



# Innovation And Indian MSMEs: Emerging Challenges and Opportunities

**KEYWORDS**

MSME-DIs – Micro, Small & Medium Enterprises – Development Institute

**M.Pramila Devi**

**Dr. S. Ramachandran**

RESEARCH SCHOLAR, BHARATH UNIVERSITY

RESEARCH GUIDE, DIRECTOR – DEPARTMENT OF MANAGEMENT STUDIES, BHARATH UNIVERSITY

**ABSTRACT**

Indian MSMEs are facing tough competition from their global counterparts due to liberalization, change in manufacturing strategies and uncertain market scenario. The article would like to probe the level and context of innovation in the Indian MSMEs and the emerging challenges and opportunities to leverage the innovations for the growth of MSMEs in India. MSMEs primarily need access to new technologies. Apart from poor financial situations, low level of R&D, poor adaptability to changing trade trends, non-availability of technically trained human resources, lack of management skills and access to technological information are some of the reasons that are blocking the growth of MSMEs. Micro Small and Medium enterprises (MSMEs) have played an important play a role in the growth of the domestic economy for long. As the process of globalisation and liberalisation gathers momentum across the globe, MSMEs are facing tremendous challenges to survive and sustain.

**INTRODUCTION**

Micro, Small & Medium Enterprises (MSMEs) are defined in the act as

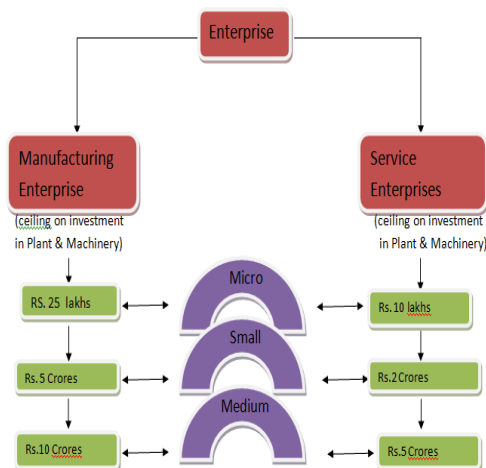
Micro, Small & Medium Enterprises Development(MSMED) Act 2006

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.

In accordance with the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act 2006, the Micro, Small & Medium Enterprises (MSME) are classified into manufacturing enterprises and service enterprises:

**Manufacturing Enterprises:** The enterprises engaged in the manufacture or production of goods. The manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

**Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.



**MSMEs categorized based on the number of employees:-**

	No. of employees
Micro	1 - 9 employees
Small	10 - 99 employees
Medium	100 - 199 employees
Large	More than 200 employees

Micro, Small and medium-scale enterprises (MSMEs) occupy an important and strategic place in economic growth and equitable development in all countries, constituting as high as 90% of enterprises in most countries worldwide; MSMEs are the driving force behind a large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports. Their contribution to poverty reduction and wider distribution of wealth in developing economies cannot be underrated. Although MSMEs make up the vast majority of companies around the world, in each country the total percentage of the workforce they employ varies. But the fact remains that they constitute a sizeable chunk of enterprises.

MSMEs in India, which constitute more than 80% of the total number of Industrial enterprises, are skill in technological backwaters. They suffer from problems of sub-optimal scales of operation and technological obsolescence.

MSMEs primarily need access to new technologies. Apart from poor financial situations, low level of R&D, poor adaptability to changing trade trends, non-availability of technically trained human resources, lack of management skills and access to technological information are some of the reasons that are blocking the growth of MSMEs.

MSMEs have been established in almost all major sectors in the industry such as:

- Food Processing
- Agricultural Inputs
- Chemicals and Pharmaceuticals
- Electro-medical equipment
- Engineering : Electricals; Electronics
- Leather and Leather goods
- Meat Products
- Bio-engineering
- Sports goods

- Plastic products
- Computer Software etc,

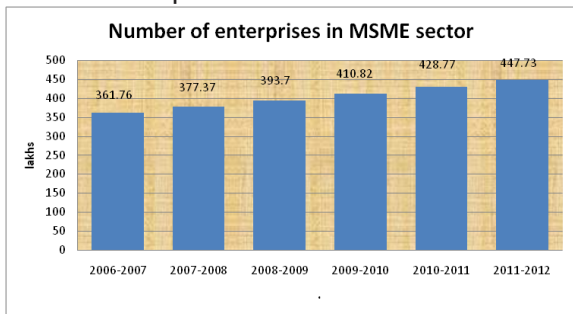
The micro small and medium sector is widely regarded as engine of the Indian economy. Small and medium enterprises contribute to the industrial, economic, technological and regional development in all developed and developing countries. The contribution of MSME's in the industrial development of the country has been remarkable. At the state level, the government has placed the major role in ensuring growth by establishing various institutions to support this sectors.

