



A Pivotal Role of SMEs in India

Ms Jahnvi K. Dubal

Asst Professor, Shree Swaminarayan Institute of Management and It, Porbandar

ABSTRACT

The Small and Medium enterprises play a vital role in the Indian economic structure due to its significant contribution in terms of output, exports and employment. For a developing nation like India, where the labour is abundant and capital is scarce, the small sector is a major source of employment for millions of people. Keeping in view the importance of SMEs, the Indian government has included this sector in its five-year plans. The SMEs are still hampered by the problems of finance, marketing and low quality. Taking into account the enormous potential of the small sector, the entrepreneurs and the policy-makers must act collectively to facilitate growth in this sector.

KEYWORDS : SMEs, industrial sector, India, economy and labour.

1. Introduction:

Small and Medium Enterprises is an integral part of the Indian industrial sector. The distinctive feature of Small and Medium Enterprises (SMEs) are less capital investment and high labour absorption which has created unprecedented importance to this sector. As per the Development Commissioner of Micro, Small and Medium Enterprises (2001), the sector has the credit of being the second highest in employment, which stands next to agricultural sector. The nature of the businesses in this sector plays an important role to alleviate poverty and propel sustainable growth and equitable distribution of income in India. The SMEs play an important role in efficiently allocating the enormous labor supply and scarce capital by implementing labour intensive production processes. SME triggers private ownership, boosts entrepreneurial skills and their flexibility in responding quickly to changing market demand and supply conditions are noteworthy.

Small and medium-sized enterprises are businesses whose personnel numbers fall below certain limits. The abbreviation "SME" is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO). Small enterprises outnumber large companies by a wide margin and also employ many more people. SMEs are also said to be responsible for driving innovation and competition in many economic sectors.

Petrakis and Kostis (2012) explore the role of interpersonal trust and knowledge in the number of small and medium enterprises. They conclude that knowledge positively affects the number of SMEs, which in turn, positively affects interpersonal trust. Note that the empirical results indicate that interpersonal trust does not affect the number of SMEs. Therefore, although knowledge development can reinforce SMEs, trust becomes widespread in a society when the number of SMEs is greater.

1.1 Micro, Small and Medium Enterprises Development (MSMED) Act 2006:

The Micro, Small and Medium Enterprises Development (MSMED) Act 2006 facilitate the development of the enterprises and enhance their competitiveness. The act provides legal framework for "enterprise" which includes the manufacturing and service entities. The definition of medium enterprises is given for the first time. It integrates the three tiers of the enterprises namely, micro, small and medium. Annual report of Micro, Small and Medium Enterprises of India (2011) states that, MSMED Act 2006 was enacted to address issues affecting Micro, Small and Medium Enterprises (MSMEs) and to cover the investment ceiling of the sector. The salient features of the Act includes, setting up of a National Board for MSMEs, classification of enterprises, advisory committees for promotion, development and enhancement of MSMEs, schemes to control delayed payments to MSMEs and enactment of rules by state governments to implement the MSMED Act, 2006 in their respective states.

2. Importance of SMEs

The importance of small and medium enterprises (SMEs) is well understood by national economies. World over half to two-thirds of all businesses are SMEs and in many regions this proportion is much higher. SMEs are capable of creating jobs with least amount of capital and in dispersed locations which makes SMEs attractive to policy makers. However they remain as a heterogeneous group, in different organizational structures ranging from proprietorship to corporate, engages in factories to service organizations activities and with different definition in different countries and in some countries they differ from industry to industry. The heterogeneous nature and small size needs adequate support from organized intermediaries. These intermediaries exist in every country in different forms. SMEs development agencies such as Small Business Administration (SBA) of the US, Small Business Service (SBS) of United Kingdom and SIDO (Small Industries Development Organization) in India are the intermediaries set up by the Government.

SMEs are the backbone of Indian Economy. Small and Medium Enterprises (SMEs) have played a vital role in India's economic growth. With over 30 million units, SMEs accounted for 17 per cent of the country's GDP in 2011. Small & Medium Business Development Chamber of India projects the share of SMEs in the expansion of the Indian economy to increase to 22 per cent of the GDP in 2012. The estimate is backed by its assumption of 12 million additional people joining the SME sector over the period 2012-14; SME units currently employ 60 million people. The units in India are classified under the MSME (Micro, Small and Medium Enterprise) category on the basis of their investment size. Manufacturing enterprises are classified with respect to their investment in plant and machinery, while the classification of service enterprises is based on investment in equipment.

SMEs trends

According to the Ministry Of Micro, Small and Medium Enterprises, the number of MSME units in India has grown at a CAGR of 4.5 per cent during FY07 – FY11, and stood at 31.2 million at the end of FY11. The cumulative investments in these units rose at a CAGR of 11.5 per cent during the same period. Strong growth in total investments in MSMEs indicates towards their expanding footprint and growing importance. The MSMEs are increasingly contributing towards employment generation in India. The number of people employed by MSME has grown to 73.2 million during FY11 recording a CAGR of 5.3 per cent since FY07.

