



Micro, Small and Medium Enterprises in India- Gaining Sustained Competitive Advantage with Special Reference to Resource-based view of Firms

KEYWORDS

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INTRODUCTION

Entrepreneurship is regarded as closely associated with economic history of India. Accordingly the evolution of Entrepreneurship in India is traced way back to ever as early as Rigveda when metal handicrafts existed in the country. Over the years Entrepreneurship has passed through several upheavals. Entrepreneurship as a distinct factor of production contributes to the economic development of an economy. There have been as many definitions of Entrepreneurship as there have been writers on the subject. If we examine the common elements in these definitions, we might find the characteristics viz., creativity and innovation, resource gathering and the finding of an economic organization, the chance for gain (or increase) under risk and uncertainty. In Indian context, the definition of Entrepreneurship given by the National Knowledge Commission, Govt. of India is more appropriate. According to them, "Entrepreneurship is the professional application of knowledge, skills and competencies and/or monitoring a new idea by an individual or a set of people by launching an enterprise de novo or diversifying from an existing one (Distinct from seeking self employment as is profession or trade) thus to pursue growth while generating wealth employment and social good."

This paper attempts to look into the resource based theory of Entrepreneurship and types of strategic resource choice in Micro, Small and Medium Enterprises (MSMEs).

OBJECTIVE OF THE STUDY

- (1) To assess the role of MSME in economic development in India.
- (2) To study the policy initiatives of India for the growth and development of MSME.
- (3) To emphasize shifting from the interface between strategy and external environments towards the interface between strategy and internal environment of MSME sector.
- (4) To suggest the resource based view of firm strategy formulation for gaining sustained competitive advantage (SCA) in MSME.

MICRO, SMALL AND MEDIUM ENTERPRISE (MSME)

The micro, small and medium enterprise play an imperative role in the economic expansion of the country and casual to a momentous proportion of production exports and employments. The governmental has initiated several policies for the growth and development of MSME sector. Post liberalisation economic conditions have created immense growth prospect for Micro, Small and Medium Enterprises. The MSMEs in India are acting as power and spirit of economic growth in the 21st century.

MICRO, SMALL AND MEDIUM ENTERPRISE DEVELOPMENT (MSMED) ACT 2006

The Micro, Small and Medium Enterprise 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 tire of the enterprises namely Micro, Small and medium (Development Commission of MSME, 2009). Annual report of micro, small and medium enterprise 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 silent feature 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. According to the new MSMEs Act 2006, definition of MSMEs in India is as given as in Table-1

Table-1

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five core rupees

SIZE OF THE REGISTERED MSMEs

The size of the registered MSMEs is provisionally estimated to be 15,52,491 of the total working enterprises, the proportion of Micro, Small and Medium Enterprises were 95.05%, 4.74% and 0.21% respectively. This comprises 66.67% manufacturing enterprises and 33.33% service enterprises particularly in respect of MSMEs are given in Table-2

Table-2

SIZE OF THE REGISTERED MSMEs SECTOR

Particular of Working Enterprise	Micro	Small	Medium	Total
Number of Manufacturing Enterprise	974609	57666	2828	1035103
Number of Service Enterprise	501072	15915	402	517389
Total Number of MSMEs	1475681	73581	3230	1552492
% distribution of Total Units	95.05	4.74	0.21	100.00
% of Share of Manufacturing Units	94.16	5.57	0.27	66.67
% of Share of Service Units	96.85	3.08	0.08	33.33

Source; Govt. of India, Ministry of MSME, Annual Report 2009-2010

FACTORS AFFECTING MSMEs

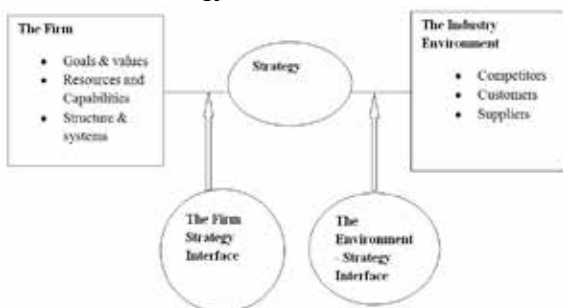
MSMEs in India face several problems such as lack of availability of adequate and timely credit, high cost of credit, lack of collateral requirements, limited access to equity capital, problems in supply to govt. departments and agencies, procurement of raw materials at a competitive prices, issues of storage, designing, packaging and product display, lack of access to global markets, inadequate infrastructure facilities like power, water and roads, low technology and 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 (Report of Prime Minister's Task Force 2010)

THE ROLE OF RESOURCES AND CAPABILITIES IN STRATEGY FORMULATION IN MSMEs

MSME suffers from several problems as discussed in previous section. All MSMEs should identify the mass structural features of an industry that influence competitor and profitability. The strategy of MSMEs should shift from the interface between strategy and the external environment towards the interface between strategy and the internal environment of the firm-more specifically, with the resources and capabilities of the firm which is presented in Figure.

Increasing emphasis on the role of resources and capabilities as the basis for strategy is the result of two factors. First, as MSMEs industry environments have become more unstable, so internal resources and capabilities rather than external market focus has been viewed as a secure base for formulating strategy. Second, it has become increasingly apparent that competitive advantage rather than industry attractiveness is the primary source of superior profitability.

