and diffusion of economic power in the hands of few, thereby discouraging monopolistic practices of production and marketing; and in all prospects contributing to growth of economy and foreign exchange earning with low import-intensive operations. Indian SMEs also play a significant role in Nation development through notable contribution to Domestic Production, Significant Export Earnings, Low Investment Requirements, Operational Flexibility, Location Wise Mobility, Low Intensive Imports, Capacities to Develop Appropriate Indigenous Technology, Import Substitution, Contribution towards Defense Production, Technology – Oriented Industries, Competitiveness in Domestic and Export Markets thereby generating new entrepreneurs by providing knowledge and training. Despite their high enthusiasm and inherent capabilities to grow, SMEs in India are also facing a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent and uncertain market scenario. SMEs that are innovative, inventive, international in their business outlook, have a strong technological base; competitive spirit and a willingness to restructure themselves can withstand the present challenges and come out successfully and continue to contribute more than 22% to GDP.

Definition of MSMEs in India Manufacturing Enterprises

Enterprises	Investment in Plant & Machinery
Micro Enterprises	Upto Rs. 25Lakh
Small Enterprises	Above Rs. 25 Lakh & upto Rs. 5 Crore
Medium Enterprises	Above Rs. 5 Crore & upto Rs. 10 Crore

Source:- Government of India, Ministry of MSME

Service Enterprises

Enterprises	Investment in Equipments
Micro Enterprises	Upto Rs. 10Lakh
Small Enterprises	Above Rs. 10 Lakh & upto Rs. 2 Crore
Medium Enterprises	Above Rs. 2 Crore & upto Rs. 5 Crore

Source: Government of India, Ministry of MSME

As per the report of the working group on Micro, Small and Medium Enterprises (MSMEs) growth for 12th Five Year Plan (2012-2017), the sector accounts 45 % of the manufacturing output and 40% of total exports of the country. The sector provides employment to about 69 million persons through 26 million enterprises throughout the country. Over 8000 products ranging from traditional to high-tech items are being manufactured by the MSME in the country. The labour to capital ratio in MSMEs and the overall growth in the sector is much higher than in the large industries.

Challenges of Globalisation & Liberalisation for MSEs in India:

In the Liberalisation and Globalisation of the Indian economy, the Small Enterprises in India have unprecedented opportunities on the one hand, and face serious challenges, on the other. While access to global market has offered a host of business opportunities in the form of new target markets, possibilities to exploit technological advantage, etc., the challenges in this process have emerged mainly from their scale of operation, technological obsolescence, and inability to access institutional credit and intense competition in marketing.

The Micro Small and Medium Enterprises Development (MSMED) Act, 2006 has been formulated as a response to the long-standing demand of the MSEs sector, the emergent need to provide a legal framework to address the developmental concerns of what is globally known as "small and medium enterprises". The Act, inter-alia, provides the first-ever legal framework to facilitate the promotion and development of micro, small and medium enterprises (MSME), which comprises both manufacturing and services entities. It defines 'medium enterprises' for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. Establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/ programmes for this purpose, progressive credit policies and practice, more effective mechanism for mitigating the problems of delayed payments to MSEs, etc. are some of the other features of this Act. The Ministry of MSME has also taken a view, in the light of liberalized provisions of the MSMED Act, 2006 to do away with the restrictive 24 per cent ceiling prescribed for equity holdings by industrial undertakings, whether domestic or foreign, in the erstwhile Small Scale Industries (now SMEs). This coupled with an expected legislation on Limited

Liability Partnership (introduced in the Parliament by the Ministry of Corporate Affairs) is expected to pave the way for greater corporatisation of the Small & Medium Enterprises.

PROBLEMS OF SME'S IN INDIA

Small and Medium Enterprises (SMEs) are often confronted with problems that is uncommon to the larger companies and multi-national corporations. Presently, the Indian SME'S are facing different types of problems. Most of the problems are controllable while rests are uncontrollable.

