

## The Role of Entrepreneurs in the Sme Sector: A Conceptual Analysis - Indian Scenario



## Management

**KEYWORDS :** Goitre, iodine deficiency, urinary iodine excretion

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### ABSTRACT

*Posing as a dominant agrarian economy at the time of independence, India today looks brighter as one of the emerging economies of the world. During the British rule, the entrepreneurial spirit was subdued in India, witnessed GDP growth rate of 0.9% during the first half of the 20th century. It was only the Swadeshi Movement and boycott of foreign goods in the first quarter of the last century that took place to realize the place of entrepreneurs and small industry in the developing consciousness of modern and free India.*

*Historical data on Small Scale Industries (SSI), now termed as Small Enterprises (SE) and made part of SME, reveals that SSIs in India constitutes 90 % of the units, 40% of the value addition and 80 % of employment of the total manufacturing sector. This vibrant segment of the Indian economy, has been contributing over 39% of the manufacturing sector out put, 33% of the national exports and providing employment to nearly 312 lakh people in both rural and urban areas across the country.*

*Comparing the growth of Small & Medium Enterprises over a period of 10 years (1994-2003), some of the significant improvement areas. The number of SME units has risen by over 40%. The production increased from Rs.2,98,886 crores in 1994-95 to Rs.7,63,013 crores in 2002-03, an increase by over 150%. The employment generation has grown by over 40% Exports from SME have risen by nearly 3 times in 2003 compared to that in 1994. In the liberalized trade environment, the global village is the market for the SMEs. It is imminent for the SMEs to compete in the international market particularly in terms of quality, cost and promotion. SMEs are great opportunities for the Country to improve the GDP. The Government of India has identified SME sector as thrust area and given various policy guidelines for promoting SME sector in our Country. Availability of timely and adequate finance to SMEs being the critical factor, the Government has initiated significant policy changes to facilitate flow of credit to SME Sector leading to contribution of the economic development of the country.*

### INTRODUCTION - HISTORICAL PERSPECTIVE:

Posing as a dominant agrarian economy at the time of independence, India today looks brighter as one of the emerging economies of the world. Had it not been for the policymakers, this transition would not have been possible so fast.

During the British rule, the entrepreneurial spirit was subdued in India. The long colonial rule witnessed GDP growth rate of 0.9% during the first half of the 20th century. During this time, as an after effect of the Industrial Revolution, the Europeans were expanding their colonial rule all over the world in search of raw material for their factories and markets for the products of these factories. India missed the Industrial Revolution, as the foreign rulers would not allow the Indian Entrepreneurship to flourish. It was only the Swadeshi Movement and boycott of foreign goods in the first quarter of the last century that took place to realize the place of entrepreneurs and small industry in the developing consciousness of modern and free India.

In all developed market economies the SME sector represents the basis of economic development. Experiences in governing the development of SME, their number, positive influence on the growth of GDP and GDP per capita, high relative participation of the employees in SME sector in the total number of the employed in highly developed countries, all point out that the strategic goal on the national, republic, regional and local level should be governing the growth of this sector.

One of the main goals of economic policy should be the advancement of institutional conditions and economical-systemic environment in order to provide the most efficient support to the SME sector, in order to open new employment possibilities, increase the degree of flexibility and speed up economic growth of the country. These developments in the SME sectors intun lead to the faster growth economic development of the whole country and number of issues related to Economical and Social can be solved easily.

The small-scale sector flourished notably as ancillary to large industries, as a robust export sector and under the policy of reservation of some products for small scale. The GDP growth rate had improved substantially to 3.5%. Government has brought a paradigm shift in its approach to the sector. Small enterprises, which were earlier called Small Scale Industries (SSI) are now Small and Medium Enterprises (SMEs). With the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, the importance of service enterprises and the need for migration of small enterprises to medium enterprises has been clearly brought out.