**Performance of MSMEs in India**

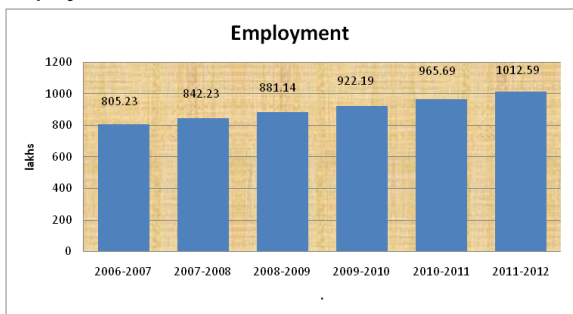
Sl. No.	year	Total working Enterprise (in Lakhs)	Employment (in Lakhs)
1	2006-2007	361.76	805.23
2	2007-2008	377.37	842.23
3	2008-2009	393.70	881.14
4	2009-2010	410.82	922.19
5	2010-2011	428.77	965.69
6	2011-2012	447.73	1012.59

Source : MSME Development Institute, Chennai

**Charts showing statistics of the sector  
Number of enterprises in MSME sector.**



**Employment in MSME Sector**



**Barriers/Challenges to Innovation**

Micro, Small and Medium enterprises (MSMEs) have played an important play a role in the growth of the domestic economy for long. As the process of globalisation and liberalisation gathers momentum across the globe, MSMEs are facing tremendous challenges to survive and sustain. The following are some of the challenges faced by the MSMEs. They are as under: .

**Managerial Barriers:**

- lack of education,
- Lack of professionalism,
- Lack of control,
- Poor adaptability to changing trade trends,
- Lack of management skills.
- Inadequate exposure to International Environment

**Financial Barriers:**

- Inadequate and non-timely availability of finance,
- Low Research & Development investment,
- lack of effective collection of debts and lack of financial planning.

**Technological Barriers:**

- Non-Availability of technically trained human resources ,
- Lack of access to technological information and consulting services.

**OPPORTUNITIES FOR FACILITATING INNOVATION**

To enable SME's to mitigate these problems and enhance their access to new technologies for increasing their competitiveness in the market , it is imperative to give them a conducive environment and the Government has taken lots of active measures facilitate the process of innovation of Indian MSMEs. Some of them are explained as under.

**GOVERNMENT PROMOTIONAL SCHEMES**

Government accords the highest preference to development of MSME by framing and implementing suitable policies and promotional schemes. Besides providing developed land and sheds to the entrepreneurs on actual cost basis with appropriate infrastructure, special schemes have been designed for specific purposes like quality upgradation, common facilities, entrepreneurship development and consultancy services at nominal charges.

Government of India has been executing the incentive scheme for providing reimbursement of charges for acquiring ISO 9000 certification to the extent of 75% of the cost subject to a maximum of Rs. 75,000/- in each case ISO 9000 is a mechanism to facilitate adoption of consistent management practices and production technique as decided by the entrepreneur himself. The facilitates achievement of desired level of quality while keeping check on production process and management of the enterprise.

MSME units with a turnover of Rs.1 crore or less per year have been exempted from payment of Excise Duty. Moreover there is a general scheme of excise exemption for MSME brought out by the Ministry of Finance which covers most of the items. Under this, units having turnover of less than Rs. 3 crores are eligible for concessional rate of Excise Duty. Moreover, there is an exemption from Excise Duty for MSME units producing branded goods in rural areas.

Credit to micro, small and medium scale sector has been covered under priority sector lending by banks. Small Industries Development Bank of India (SIDBI) has been established as the apex institution for financing the MSME. Specific schemes have been designed for implementation through SIDBI, SFCs, Scheduled Banks, SIDCs and NSIC etc., Loans up to Rs. 5 lakhs are made available by the banks without insisting on collaterals. Further Credit Guarantee Fund for micro, small and medium enterprises has been set up to provide guarantee for loans to MSMEs up to Rs.25 lakhs extended by Commercial Banks and some Regional Rural Bank. All the State Government provide technical and other support services to small units through their Directorates of Industries and District Industries Centres.

With globalisation all forms of production of goods and services are getting increasingly fragmented across countries and enterprises. With large players adopting different models of business that include involvement of their traditional partners, suppliers or distributors at a different level, MSME are now experiencing a new model of functioning in the value chain. The past few have seen the role of the MSME segment evolve from traditional manufacturer in the domestic market to that of an international partner.

**CONCLUSION**

The restructuring of production at the international level

through increased outsourcing is having significant effects on small and medium entrepreneurs in a positive, as well as negative manner. Now-a-days organisations are knowledge based and their success and survival depend on creativity and innovation. The rate of changes is accelerating rapidly, as new knowledge idea generation and global diffusion are increasing. Creativity and innovation have a bigger role in this change process of survival.

**REFERENCE**

1. Entrepreneurial development text book by Jayshree Suresh | 2. A Guide book for New Entrepreneurs by Govt. Of India, Ministry of Micro, Small and Medium Enterprises, Guindy, Chennai | 3. Southern Economist – 48th year of publication, New Delhi. | 4. [www.msmedi-chennai.gov.in](http://www.msmedi-chennai.gov.in) |