

Examining role of innovation in changing landscape of MSMEs in India

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Key Words

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Abstract

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. As process of globalisation and liberalisation gains momentum across the globe, MSMEs in India are also facing a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent and uncertain market scenario. To survive with such issues and compete with large and global enterprises, MSMEs need to adopt innovative approaches in their functioning and management to compete with large enterprises globally. Today's world economy has been characterized as a "Knowledge-Based Economy which focuses on knowledge rather than information. The way to reach to knowledge is by applying innovative strategies and improving managerial effectiveness to booster the growth of MSMEs. The present study caters to these important aspects of MSMEs and highlights new trends that contribute to the changing landscape of MSMEs in India.

Introduction

The twenty-first century is the century of emerging economies, both in market growth and also in terms of business strategies to capture the global markets. Based on statistics published by IMF and World Bank, the traditional BRIC (Brazil, Russia, India and China) are now seventh, eleventh, ninth and second largest in the world respectively, while the new member (South Africa) of BRICS is among the top thirty of economies in the world. The essences of these emerging economies are those companies who in search of growth opportunities are experimenting new business models. Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

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:

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

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

Classification	Manufacturing (investment limit in plant and machinery)	Service (investment limit in equipment)
Micro	Rs. 2.5 million / Rs. 25 lakh (US\$ 50,000)	Rs. 1 million / Rs. 10 lakh (US\$ 20000)
Small	Rs.50 million / Rs. 5 crore (US\$ 1 million)	Rs. 20 million / Rs 2 crore (US\$ 0.4 million)
Medium	Rs 100 million / Rs 10 crore (US\$ 2 million)	Rs. 50 million / Rs 5 crore (US\$ 1 million)

(Source: Annual Report 2013-14)

The contribution of MSME's in the industrial development of the country has been remarkable. The government has placed the major role in ensuring growth by establishing various institutions to support the sectors. The impact of these structural changes has been reflected in the comparative analysis of Fourth with the Third Census in terms of size, employment, exports and gross output:

	THIRD CENSUS	FOURTH CENSUS	% CHANGE
Size (in crore)	1.05	2.61	148.60
Employment	249.33	594.61	138.50
Exports (in Rs. crore)	14,200.00	76,337.07	437.60
No. of Exporting Units	7,344	40,504	451.52
Per Unit Employment	4.48	5.93	32.36
Per Unit Gross Output (in Rs. Lakhs)	14.78	45.70	209.20
Per Unit Investment (in Rs. Lakhs)	6.68	32.26	382.93

(Source: Final Results Third Census and Quick Results Fourth Census, Ministry of Micro, Small and Medium Enterprises)

Supporting Agencies of MSMEs in India

Some of the importance organizations that are associated with MSMEs 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), Laghu Udyog Bharti(LUB), 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(NISIET), World Association for Small and Medium Enterprises(WASME), Small Scale Industries Board(SSIB), PHD Chamber of Commerce and Industry(PHDCI), Federation of Indian Exporters Organization(FIEO), Federation of Associations of Small Industries of India(FASII).

Objectives of the Study

1. To review the performance of MSMEs in India.
2. To highlight the road map of innovations in the development of the MSMEs in India.
3. To analyse the opportunities and challenges for MSMEs in context of further development and growth.

Research Methodology

The descriptive and analytical research methodology is used to better understand the nature of problem and uses interviews with MSMEs industries. The research is also supported by reference to various books, articles in newspapers, business magazines and journals of management and business. Interviews were held with owners of enterprises in thane district to understand the challenges and also to predict the innovative methods which can lift the working of MSMEs. MSMEs like garment manufacturing, furniture workshops and other enterprises of small and medium scale were taken into consideration for research purposes. Related websites and Books were also referred for the research purpose.

Review of Literature

Sudan, F. K. (2005) described the challenges in Micro and Small Scale Enterprises Development and policy issues by arising different questions related to Micro and Small Enterprises. The study explained the meaning, advantages, problems and policy options of MSE sector. The study concluded that all the policies which were opted by GOI were the efforts to form a dynamic MSE sector and a diversified economy providing expanded employment opportunities to absorb all new labour force and offer exciting career opportunities.

Rathod, C. B. (2007) described the importance of small scale industrial sector and also the contribution of Indian small scale entrepreneurs in world economy. The main objective of the study was to study the growth and pattern of the SSI sector and identify the reasons for success/failures, to evaluate the impact of globalization on SSIs and export opportunity, to identify the barriers and constraints that SSIs were facing to cope with globalization. Bargal et al. (2009) examined the causal relationship among the three variables GDP, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study found that the annual average growth rate of different parameters of SSIs have declined in the period of nineties vis-à-vis the pre-reform years. There is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.

Singh et al. (2012) analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target. Annual Report of MSME 2013-2014, gives the overall view of MSMEs with respect to its performance and growth in production, employment, export, and number of industries, detail view of various schemes and of various departments of MSMEs.

