

Aligning Performance of MSMEs with Economy

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Abstract

MSMEs are businesses that have a small or medium number of employees, usually less than 250. Worldwide, MSMEs have been accepted as the engine of economic growth promoting equitable growth and development. MSMEs are the lowest layer of the enterprise system in any country. Being the 'bottom of the pyramid', their potential is substantial. Employment generation is another key aspect of MSMEs globally, which is in line with the Indian scenario. MSMEs are the largest employment generators globally. The challenges to MSME competitiveness have gone up. However, a prerequisite for enhanced competitiveness is an environment of competition itself. It requires greater efforts towards developing and branding of clusters, rewarding innovative entrepreneurs, and development of infrastructure. Indian SMEs represent the model of socio-economic policies of Government which emphasized job creation at all levels of income stratum and diffusion of economic power in the hands of few. This paper focuses on role of MSMEs in Indian Economy and its contribution to the economic development of the country as a whole along with budgetary support from Government of India.. This paper also explores few facts on global scenario of MSME.

Keywords: Globalization, Economic Development, Capacity Building, Performance, Budget

1. Introduction

Micro, Small and Medium Enterprises (MSMEs) play a significant role in the economic growth of the country owing to their contribution to production, exports and employment. The sector contributes 8 per cent to the country's GDP, 45 per cent to the manufactured output and 40 per cent to the country's exports. It provides employment to 60 million people through 28.5 million enterprises.

High growth and development has always been conceived a process linked to industrialization. In

the context of developing countries although the vision of 'catching up' is often based on images of advanced countries nevertheless the route has been historically proved to be different. Expansion of industries especially manufacturing in developing countries is not a smooth curve and normally involves enclaves of growth those later diffused to a more dispersed process of industrialization.

In any case development is conceived as a process by which increasing proportions of the population are driven to increasing returns activities especially manufacturing. This draws an attention to the larger issue of the nature of growth in India in the recent past that undoubtedly being unprecedented but grossly fails to generate an inclusive pattern of growth.

Indian SMEs represent the model of socio-economic policies of Government which emphasized job creation at all levels of income stratum and diffusion of economic power in the hands of few, discouraging monopolistic practices of production and marketing; and contributing to growth of economy and foreign exchange earning with low import-intensive operations.

MSMEs are the lowest layer of the enterprise system in any country. Being the 'bottom of the pyramid', their potential is substantial. The need for tapping this potential, therefore, is not only a business case, but a wider issue in the overall

development agenda of countries, including India, and at the sub-national level.

Professor Amartya Sen, on June 8, 2000, while delivering his presidential address in 351st Commencement of Harvard University, made the following remarkable comment on globalization and development: “The productive and economic contributions of global integration can scarcely be denied. But we also have to recognize the enormous inequalities that exist across the globe and often within each country. Doubts about global economic relations come from different ends of the globe, and they are in this sense ‘global doubts’ - not just an assortment of local opposition. We have to examine the manifest inequalities and disparities that give these global doubts the political salience they undoubtedly have. What is needed is not a rejection of the positive role of the market mechanism in generating income and wealth, but the important recognition that the market mechanism has to work in a world of many institutions. We need the power and protection of these institutions, provided democratic practice, civil and human rights, a free and open media, facilities for basic education and health care, economic safety nets, and, of the attention it deserves.” Sen’s observation is highly relevant to the vast constituency of MSMEs that touch upon the lives of millions of people around the world.

2. The concept: MSME

MSMEs are businesses that have a small or medium number of employees, usually less than 250. Worldwide, MSMEs have been accepted as the engine of economic growth promoting equitable growth and development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the

MSME sector is much higher than that of the large enterprises.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the MSMEs are classified in two segments:

(a) Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951. 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.

Description	Manufacturing Enterprises (Investment in plant and machinery)	Service Enterprises (Investment in equipment)
Micro Enterprises	Upto Rs.25 lakh (\$50 thousand)	Upto Rs.10 lakh (\$20 thousand)
Small Enterprises	Above Rs.25 lakh (\$50 thousand) & upto Rs.5 crore (\$1 million)	Above Rs.10 lakh (\$20 thousand) & upto Rs.2 crore (\$0.40 million)
Medium Enterprises	Above Rs.5 crore (\$1 million) & upto Rs.10 crore (\$2 million)	Above Rs.2 crore (\$0.40 million) & upto Rs.5 crore (\$1 million)