Lack of credit from banks-The MSME'S are presently facing the problems of credit availability from the banks. The banks are not providing the adequate amount of loan to the MSME'S. The loan providing process of the banks is very long and formalistic. The owners of the MSME'S has to produce different types of documents to prove their worthiness.

Competition from multinational companies- In present era of globalization, the MSME'S are facing the great from the international manufacturing companies who are proving quality goods at cheapest price. Therefore, it is very difficult to compete with the multinational companies.

Poor infrastructure-Though, MSME'S are developing rapidly, their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high.

Unavailability of raw material and other inputs- For MSME's, required raw material skilled work force and other inputs are not adequately available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices. In the context of skilled labour, it is even more difficult to retain them.

Lack of advanced technology-The owners of MSME'S are not aware of advanced technologies of production. Their methods of production are outdated. The owners are using older methods in the field of fabricated metal and textile. Moreover, good IT personnel are expensive and may not be affordable by most SMEs.

Lack of distribution of marketing channels-The MSME'S are not adopting the innovative channels of marketing. Their advertisement and sales promotion are comparatively weaker than the multinational companies. The ineffective advertisement and poor marketing channels leads to lower sales.

Lack of training and skill development program- The training and development programs in respect of MSME'S development concern is very low. Therefore required skilled manpower is not being available to MSME'S. The owners are unaware of the innovative methods of production. The skill developmental schemes conducted by the government are not sufficient.

Complex labor laws and red-tape: All the laws related to the various aspects of manufacturing and service concern are very complex and compliance with these laws are practically difficult. The various decisions of factory are dependent upon the factory commissioner and inspector, so there are so many chances of red tape interference and delays in the operation of MSME'S.

SUGGESTIONS FOR IMPROVEMENT

According to our study and the annual reports of MSME'S, the following suggestions for the growth and development of the MSMEs in India may be considered:

Mutual Supply of Technologies: A number of appropriate technologies for the MSME sector have been developed in various sectors. While each MSME has its areas of strengths and weaknesses, it would be mutually valuable if newly developed technologies made available to each other.

Constitution of a Panel of Consultants: For the purpose of technological advancement and guidance, creation of a panel of experts and consultants who can help the MSMEs within the region for effectively transfer the available technologies may be done. The constitution of the panel of these consultants could be made based on the nature of the activities of the MSME.

Determination of Technological Needs: There should be detailed survey to assess the technical and financial needs of the MSME. So that, the proper arrangement could be made to fulfill the needs of the MSME'S.

Training and development, awareness programs: There must be conduction of training and development programs by the MSME ministry. The currently running programs are not so effective and sufficient. One of the important reasons for slow intake in the utilization of schemes is the lack of knowledge about schemes and their likely benefits.

Sufficient availability of the credit- Our banking system does not provide sufficient amount of credit to fulfill their requirement of establishment of MSME and as well as not for the operational activities. Therefore, there must be availability of credit according to the requirement at cheaper rate.

Relaxation in labor laws and -There should be relaxation in complex labor laws to avoid the inconvenience in compliance. In present scenario there are 114 uniform labor laws applicable to each MSME. They should provide for the smooth running of the concern and not to create a problem for them. Every effort must do to avoid the unnecessary red tape inconveniences.

Proper research and development: There should proper research and development in respect of innovative methods of production and service rendering. These innovative production methods will provide for the enhanced quality of products and enable the MSME'S to cope up with the competitive situation.

Conclusion

The role of Small and Medium Enterprises (SMEs) in the economic and social development of the country is well established. They have emerged as a vibrant and dynamic component of the economy by virtue of their significant contribution to GDP, industrial production and exports. However, the most important contribution of this sector is towards employment generation which is second only to agriculture in India. The major advantage of the sector is its employment potential at low capital cost. It is well known that the SME sector constitutes the spine of the nation; small industry has been one of the major pillars of India's economic development strategy since Independence.

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