The definition of small-scale industries, ancillary industrial undertakings and various sub sectors of SSI have undergone several changes over the period. The SSI sector covers wide range of enterprises with diverse characteristics. The Small Scale Industries comprises of those undertakings, which are engaged in manufacture, processing or preservation of goods and in which investment in plant, & machinery (original cost) does not exceed Rs 1 crore. These would include units engaged in mining, quarrying, servicing and repairing of machinery.

### Revised Definitions of SSI (Small Scale Industries) to SME (Small and Medium Enterprise):

With the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 and notified on October 2, 2006, the definition of the micro, small and medium enterprises has undergone change.

**Manufacturing Enterprises** - Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

- A Micro Enterprise is an enterprise where investment in plant and machinery *does not exceed* Rs.25 lakh;
- Khadi and Village Industries Sector (KVI) - All advances granted to units in the KVI sector, irrespective of their size

of Operations, location and amount of original investment in Plant & Machinery to be considered as advances extended to Micro Enterprises sector.

⊙ A Small Enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building) is *more than* Rs.25 lakh but *does not exceed* Rs.5 crore.

⊙ A Medium Enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building) is *more than* Rs.5 crore but *does not exceed* Rs.10 crore.

**Service Enterprises** -Enterprises engaged in providing or rendering of services including services such as Small Road and Water Transport Operators/Road Transport Operators (SRTO/ RTO), Business Enterprises, Professional & Self Employed Persons and any other service as specified below:

⊙ A Micro Enterprise is an enterprise where the investment in equipment (original cost excluding land & building and furniture, fittings and other items not directly related to the service rendered) *does not exceed* Rs.10 lakh;

⊙ A Small Enterprise is an enterprise where the investment in equipment (original cost excluding land & building and furniture, fittings and other items not directly related to the service rendered) is *more than* Rs.10 lakh but *does not exceed* Rs.2 crore; and

⊙ A Medium Enterprise is an enterprise where the investment in equipment (original cost excluding land & building and furniture, fittings and other items not directly related to the service rendered) is *more than* Rs. 2 crore but *does not exceed* Rs. 5 crore.

#### ROLE OF SMALL & MEDIUM ENTERPRISES (SMES) IN THE ECONOMY

Small and Medium enterprises are critical to the nation's economy on account of:

- SMEs contributes to the economic development of the country,
- SMEs are found efficient in manufacturing and providing of services, High contribution to domestic production
- SMEs have great market and Capacities to develop appropriate indigenous technology,
- Perceive market chances better and can cater to rural markets,
- Provide new jobs – increase employment, decrease unemployment,
- Provide logistic support to large companies,
- They are found more inventive in design and development of new product and services
- Competitiveness in domestic and export markets
- Significant export earnings and import substitution

#### The Main Social advantages of SME sector are:

- Develop the spirit of entrepreneurship makes to he people to be more independent
- Establish better relationships with business partners and Stake holders of the company
- Will create a pleasant work atmosphere and interpersonal relationships,
- Leads to the development of the local community,
- Some of SMEs are into producing of Handicrafts, Horticulture, Nursery, this is pollution free and subsidizes the environmental problems

- These units produce a wide range of items, employing traditional to state of the art technology. Historical data on Small Scale Industries (SSI), now termed as Small Enterprises (SE) and made part of SME, reveals that SSIs in India constitutes 90 % of the units, 40% of the value addition and 80 % of employment of the total manufacturing sector. This vibrant segment of the Indian economy ,has been contributing over 39% of the manufacturing sector out put,33% of the national exports and providing employment to nearly 312 lakh people in both rural and urban areas across the country.

#### In addition, most owners of SME, point out the following as special difficulties (limitations) in doing business:

- Lack of Professionalism, Managerial skill to make business plans;
- Lack of specialized knowledge about contemporary manufacturing, marketing, R& D etc.;
- Lack of various resources – skilled work force, modern manufacturing equipment, Infrastructure
- Low investment activities or lack of funds for investment into development;
- High cost of work, insufficient manufacturing, productivity, as well as inappropriate, and frequently non-existent quality control;
- Lack of entrepreneurial culture and entrepreneurial spirit;
- Low ecological awareness etc.
- Inability to face of WTO regime and inadequate exposure to international environment

In spite of the limitations, the growth in SME has been very significant. Comparing the growth of Small & Medium Enterprises over a period of 10 years (1994-2003), the following are some of the significant improvement areas:

- a. The number of SME units has risen by over 40%.
- b. The production increased from Rs.2,98,886 crores in 1994-95 to Rs.7,63,013 crores in 2002-03, an increase by over 150%.
- c. The employment generation has grown by over 40%
- d. Exports from SME have risen by nearly 3 times in 2003 compared to that in 1994.

