

## **Role of Micro Small and Medium Enterprises (MSMEs) for the Economic Development of a Nation: An analysis**

**Dr. Santosh Kumar Panigrahi\***

### **Abstract**

*The last five decades have seen an unprecedented growth of the Micro, Small and Medium Enterprises (MSME) sector in this country. The new found dynamism is an important indicator of the possibilities that this sector presents and is an inspiration to many aspiring entrepreneurs. While on one hand the MSME sector has been churning out impressive employment opportunities for the youth of this country. It is also playing a key role in improving industrialisation of the rural and backward areas. It also helps in reducing the regional imbalances and in more equitable distribution of the National income and wealth. The contribution of the MSME sector in the Indian context is not only economic growth but also social development. Contribution of MSME to the growth of India to the overall industrial production and GDP of the country has been consistent. The total industrial production marks a 39% contribution; the GDP records it to nearly 8%.*

**Key words:** MSME, Sector, GDP

### **1. Introduction**

Micro, Small and Medium Enterprises constitute the backbone of an economy in maintaining an appreciable growth rate and in generating employment opportunities. This sector has been regarded as engine of economic growth and social development in many developed and developing countries. Micro, Small and Medium Enterprises (MSME) in India and abroad which has shown considerable strength and flexibility in maintaining a constant rate growth and job creation during the global recession and economic growth Slowdown.

The Indian economy has performed admirably during recent years and has demonstrated growth by contributing to the creation of livelihood opportunities to millions of people to increase export capacity and overall economic growth of the country. The job of Micro little and Medium ventures in India assume an imperative job to the economy just as making plenty of work openings. There are two kinds of divisions, for example, producing and other is administration area. Truth is told the administration part is for the most part relies upon fabricated. This segment utilizes 55 million of individuals around the India covering fabricating abilities and capacities. There are different points of interest of this area incorporate less administrative work and speculation, enormous scope business openings among the adolescent and scaling back underemployment and business issues. The Government of India has entreated the budgetary organization by giving credit to organizations in the MSME diverse structure. It has likewise assumed an urgent job in the country improvement. Its operational adaptability, various types of limits and transmission capacity for appropriate innovation and creation and import replacement are among the main impetus. The MSME gives essential information and preparing to various classes business people. The essential imperatives are account for introductory capital and working capital which the MSME are endures. There are high exchange bills and insurance security which is required wasteful and maladroit lawful arrangement of a worry.

The MSME are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. MSME can be the backbone for the existing and future high growth business. The Indian MSME sector provides maximum opportunities for both self-employment and wage-employment outside the agricultural sector and contributes in building an inclusive and sustainable society in innumerable ways through creation of non-farm livelihood ways through creation of non-farm livelihood at low cost, balanced regional development, gender and social balance, environmentally sustainable development etc.

---

\* B. Tech., M.B.A., Ph.D. Software Engineer, IBM, Bangalore.

The MSME area in India keeps on exhibiting striking versatility notwithstanding trailing worldwide and household financial conditions. The part has continued a yearly development pace of over 10% for as far back as hardly any years. With its deftness and dynamism, the segment has indicated splendid ingenuity and flexibility to endure monetary stuns, even of the gravest nature. The little scope ventures segment assumes an essential job in the development of the nation. It contributes practically 40% of the gross mechanical worth included the Indian economy.

The MSME section likewise assumes a significant job in developing nations like India. According to present KVIC Chairman “Vinai Kumar”, Khadi and Village Industries segment is set to be another major contributor to the growth of the MSME sector which alone create employment of 4 lakh people under various schemes of KVIC - 20,000 in Honey Mission, 1,20,000 in Kumhar Sashaktikaran Programme, 75,000 in Empowerment of Leather Artisans Programme and 1,97,000 beneficiaries of the Prime Minister Employment Generation Programme..

The MSME segment also plays a major role in developing countries such as India in an effort to alleviate poverty and propel sustainable growth. Moreover, MSMEs in countries such as India help in efficient allocation of resources by implementing labour intensive production processes, given the abundant supply of labour wherein capital is scarce.