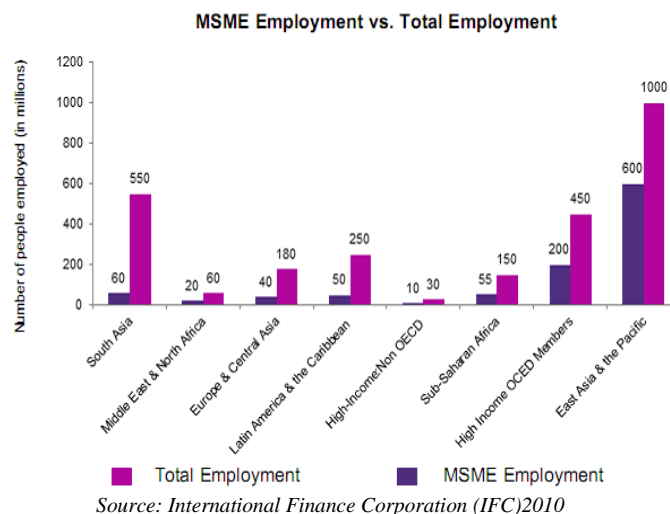
Source: www.dcmsme.gov.in

3. Global MSME scenario

According to a report by International Finance Corporation (IFC 2010) that conducted a study of 132 countries, there is an estimated number of 125 million MSMEs with an estimated 85 million in emerging economies. A depiction of MSME density across the world has been provided below. On an average there tend to be about 31 MSMEs per 1000 people across the world, with 5 countries having maximum density, Brunei Darussalam (122), Indonesia (100), Paraguay (95), the Czech

Republic (85), and Ecuador (84). The regional density of MSMEs is in line with income level distribution, with Sub-Saharan African and OECD countries being on the opposite ends of the spectrum; however Latin America and the Caribbean have a higher density than OECD countries.

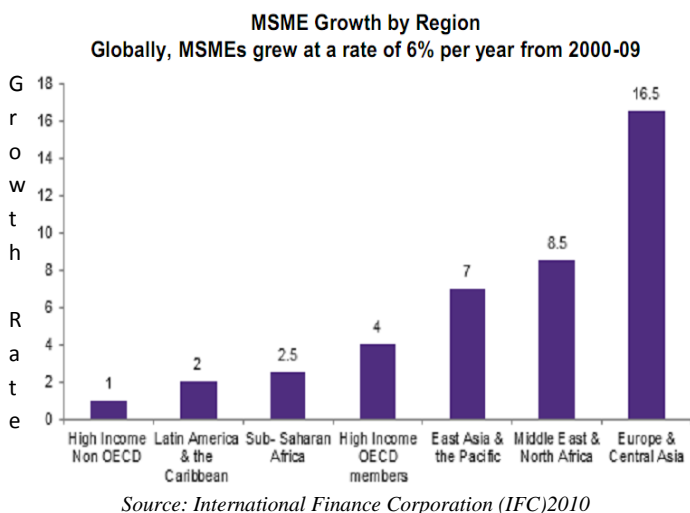
Globally MSMEs had grown by 6% from the year 2000-2009, with Europe and Central Asia experiencing a growth of 15%.



4. Present state of MSME in Indian

Indian SMEs also play a significant role for Nation development through high contribution to Domestic Production, Significant Export Earnings, Low Investment Requirements, Operational Flexibility, Location Wise Mobility, Low Intensive Imports, Capacities to Develop Appropriate Indigenous Technology, Import Substitution, Contribution towards Defense Production, Technology-Oriented Industries, Competitiveness in Domestic and Export Markets and Generate new entrepreneurs by providing knowledge and training. In a nutshell role of MSME in India is as follows (MSME Annual Report 2012-13):

- There are more than 440 lakh MSME units in India with gross output of more than Rs 1.8 lakh crore
- The sector has verified double digit growth in the last four years
- The contribution of the MSME sector to the complete output of the country is over 40% and the contribution to the
- GDP is 8% -10%
- Presently, MSME units in India that yield more than 6,000 products



Employment generation is another key aspect of MSMEs globally, which is in line with the Indian scenario. MSMEs are the largest employment generators globally, with MSMEs in higher income economies employing a higher percentage of the workforce in a country. In half of the high income economies, formal MSMEs employed at least 45% of the workforce, compared to only 27% in lower income economies. Globally MSMEs employ one-third of the working population. East Asia and the Pacific have the highest ratio of MSME employment to total employment with percentage in China being as high as 80%, therefore, highlighting the importance of MSMEs to the global economy.

- 90% of the industrial units in India belong to the MSME sector

Taking acquaintance of the need to provide a push to MSMEs, the Union Budget (2013-2014) has made the following provisions:

- Preference Benefits (non-tax) to continue for 3 years for enterprises growing for 3 years
- Refinance SIDBI (Small Industries Development Bank of India) fund enhanced from INR 5,000 crore to INR 10,000 crore
- A fund allocation of INR 500 crore for SIDBI to set-up the Factoring fund.
- INR 2,200 crore fund allocation for setting up 15 additional Centres for R&D for MSMEs.
- Expenditure on Incubator to qualify as CSR (Corporate Social Responsibility) activity to be notified by the Ministry of Corporate Affairs.
- MSME Exchange listing for start-ups is facilitated.
- Sector specific duty reductions for Leather & Gems & Jewelry.