Role of MSMEs in Growth and Development of Emerging Economies

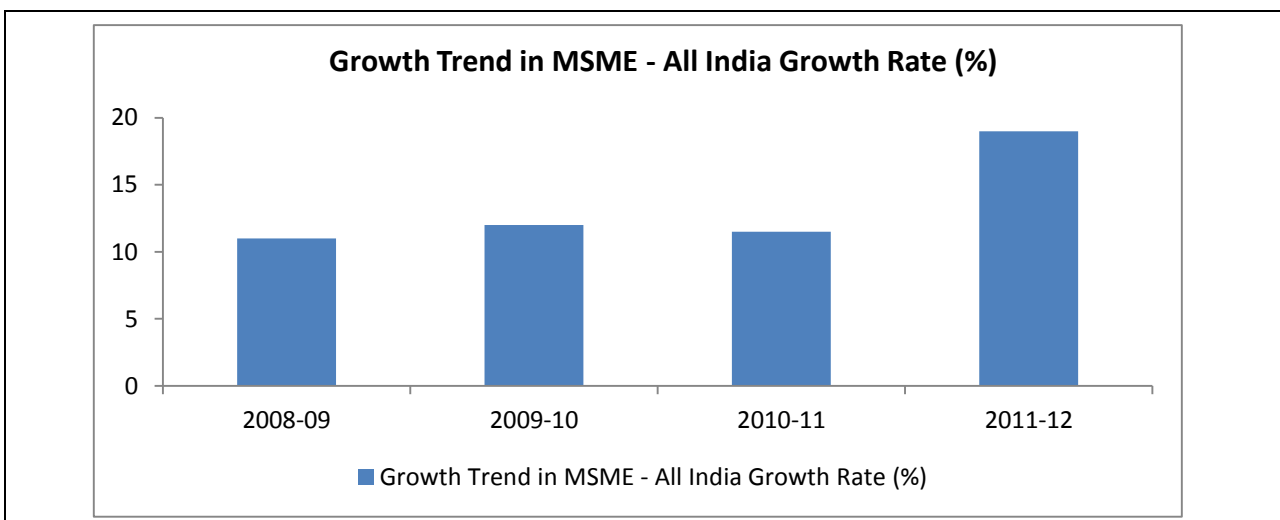
MSMEs lead to entrepreneurial development and the diversification of the industrial sector. They also provide depth to the industrial base of the economy. Employment opportunities are generated and the capital cost per employee is low. With the services sector dominating the MSME, and MNCs outsourcing their requirements to Indian service providers, the scope for MSME finance has increased. There is also a more favourable environment now with the government committed to give impetus to this sector through infrastructure development; skill set development, entrepreneurship development, technology up gradation, etc. Considering the importance of the sector in the overall growth of the economy, the Indian prime minister announced the task force on MSMEs in August 2009. Accordingly, it was set up in September 2009 under the chairmanship of the principal secretary to the prime minister to

look into the issues and concerns of the sector in a holistic manner. They address the critical issues that organizations in this sector face -credit, skill improvement, access to markets and raw materials, and coping with a multiplicity of regulations. High-level committees have also been set up to monitor the progress of these recommendations

This sector comprises of 26.1 million units, provides employment to over 60 million persons. The Sector through more than 6,000 products contributes about 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country. The Sector is expected to perform an equal important role during the 12th Five Year Plan Period (2012-13 to 2016-17) in enabling the country to achieve the envisaged overall growth rate of 9% during the Plan. The task force's recommendations are now being implemented in the approach to the 12th Five Year plan of India. (Indian Global Summit on MSMEs in 2011)

Current Status of MSMEs in India

As per data released by the Ministry of MSME, Govt. of India, at present, there are about 26.1 million enterprises in this sector. The sector has a share of 45 percent in the manufactured output and 8% in the GDP. MSMEs contributed close to 40 percent of all exports from the country and employed nearly 59.7 million people, which is next only to agricultural sector. As on March 2013 there are 2032 specialized MSME branches (Source: RBI)



(Source: Ministry of MSME)

The above graph depicts the growth trend in MSME sector which indicates an upward moving growth trend. Though in initial few years, there was steady growth rate of around 10-11% which shot up to 19% in the year 2011-12.

Key Challenges Faced by MSMEs

Despite its strategic importance in any industrialization strategy, the opportunities that the Indian landscape presents and its immense potential for employment generation, the MSME sector confronts several challenges. They face problems at every stage of their operation, whether it is buying of raw materials, manufacture of products, marketing of goods or raising of finance. Some of the challenges Indian MSMEs face have been discussed below:

1. High cost of credit
2. Limited access to equity capital
3. Problems in supply to government departments and agencies

4. Procurement of raw materials at a competitive cost
5. Low technology levels and lack of access to modern technology
6. Lack of skilled manpower for manufacturing, services, marketing, etc
7. Lack of access to global markets
8. Inadequate infrastructure facilities, including power, water, roads
9. Multiplicity of labour laws and complicated procedures associated with compliance of such laws.