## **1.2. Objectives of the study**

The objectives of this study are to briefly throw light on the functional landscape of micro, small and medium enterprises in India, so as to focus on the huge growth potential and opportunities available for the development of the sector; to identify some important issues, challenges and obstacles faced by these enterprises and to suggest ways to overcome the same.

## **1.3. Methodology:**

The study has been done to identify the potentialities for growth, opportunities, major issues and challenges experienced by MSME sector. The information is mostly from auxiliary sources by way of access to various Government policies/programs including published Annual Reports, Journals, Books and available official websites. The primary data are based on analysis of structured questionnaire and interview of nearby known entrepreneurs, industry workers and other stake-holders.

## **1.4. Review of Existing Literature**

The reviews the relevant literature concerning the different dimensions of the research problem related to Role of Micro, Small and Medium Enterprises in order to justify the need of the present study and the literature reviews are:

Ravin Kadian and Aarti Chahal (2015)<sup>1</sup> has examined on the role of MSMEs in “Make in India” initiative and increase in financial contribution towards MSME’s. Verma, O.P., and Anjum, B. (2012)<sup>2</sup>

Lahiri, R. (2012), focuses on the performance of MSMEs during the period from 1973-74 to 1989-90 is considered pre-globalisation period and pre-globalization period from 1990-90 to 2009-10 post-globalisation.

Zamperi Ahmad, S (2012) has to find out the main problems and constraints faced by micro, small and medium sized enterprises (MSMEs) in the Saudi Arabia. There are several factors were identified to small business growth and survival in Saudi Arabia.

## **1.5. Significance of MSME study**

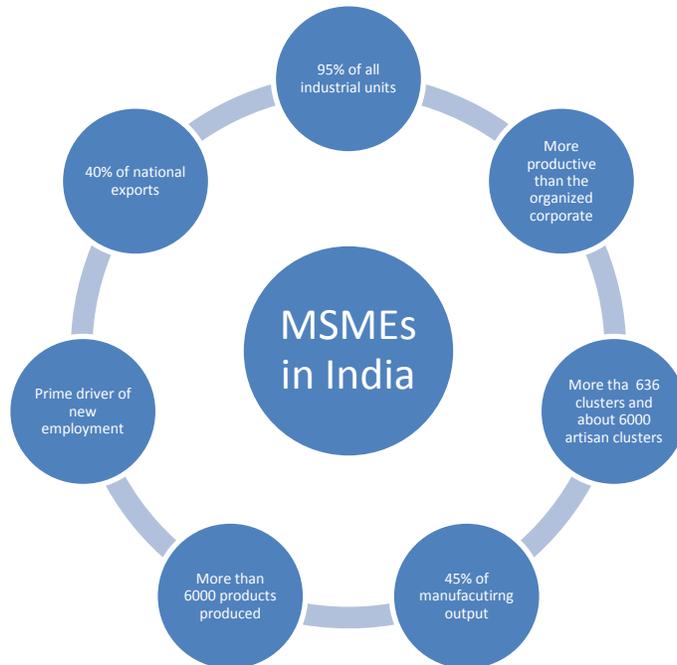
<sup>1</sup> . Make India Innovative and Competitive: Role of MSMEs, International Journal of Research in Social Sciences and Humanities, Vol. No.5, Issue No. III, July-Sep. 2015.

<sup>2</sup> . “Small Scale industry: An Engine of Growth”, Zenith International Journal of Business Economics and Management Research, Vol. 2, Issue 5.

Today, MSME have been accepted as the engine of economic growth for promoting equitable development in terms of value and about 45% of the manufacturing output and around 40% of the total exports of the country. Thus, to meet the challenges in terms of technology, demands, emergence of markets etc. There are many development programmes undertaken by the Organisations for providing different range of services for accelerating the development of MSMEs. There are several schemes to be provided extra benefits especially for the women beneficiary.

### 1.6. Major schemes offered by MSME

The ministry of MSME grants various schemes targeted at (a) providing credit and financial assistance (b) skill development training (c) infrastructure development (d) marketing assistance, (e) technological and quality upgradation and (f) other services for the MSMEs.