In India, the MSME sector was too narrow until 1990s. The role of the sector was perceived largely in terms of promotion of employment and balanced regional development. The situation has changed. Today the role of MSMEs is perceived in terms of its contribution as a specific sub sector of the economy in shaping a growing economy to perfection. MSMEs today need to be understood in terms of what they are, and what they can. Such knowledge also needs to be communicated for two

reasons: (1) to trigger MSMEs into action; and (2) to gain their due respect in the wider society.

5. Performance of MSME in India 2006-12

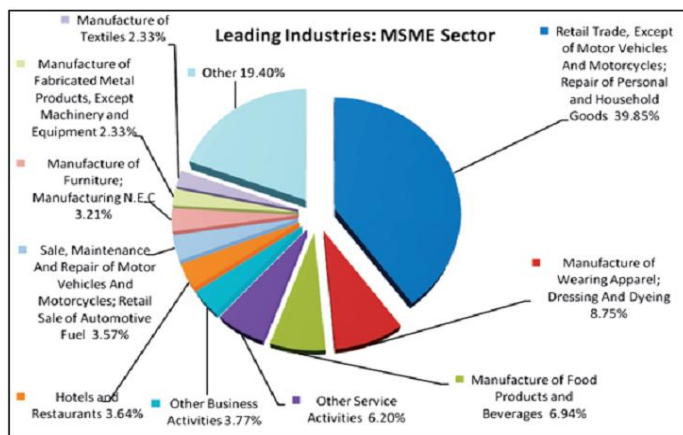
The latest Census conducted by O/o DC (MSME) is Fourth All India Census with reference period 2006-07 and was completed during 2011-12. As per the results of 4th All India Census of

MSME, the MSME sector adds significantly to the number of enterprises, employment and output of the country. Based on the data sets of 3rd and 4th All India Census of SSI/MSME, improved with data sets, growth rate observed during 4th (1998) and 5th (2005) Economic Census, the performance of SSI/MSME sector is summarised in the table below.

Sr No.	Year	Total Working Enterprise (In lakh)	Employment (In lakh)	Gross Output (In crore)
01	2006-07	361.76	805.23	1351383.45
02	2007-08	377.37	842.23	1435179.26
03	2008-09	393.70	881.14	1524234.83
04	2009-10	410.82	922.19	1619355.53
05	2010-11	428.77	965.69	1721553.42
06	2011-12	447.73	1012.59	1834332.05

Source: MSME Annual Report 2012-2013

There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSME sector in addition to provide wide range of services. The leading industries with their respective shares are as depicted below:



Source: MSME Annual Report 2012-2013

5.1 State-wise growth of MSME

The ten leading States, in terms of enterprises, are Uttar Pradesh (44.03 lakh), West Bengal (36.64 lakh), Tamil Nadu (33.13 lakh), Maharashtra (30.63 lakh), Andhra Pradesh (25.96 lakh), Kerala (22.13 lakh), Gujarat (21.78 lakh), Karnataka (20.19 lakh), Madhya Pradesh (19.33 lakh) and Rajasthan (16.64 lakh).

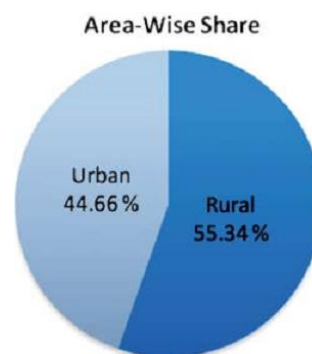
The ten leading States, in terms of employment, are Uttar Pradesh (92.36 lakh), West Bengal (85.78 lakh), Tamil Nadu (80.98 lakh), Andhra Pradesh (70.69 lakh), Maharashtra (70.04 lakh), Kerala (49.62 lakh), Gujarat (47.73 lakh), Karnataka (46.72 lakh), Madhya Pradesh (33.66 lakh) and Odisha (33.24 lakh).