#### THE ROLE OF GOVERNMENT IN ENCHANTMENT OF THE SME SECTORS:

SMES, being the growth engines of Indian economy, have always been feeling the need for obtaining liberal funding of their operations by financial institutions and banks. Understanding the inherent strengths of the SMEs, the government as well as financial institutions has always been playing a supportive role in their development.

The SMEs are also vitally important to bankers and to policy makers. For the Bankers, it represents a large and growing opportunity. The Emerging Markets Banking Revenue is estimated at over \$40 Billion. For the Policy makers, it is an effective means to achieve high employment as it employs over 50% of labour force, high economic growth as its share in the GDP is 50-60%, culture of entrepreneurship, wider tax base for earning revenue and alleviation of poverty.

In order to enhance the flow of credit to the sector, various initiatives have been taken by Govt. of India/Reserve Bank of India from time to time. However, the availability of adequate and timely credit to SMEs continues to be a major concern. The proportion of credit to SMEs among the total bank credit has shown a declining trend.

According to the 3rd All India Census of Small Scale Industries (2001-02), it is found that only 14.26% of the registered units availed bank finance, while only 3.09% of the unregistered units had access to bank finance. This means that 97% of the smaller among the small enterprises were deprived of the institutional credit. In other words, most of tiny and micro enterprises use self finance or borrowed funds from friends, relatives and money lenders.

Flow of Credit to SME Sector - Past Trends, Present Status Year	Gross Bank Credit (GBC)	Growth over last year(%)	Credit to SEs	Growth over last year(%)	SEs Credit :GBC %
1996-97	301698	18.77	38196	11.53	12.6
1997-98	352696	16.90	45771	19.83	12.98
1998-99	399436	13.25	51679	12.91	12.94
1999-00	475113	18.95	57035	10.36	12.00
2000-01	55876	17.61	60141	5.45	10.76
2001-02	680958	21.87	67107	11.58	9.85
2002-03	778043	14.26	64707	(-)3.58	8.31
2003-04	902026	15.94	71209	10.05	7.89
2004-05	1045954	15.95	83498	17.26	7.98
2005-06	1443920	38.05	101385	21.42	7.02
2006-07	1841978	27.57	116908	15.31	6.34

**Table 2: FLOW OF credit to SMALL ENTERPRISES**  
Source: RBI

- Only 14.26% of the registered units & only 3.09% of the unregistered units accessed credit from Banks.
- 97% of the Small Enterprises deprived of Bank credit
- Most of the tiny/micro enterprises - self finance or borrowed funds other than Banking Sector.
- In the startup stage, family is an important source of finance

A recent World Bank survey (August 2006) on the status of flow of credit to SME sector has revealed that in the start-up phase, family constitutes an extremely important source of funds in majority of cases and 'trade credit' came next in importance. Bank loans from State owned Banks make up an extremely important source of funding.

Some of the measures taken by the Governments (Central and State) for development of Small and Medium Enterprises in the country are as follows:

1. Development Commission for SSI (Now MSME) by the Central Govt. with a view to implement various Govt. programmes and to co-ordinate the working of various departments dealing with matters affecting small industries
2. District Industries Centers all over the country for promotion of industries particularly in industrially backward areas in view of decentralization process.
3. Statutory obligations for Commercial Banks to lend to SSI
4. Establishing Small Industries Development Bank of India SIDBI in 1990 for financial assistance and support service
5. Committees to study & suggest measures for increasing credit flow

Setting up Parliamentary Committee comprising members drawn from Lok Sabha and Rajya Sabha to review the flow of credit to small scale sector and performance of the lending institutions in implementation of the guidelines/ programmes on lending to Small Enterprises, Weaker Sections, units registered with Khadi & Village Industries Corporation (KVIC) etc.