**Fig. 2 : Need and importance of MSMEs in India**

### 1.7. Challenges of MSME Sector

The generally little size of the SMEs decreases their capacity to contact separation showcases economically and furthermore satisfy the demanding guidelines of exactness for enormous requests or tackle conveyance related difficulties. The restricted money related assets, with absence of mindfulness, limit the utilization of specific administrations for showcase data that normally fill in as the structure hinder for any successful advertising plan. As indicated by an overview of Ministry of MSME, almost 66% of private companies believe the absence of market data to be a study extreme imperative.

Many bunch professionals can be found expressing that this interior rivalry, as a rule winding up as a furious shared value fight, is the essence of the difficulty of the considerable number of units. The open door gave inside the microcosm of a bunch to the individual SMEs co-found is that they can investigate, break down, comprehend and try different things with systems to counter such rivalry. For promoting is a fight and must be managed as a fight seems to be. Experience demonstrates that the flourishing to meet up for advertising related exercises will in general stay low in contrast with different roads of coordinated effort in a group and this represents a great deal of impediments for all the concerned firms.

SMEs of various sizes and various limits and assets will in general get into an opposition with one another. As the quantity of firms builds, the circumstance turns out to be progressively mind boggling. It requires some investment for levels to set in, making specialties for a lot of comparable units in contending more among one another. SMEs give plentiful development chances to every delegate firm. Along these lines inside the homogeneity of firms as far as items, normal pool of labour and so on the specialties of various promoting needs

must be remembered. It would be significant that the disposal of a lot of partners, or compare one set with another, which gives development chances to all.

As to systems and promoting channels, the SMEs will in general receive more than one of these current channels and a few times the opposition wins in the commotion for profiting openings i.e., in craftsman, little brokers, NGOs working with craftsmen and others, all will in general work in the arrangement of showcasing channels. Experience has indicated that expensive, one of kind wonderful items will in general acquire great comes back from the standard fairs and presentations. Advancement of various items stays a troublesome suggestion for most SMEs and it turns into somewhat more unpredictable. A limited time plan for a SME situated in a bunch represents the test to situate itself among the others. The firm might be quick to feature its reality in a group as a bit of leeway.

The effective role in marketing activities has been well demonstrated by large firms which are a more prominent problem of the micro enterprises rather than the small and medium enterprise. The apparent intangibility of the significance of different services for marketing may be tackled through “embedded” business services where no separate fee is paid but which are included within the commercial transaction.

SME improvement is a key thing in the populist plan of business advancement. The later proof accessible from different nations, show the blasting of the business enterprise bubble. The push of India’s Twelfth arrangement, as it identifies with MSMEs, needs a more critical look against the foundation. Based on two key perspectives i.e., (i) the vital job of MSMEs is the full scale creation arrangement of the nation; and (ii) its developing importance with regards to the latest changes and difficulties of economy.

In order to promote MSME sector effort on unified, empowered, robust, bundled and technology driven platform is required. The scope is creation and harmonious application of different processes for increasing the output and national strength (Annual report of MSME.com, 2017-18)