Figure:-1 Analyzing resources and capabilities: The interface between strategy and firm



BASING STRATEGY ON RESOURCE AND CAPABILITIES

During the 1990's, ideas concerning the role of resources and capabilities as the principal basis for firm strategy and the primary source of profitability coalesced into what has become known as the resource-based views of the firm. To understand why the resource-based views has had a major impact on strategy thinking, let us go back to the strategy point for strategy formulation; typically some statement of the firm's identity and purpose (often expressed in a mission statement). Conventionally, firms have answered the question "What is our business?" in terms of the market they serve: "Who are our customers?" and "Which of their needs are we seeking to serve?". However, in a world where customers preferences are violated and the identity of the customers and the technologies for serving them are changing, a market-focused strategy may not provide the stability and consistency of direction needed to guide strategy over the long term. When external environment is in a state of flux, the firm itself, in terms of its bundle of resources and capabilities, may be a much more stable basis on which to define its identity.

In there 1990 land mark paper "The core competency of the corporation" C.K.Prahallad and Gary Hanel pointed to the potential for capabilities to be the roots of competitiveness,

source of new products and formulation for strategy.

RESOURCE AND CAPABILITIES AS SOURCE OF PROFIT

The industries have identified two major sources of superior profitability: industry attractiveness and competitive advantage. Of these competitive advantage is more important. Internationalization and deregulation have increased competitive pressure within most sectors; as a result few industries (or segments) often cozy refuges from vigorous competition. Hence, establishing competitive advantage through the development and deployment of resources and capabilities, rather than seeking shelter from the storm of competitor has become the primary goal for strategy.

The direction between industry attractiveness and competitive advantage (based on superior resources) as a sources of firm's profitability corresponds to economists' distinction between different types of profit (or rent). The profits arising from market power are referred to as monopoly rents; those arising from superior resources are Ricardian rents, after the 19th century British economist David Ricardo. Ricardo showed that, even when the market for wheat was competitive, fertile land would yield high returns. Ricrdian rent is return earned by a scare resource over and above the cost of brining it into production.

In practice, distinguishing between profit arising from market power and profit arising from resource superiority is less clear in practice than in principle. A closer look at Porter's five forces framework suggests that industry attractiveness derives ultimately from the ownership of resources.

Barriers to entry, for example, are the result of patents, brands, distribution channels, learning or some other resource possessed by incumbent firms. Similarly, the lack of rivalry firm the dominance of a single firm (monopoly) or a few firms (oligopoly) is usually based on the concentrated ownership of key resources such as technology, manufacturing facilities or distribution facilities.

The resources based approach has profound implications for MSMEs strategy formulation, when primary concern of strategy was industry selection and positioning companies tended to adopt similar strategies. The resources-based view, by contrast emphasizes the uniqueness of each company and suggest that the key to profitability is not through doing the same as other firms, but rather through exploiting differences. Establishing competitive advantage involves formulating and implementing a strategy that exploits the uniqueness of a firm's portfolio of resources and capabilities. Fundamental to a resource-based view of firms to strategy is recognizing that MSMEs must seek a through and profound understanding of its resource and capabilities. Such understanding provides a basis for:

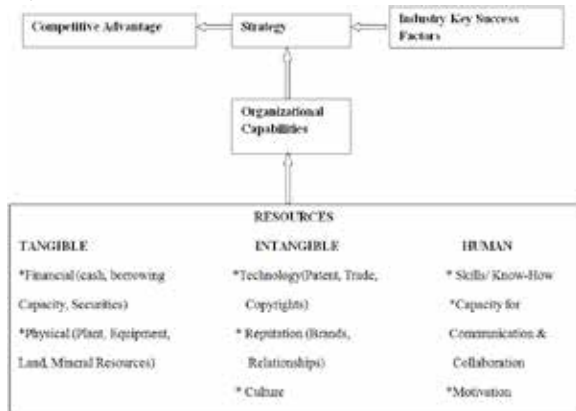
- (1) Selecting a strategy that exploits an organization's key strength. Walt Disney's turnaround strategy under Michael Eisner's leadership was the result of exploiting its underlying resources more effectively.
- (2) Developing the firm's resource and capabilities, resource analysis is not just about deploying existing resources, it is also concerned with filling resource gaps and building capability for the future. Toyota, Microsoft, Johnson & Johnson and British Petroleum are all companies whose long term success owes much to their commitment to nurturing talent, developing technologies, and building capabilities that allow adaptability to their changing business environments.

THE RESOURCE OF THE FIRM

The present paper attempts to distinguish between the resource and the capabilities of the firm: resources are the productive assets owned by the firm; Capabilities are what the firm can do. Individual resources do not confer competitive advantage, they must work together to create organizational

capability. It is capability that is the essence of superior performance. Figure-2 shows the relationship among resource, capabilities and competitive advantage.

Figure:-2



Conclusion

MSME in India has been confronted with an increasingly competitive environment, the resources based view of firm can develop a strategic competitive advantage to compete with competitors in long

APPRAISING RESOURCES AND CAPABILITIES

The present paper has so far establish what resources and capabilities are, how they can provide a long-term focus for a MSMEs strategy and how can go about identifying them. The present paper attempts to appraise the potential for resources and capabilities to earn profit for the firm.

The profit that a firm obtains from its resources and capabilities depend on three factors: their abilities to establish a competitive advantage, to sustain that competitive advantage and to appropriate the returns to that competitive advantage. Figure-3 shows the key relationships.

Figure-3 Apprising the strategic importance of resource and capabilities



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