2.1 Supporting agencies of SMEs:

Some of the important organizations that are associated with SMEs in India are: Small Industries Development Organization (SIDO), National Small Industries Corporation Ltd. (NSIC), Small Industries Development Bank of India (SIDBI), Confederation of Indian Industry (CII), Federation of Indian Chamber of Commerce and Industry (FICCI), Associated Chamber of Commerce and Industry of India (ASSOCHAM), National Institute of Small-Industry Extension Training (NISJET), World Association for Small and Medium Enterprises (WASME), Small Scale

Industries Board (SSIB), PHD Chamber of Commerce and Industry (PHDCCI), Federation of Indian Exporters Organization (FIEO), Federation of Associations of Small Industries of India (FASII), Consortium of Women Entrepreneurs of India (CWEL), Indian Council of Small Industries (ICSI), Indian Institute of Entrepreneurship (IIE), National Institute for Entrepreneurship and Small Business Development (NIESBUD) and Small Entrepreneurs Promotion and Training Institute (SEPTI)

3. Contribution of SMEs:

The contribution of individual SMEs are small but collectively they have emerged as a dominant player in the national economies. The unprecedented importance of Small and Medium Enterprises in India is due to the maximum number of units and its employment opportunities. This sector plays a significant role in the development and employment to minorities, backward class people and also to women. Annual report of Ministry of MSME (2010-11) show that, in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 59 million people in over 26 million units throughout the country. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the Micro, Small and Medium enterprises in India.

The benefits of the SMEs have created a special status and importance in the Five-Year Plans right from its inception. In recent years, the MSME sector has consistent higher growth rate compared to the overall industrial sector. In this globalised environment the government of India has felt that, there is a need to enhance the global competitiveness of the MSMEs by simplifying systems and procedures, easy access to capital and taking the MSMEs in the global value chain by increasing their productivity. To promote and develop the MSMEs, the government has implemented several schemes to cater to the needs of the sector.

The attractiveness of SMEs can be summed up as, SMEs are usually started by a single or a group of people mainly to earn their livelihood, flexibility in deciding the price and product with response to the market changes, incur lower overheads thus reducing the cost of production up to a certain volume, capable of meeting the niche market requirements and also export their products in small quantity, create 80% of the jobs, found to be labor intensive compared to the larger counterparts, utilize the manpower locally, located in the dispersed location and emerge as "clusters" for similar kind of units. The dispersed location of SMEs has attracted from national and regional policy

4. Factors affecting SMEs:

MSMEs in India face several problems such as, lack of availability of adequate and timely credit, high cost of credit, lack of collateral requirements, limited access to equity capital, problems in supply to government departments and agencies, procurement of raw materials at a competitive price, issues of storage, designing, packaging and product display, lack of access to global markets, inadequate infrastructure facilities like power, water and roads, low technology and lack of access to modern technology, problems of skilled labour for manufacturing, services and marketing, multiplicity of labour laws and complicated procedures, absence of a suitable mechanism which enables the quick revival of sick enterprises and measures to close down the unviable entities and issues relating to direct and indirect taxation and their procedures

The government policy towards SMEs may either encourage or discourage further expansion. India offers attractive incentives to small enterprises but these measures backfire beyond a specified level leading to loss in valued benefits (Little et al, 1987; Mitra and Pingali, 1999). SMEs lack export competitiveness due to product reservation, regulatory policies at the entry and exit stages, lack of sufficient finance at affordable interest rates, rigid labour markets and infrastructure issues like power tariff and lack of export infrastructure

5. Conclusion:

In India SMEs has achieved steady growth over the last couple of years. The role of SMEs in the industrial sector is growing rapidly and they have become a thrust area for future growth. The Indian market is growing and the Indian industry is making rapid progress in various Industries like manufacturing, food processing, textile and garments, retail, precision engineering, information technology, pharmaceuticals, agro and service sectors. Under the changing economic scenario the SMEs have both the opportunities and challenges before them. The support given by the national and the state governments to the SMEs is not adequate enough to solve their problems. However for the sector to fully utilize its potential, it is essential that the entrepreneurs along with the government support take necessary steps for further development. It is quite evident that, nurturing this sector is essential for the economic well-being of the nation.

REFERENCES

1. Chandra, S., (2004), Small Industries Development Organization (SIDO) in Global perspective, *Laghu Udyog Samachar: Journal of Small Scale Industries* |
2. Das, B., Shil, N.C., and Pramanik, A., (2007), Strengthening SMEs to make export competitive, |
3. Ghatak, S., (2009), Micro, Small and Medium Enterprises (MSMEs) in India: An Appraisal |
4. Little, I. M.D., Mazumdar, D., and Page, Jr., J.W., (1987), Small manufacturing enterprises: |
5. Mitra, R., and Pingali, V., (1999), Analysis of growth stages in small firms: A case study of automobile ancillaries in India, *Journal of Small Business Management* |
6. Rai, D., (2009), Development Policies for Micro, Small and Medium Enterprises (MSMEs) in India, *Laghu Udyog Samachar: Journal of Small Scale Industries* |
7. Laghu Udyog Bharti. (n.d), The Indian Small Scale Sector: An Overview |