### **1.8. Role of MSMEs in different sectors**

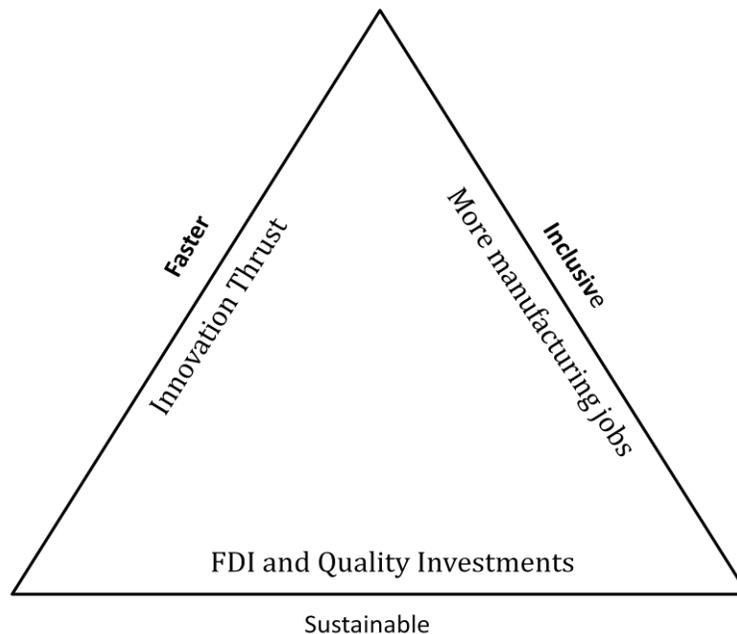
MSME division plays a key resource for the economy of the nation. From one viewpoint, the town and provincial enterprises including the khadi business, which are basically situated in the country scene and give a significant fixing in the neighbourhood eco-framework. Then again, in outrageous complexity and the contrary side of range are the miniaturized scale, little and medium undertakings which are delivering wide assortment of merchandise which are sent out just as have the contact the household shoppers. The different plans and strategies started by the administration targets reinforcing the MSME segment both at the provincial and urban segment. The plans have a comprehensive mediation structure for giving both forward and in reverse linkage. There are plans which are encouraging in access to innovation and access to showcase. One of the significant worries in the MSME area is absence of infrastructural offices, which thus makes serious harm an endeavour’s worth chain procedure, for example, creation, utilization and circulation of items. The plan on normal framework ventures for MSME’s assistance in profiting advantages of economies of scale, cooperative energy and aggregate haggling by working together with one another. The sector has a wide range of stockholders including the regulators, facilitators and the beneficiaries. The various stakeholders include :

1. MSME (both existing and prospective)
2. Large enterprise including multinationals
3. State / Union territories.
4. Central Ministries / Departments
5. Banks / financial institutions.
6. Entrepreneurship and skill development institutes, both in the public and in the private.
7. Research and development institutions
8. Educational institutions
9. Organisations under the administrative control of the ministry.

Entrepreneurs preparing for the global market need to focus on the following:

- Global mindset
- Lean manufacturing
- Mergers and acquisition

- Complementing large industries
- Alternate Finance
- Preparation for non-tariff barriers
- Explore options of cooperation, fair trade, IPR and FDI  
The winning formula for enhancing competitiveness combines
- Elimination of waste
- Enhancement of technology
- Use of quality and productivity tools
- Total employee involvement
- Flow of information to all enterprise stakeholders
- Use of ICT



**Fig.1 : MSME Census show a mixed picture of the sector**

### 1.9. Classification of MSME sector

Grouping of any class or classes of Enterprise (Whether ownership, Hindu Undivided Family, Association of Persons, Cooperative Society, Partnership firm, organization or undertaking by whatever name) into two classifications – assembling and Service and they are further sub-arranged into Micro, Small and Medium.

### 1.10. Women Entrepreneurs And Msmes

Women entrepreneurs can be seen wherever in the start-up biological system of India. Women entrepreneurs also are seen leaving their prominent employments just as some venturing out of the four dividers of their homes and joining the pool of Entrepreneurship in India. Around 10 million ladies who have begun and are maintaining their own organizations and the Ministry of MSME accepts that the ladies in India can assume an imperative job in the development of the Indian economy.

As indicated by International Finance Corporation's examination report on circumstances, challenges and the path forward – Micro, Small and Medium Enterprises account: Improving access to Finance for Women-Owned Business in India, around 3.01 million ladies claimed ventures speak to around 10 percent of all MSMEs in the nation. All in all they contribute 3.09 percent of mechanical yield and utilize more than 8 million individuals. Roughly 78 percent of ladies undertakings have a place with the administration area. Ladies enterprise to a great extent slanted towards littler estimated firms, as just about 98 percent of ladies

claimed organizations are miniaturized scale undertakings. Roughly 90% of ladies possessed ventures are in the casual division.