Sr No	State	Enterprises (In lakh)	State	Employment (In lakh)
01	Uttar Pradesh	44.03	Uttar Pradesh	92.36
02	West Bengal	36.64	West Bengal	85.78
03	Tamil Nadu	33.13	Tamil Nadu	80.98
04	Maharashtra	30.63	Andhra Pradesh	70.69
05	Andhra Pradesh	25.96	Maharashtra	70.04
06	Kerala	22.13	Kerala	49.62
07	Gujarat	21.78	Gujarat	47.73
08	Karnataka	20.19	Karnataka	46.72
09	Madhya Pradesh	33.66	Madhya Pradesh	33.66
10	Rajasthan	16.64	Odisha	33.24

Source: MSME Annual Report 2012-2013

5.2 Distribution of Working Enterprises by Area

Rural area with 200.19 lakh of working enterprises accounted for 55.34% of the total working enterprises in MSME sector whereas urban area located 161.57 lakh working enterprises (i.e. 44.66% of the working enterprises in MSME sector).

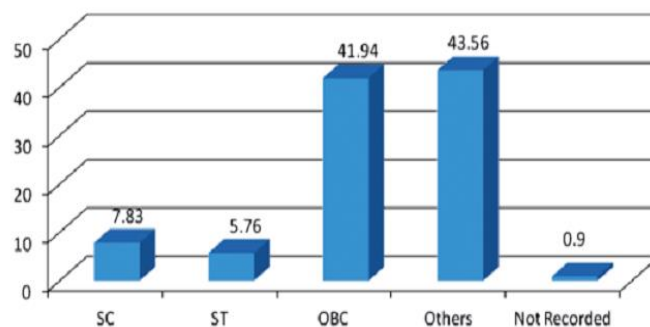


Source: MSME Annual Report 2012-2013

5.3 Ownership by Social Category

According to social group category, 7.83% of the enterprises were owned by Scheduled Caste entrepreneurs, 5.76% by Scheduled Tribe entrepreneurs and 41.94% by entrepreneurs of Other Backward Classes.

Percentage Distribution of Enterprises by Social Group of Owner



Source: MSME Annual Report 2012-2013

6. The way forward for Indian MSME

The future trend looks into the challenges and imperatives of enterprise development and of MSME development in specific. Rapid and sustained poverty reduction requires 'inclusive growth' that allows people to contribute to and benefit from economic growth. Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of the large part of the country's labour force. This definition of inclusive growth implies a direct link between the macro and micro determinants of growth. The micro dimension captures the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms. Inclusive growth refers both to the pace and pattern of growth, which are considered interlinked, and therefore, in need to be addressed together.

It often assumes that new investments will lead to growth, and growth, in turn, will lead to enhanced distribution and welfare. Most of the state governments today focus on investment promotion. But investment alone will not lead to growth. The key question is the state of local capabilities and their progression over time. State should stand out not only in attracting investments, but also in creating such capabilities, with significant focus on its base of micro, small and medium enterprises. The Industrial Policy of 2009, a fairly liberal one, mentioned clusters, industrial estates, industrial parks, IRs (investment regions) and SIRs (special investment Regions). However, industry doesn't mean only manufacturing; electricity, gas, water

supply and construction are also part of manufacturing.

India should make serious efforts at internationalizing its industry through various strategies, wherein MSMEs have a strategic role. Technological capacity building, promoting supportive business institutions, and developing relevant economic infrastructure to support start-up, growth, and internationalization, and harnessing and promoting collective efficiency as a critical developmental resource, are few innovative aspects of MSME promotion that can be executed to sustain the current growth.

To sum up, the performance of India on the MSME front need to be evaluated at four levels:

- A significant step up in investment;
- Promotion of growth linkages;
- Growth linkages leading to expansion of the base of social infrastructure and welfare; and
- Relief and support measures by the government, as essentially corrective measures in the economy.

Conclusion

The challenges to MSME competitiveness have gone up. However, a prerequisite for enhanced competitiveness is an environment of competition itself. It requires greater efforts towards developing and branding of clusters, rewarding innovative entrepreneurs, and development of infrastructure, especially, ports, airports, logistic services and industrial estates. Moreover, the India need to strengthen its economic infrastructure, such as, quality testing facilities, incubators, enabling firms conversant with IPR and export

procedures/regulations, entrepreneurship development, and design technology.

MSMEs generally lack the understanding and ability to determine the competencies that are required by an employee to fulfill his role and gain competencies and skills. These skill gaps exist at various levels. For example: As per National Skill Development Corporation, a production supervisor at a car manufacturing plant has sound knowledge of production techniques but has inadequate communication skills resulting in lack of ability to solve conflict among employees which generally leads to loss of lead time. According to Grant Thornton 'India Market Retention and Attrition Study', 85 per cent of the organizations stated that they face shortage of talent with the desired levels of skills required to fulfill certain roles and responsibilities.

MSMEs need to adopt long-term incentive schemes to ensure that employees have a vested interest/ share in achieving the long-term vision/ goal of the organization.

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