Clustering and networking approach adopted by Government of India and State Governments for development of MSMEs has helped these enterprises in boosting their competitiveness

Emerging Trends in the MSMEs Sector

1. More and more **women taking up entrepreneurial** career, contrary to the scenario in earlier years.
2. The economic crisis has not impacted the SMEs in India very badly. Therefore they are willing to make **investments in the IT infrastructure** by purchasing and implementing ERP solutions. SMEs are seriously looking at ERP solutions to provide that extra edge in the competitive business environment.
3. With large players adopting different models of business that include involvement of their traditional partners, suppliers or distributors at a different level, SMEs now are experiencing a **new model of functioning in the value chain**. The past few years have been the role of the SME segment evolves from a traditional manufacturer in the domestic market to that of an international partner.
4. SMEs are actively investing in building energy-efficient IT infrastructure and are ahead of their foreign counterparts. Even in difficult economic times, Indian SMEs are eager to invest in **technologies for reducing environmental impact**.

Opportunities for MSMEs in India

The importance of SME sector is well recognized world over owing to its significant contribution in achieving various socio-economic objectives, such as employment generation, contribution to national output and exports, fostering new entrepreneurship and to provide depth to the industrial base of the economy. India has a vibrant SME sector that plays an important role in sustaining economic growth, increasing trade, generating employment and creating new entrepreneurship in India. Further, the importance can be highlighted in the following points:

- Backbone of all developing economies including India
- Most efficient tools for balanced regional development
- Most potential employment generator and Second largest employer after agriculture
- Distribute wealth widely
- Account for a major share of industrial production and exports
- Silent drivers of a nation's economy
- Upholding the entrepreneurial spirit and innovation
- Contribution to national output and exports

Innovative Trends for growth of MSMEs

MSME sector is fundamental to India for maintaining growth with equity. A significant number of MSMEs are owned by people belonging to the disadvantaged sections of society. For instance, nearly 13% of MSMEs are owned by women entrepreneurs. Hence, the sector forms a key piece of the inclusive growth process. The MSME sector is at the threshold of big

transformation powered by innovations in various aspects and ways. Innovation is still a blurry concept, despite the policy interest it now garners; since less is known about how new products and processes come about in developing countries, how innovation diffuses, and what its impacts are. The researcher identifies innovative strategies from the analysis made on the basis of interviews conducted with owners of MSMEs and also reviewing the annual reports by government:



Information Technology is a thread which runs through the entire sector. Access to information technology enabled services at an affordable cost would bring the MSME Sector on a level playing field with bigger players. Various enabling software from designing to customer management and sales management are still beyond the reach of the MSME due to their higher cost. At a macro level there is need for a strategy for a horizontal geographical spread of the various outreach programmes for balanced growth. On the other hand, there is also a need to emphasize the inclusive nature of any strategy to target women entrepreneurs and other weaker sections of the society. It is only by such horizontal and vertical inclusiveness that we can attain the objectives of this mission with equity. The potential strategies would mainly rest on five pillars, as it were, concurrently:

- i) Skill development
- ii) Markets
- iii) Technology
- iv) Infrastructure
- v) Credit availability

Marketing is one of the critical areas where MSMEs face problems. In the global arena, they do not have the strategic tools and the means for their business development, unlike the large enterprises. Constant changes in the market dynamics due to technological changes and globalization have had a profound impact on the competitiveness of the MSMEs. The whole gamut of marketing strategy for any product is required to be addressed whether it is product differentiation, incremental feature of the product, branding issue, customized and tailor-made services, clientele building, post sale servicing etc. The existing scheme of support requires be harmonizing and rationalizing to have a focused approach. The existing marketing support institutions would also be revisited with a view to strengthening the marketing infrastructure for the MSME sector and mainstream it to the major consuming areas and patterns.

E-Commerce has emerged as a powerful tool world over for reaching out to buyers in business as well as consumers worldwide. Territories/borders have been obliterated with the advent of this new technology. For giving better access to MSME sector to the market, Ministry has already promoted a Business-to-Business (B2B) Portal in NSIC. Now the endeavour would

be to have a robust and inclusive, best of the breed, Business-to-Consumer (B2C) Portal in addition to the above.

Conclusion

A dynamic global economic scenario has thrown up various opportunities and challenges to the MSME sector in India. On the one hand, increased per capita income and consumerism have opened up numerous opportunities for this sector to enhance productivity and look at new national and international markets. On the other hand, the sector continues to face challenges like fund shortages, limited access to equity capital, technological obsolescence and lack of infrastructure facilities, among others. Despite the various challenges it has been facing, the MSME sector has shown admirable innovativeness, adaptability and resilience to survive the recent economic downturn and contribute significantly to India's industrial growth. Considering the importance of the MSMEs in supporting the Indian economy's growth, the MSME sector needs to have timely, adequate and affordable funds to upgrade its technological competencies and plug financial gaps, so as to move up the value chain.

The peripherals of financial infrastructure should be broadened from subsidised lending to providing avant-garde financial services. Incorporation of technological dynamism and in-house innovation should be encouraged. Most importantly, attention should be paid on skill development of not just the workforce but also the entrepreneurs. MSMEs characterised by technological vibrancy, broad financial infrastructure and skill enhanced labour force has the potential to be make considerable contributions to national income, employment and exports.

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