**Table-1 : Classification of MSME sector in Investment in manufacturing / Service**

| Classification | Investment in manufacturing (Plant and Machinery, Excluding Land and Building) | Turnover      |
|----------------|--|---------------|
| Micro          | Rs. 1 Crore  | Rs. 5 Crore   |
| Small          | Rs. 10 Crore   | Rs. 50 Crore  |
| Medium         | Rs. 50 Crore   | Rs. 250 crore |

### 1.11. Findings and Conclusion

From the above study, it has been carried out to performance of MSMEs in India. It states that there is an increase in per unit investment, employment opportunities in various sectors. The government alone cannot fulfil the employment opportunities, individuals need to come forward to help themselves and take advantage of the viable business atmosphere created by the government. Adam Smith, an 18<sup>th</sup> century economist and author in his book *Wealth of Nations* has talked about the 'Invisible Hand' that individuals pursuing their best self interest would result in better overall good to the society. The MSME sector as the 'engine of growth' for India will be the vehicle of development of the country in terms of creating employment opportunities. In India, almost 31 million MSMEs have been a dominant force in creating ample opportunities for the inclusive socio-economic growth and also acting as a nurturing seedbed for entrepreneurial talent of perspective global players. Over the past five decades, the Indian Government had initiated various progressive credit policies and practices, new schemes to support the MSME sector for the promotion, development and enhancing the competitiveness of these enterprises, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and simplification of the process of closure of business by all three categories of enterprises.

### 1.12. RESULT

There is still a lack of awareness in access to finance and marketing, adoption of innovative technologies are the major challenges for the MSMEs to sustain in the present markets. With the increasing global competition and uncertainty due to global meltdown, there is a need for the MSMEs to incorporate the latest technology into their production process as well as in their financing, marketing and management functions, to cut down the cost, gain efficiency and consistency. This will help them to become successful and contribute to the Indian economy in the long run.

### 1.13. Recommendations

- In India, almost 31 million MSMEs are the vehicle for the inclusive socio-economic growth of the nation. In a business environment with strong focus on modern technology the potential of this sector needs policy impetus to improve the competitiveness.
- There should be incentivize exports to broad base for the benefits of national program.
- In order to meet the national imperatives of financial inclusion and generation the levels of employment generation across urban, semi-urban and rural areas across the country.
- MSME play an important role for the backbone for the existing and future high growth opportunities both domestic and foreign companies by investing 'Make in India' and thereby high impact in the area of indigenisation.
- The development of new age entrepreneurs has the potential globally competitive businesses from India.
- MSME enable the development businesses opportunities in the form of ecosystem and continuously support business towards growing development of the right product, the right quality, and the right solution and service at a competitive price in the Indian market as well as foreign markets. The 'Digital India' revolution provides a great opportunity to promote MSME participation in the form of Information, Communication and Telecommunication sector with the government vision.

- There is continuous growth of MSME segment develops in all round development of agriculture, manufacturing and service sectors for the overall development of GDP growth as well as employment generation.
- India's GDP is expected to reach 8.5 percent by 2025.
- The MSME opportunity is to develop entrepreneurship and support growth led by innovation and technology.
- With regard to public and private industry sector there is increasing domestic demand, growth in exports, indigenisation and import substitution.
- For reducing import burden and dependence on overseas for local demand fulfilment and widening export capabilities which makes globally competitive and innovation.
- Make in India – for ease of doing business in various sectors.
- Developing infrastructure for improving standards of living for improving business environment.

#### **1.14. References**

Mathew P.M. “(2012), “YOJANA”, The Relevance of MSMEs.

Garg, Ishu. And Walia, Suraj. (2012), “Micro, Small & Medium Enterprises (MSME“s) In Post Reform India: Status & Performance”, International Journal of Latest Trends in Engineering and Technology (IJLTET) Vol. 1, Issue 3 September 2012

MSME Financial Literacy and Education Program

Dr. Sriparna B. Baruah, “MSME: The Engines of Growth” Kurukshetra, Vol. 66, No. 12, p. 41, Oct. 2016

[www.kpmg.com/in](http://www.kpmg.com/in)

Annual report of 2017-18 ([www.msme.gov.in](http://www.msme.gov.in)) **com/in\_**

Magazine of Micro Small and Medium enterprises Department, Government of Odisha.