Formulation of Special Programmes/Schemes like Prime Minister' Rozgar Yojana (PMRY) by GOI and Margin Money Scheme of Khadi & Village Industries Corporation under Rural Employment Generation Programme (REGP), Technology Upgradation Fund Scheme, Credit Linked Capital

Subsidy Scheme for technology up gradation in specified industries, Integrated Leather Development Scheme, Debt Restructuring Mechanism for SMEs etc.

2. Encouraging State and Central Government to draft and adopt conducive industrial policy for the development and sustained growth of the industries.
3. State Level Inter Institutional Committee for dealing with problems & rehabilitation of Sick units
4. Opening of Specialized SME branches by the nationalized banks in their Lead Districts
5. De-reservation of items reserved earlier for small industrial units to make way for investment by Medium Enterprises for large scale production of the items.
6. Setting up of Small and Medium Enterprises Rating Agency (SMERA) with investment partnership of SIDBI, State Bank of India, Canara Bank, Dun & Brad Street etc.
7. Encouraging other external rating agencies, viz. CRISIL, ICRA, ONICRA, Dun & Brad Street etc. to rate the SME units by offering subsidized rating fee (subsidized by NSIC) to Small Enterprises.
8. Encouraging the banks and financial institutions to provide latest technology services viz. SWIFT, RTGS, customer terminals etc. for the benefit of SME clients.

#### Announcement of Union Budget 2008-09

Creation of a Risk Capital Fund of Rs. 2000 crores with SIDBI, for providing refinance to MSME sector.

Reduction in CGTMSE guarantee fee from 1.5% to 1% and annual service fee from 0.75% to 0.5% for loans upto Rs. 5 lacs..

- Allowing retired bank officers and ex-servicemen to act as Business Facilitators / Business Correspondents and Credit Counselors.
- Provision of Rs 100 crores for development of six Mega Clusters at - Varanasi & Sibsagar for handlooms, Bhivandi & Erode for Powerlooms and Narsapur & Moradabad for handicrafts.
- Emphasis on SEZs & Technology Parks
- Technology Upgradation Fund Scheme: The Government of India (GOI), Ministry of Textiles (MOT), introduced Technology Upgradation Fund Scheme (TUFS) for Textile and Jute Industries on April 1, 1999, for a period of 5 years, subsequently extended by 3 years to cover sanctions up to March 31, 2007. The Budget for FY 2007-08 has announced further extension of the Scheme by five years i.e to last til, FY 2011-12. The Scheme is intended to facilitate induction of state-of-the-art or near state-of-the-art technology. Existing units with or without expansion and new units are eligible under TUFS

#### CONCLUSION

In all developed market economies the SME sector represents the basis of economic development. Experiences in governing the development of SME, their number, positive influence on the growth of GDP and GDP per capita, high relative participation of the employees in SME sector in the total number of the employed in highly developed countries, all point out that the strategic goal on the national,

republic, regional and local level should be governing the growth of this sector. The SME sector is growing very fast. The contribution of agriculture to GDP of the country is decreasing and that of manufacturing and services sectors is growing steadily. The vision 2020 for the country envisages that the contributions of SME sector will increase progressively and will occupy the major share.

In the liberalized trade environment, the global village is the market for the SMEs. The SMEs need to think Global and act local. To thrive and to grow, it is imminent for the SMEs to compete in the international market particularly in terms of quality, cost and promotion. SMEs are great opportunities for the Country to improve the GDP.

The Government of India has identified SME sector as thrust area and given various policy guidelines for promoting SME sector in our Country. Availability of timely and adequate finance to SMEs being the critical factor, the Government has initiated significant policy changes to facilitate flow of credit to SME Sector leading to contribution of the economic development of the country and also making the individuals of the country educated, Unemployment to Employable helps to reduce poverty, create a middle class, and foster stability.

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