Innovation: A Survival & Growth Strategy for MSMEs

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Abstract

SMEs are considered to be the engine of economic growth the world over. SMEs stimulate innovative ideas / business methods, and entrepreneurial skills; they are flexible and can adapt quickly to changing market demand and supply situations; help in diversifying economic activity, and make a significant contribution to industrial development and exports. Thus, it is not surprising, that the establishment and promotion of SMEs across the globe has assumed strategic importance. Countries across the globe use different definition for classifying their SME sector. The definitions in use depend on the purposes for which they are meant, and are required to serve the policies that govern the SME sector thus defined. Major parameters generally applied in defining SME sector include: capital investment on plant and machinery; number of workers employed; and volume of production or turnover of business.

Despite their high enthusiasm and inherent capabilities to grow, SMEs 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, SMEs need to adopt innovative approaches in their operations.

The purpose of this paper is to review the condition of MSMEs in Indian context and how innovation could be a strategic to gain a competitive position which further leads to sustainability. This paper is going to discover about support system for MSMEs in India and how MSMEs are being supported by various institution like DC-MSME, (SIDO) and SISI.

Key words: *Sustainability, Innovation, Growth, Cluster*

1. Introduction

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 our 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.

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. SMEs that have strong technological base, innovative, inventive, international business outlook, competitive spirit and willingness to restructure them can withstand the Present challenges and come out successfully to contribute to GDP.

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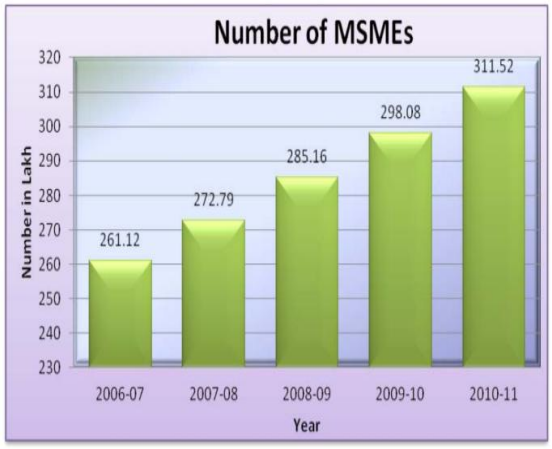
increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent and uncertain market scenario. To survive with such issues and compete with large and global enterprises, SMEs need to adopt innovative approaches in their operations.

2. SMEs in India

Small and Medium Enterprises (SMEs) have played a vital role in India‟s economic growth. With over 30 million units, SMEs accounted for 17 per cent of the country‟s GDP in 2011. Small & Medium Business Development Chamber of India projects the share of SMEs in the expansion of the Indian economy to increase to 22 per cent of the GDP in 2012. The estimate is backed by its assumption of 12 million additional people joining the SME sector over the period 2012-14); SME units currently employ 60 million people.



Source: MSME Annual Report 2011-12

The units in India are classified under the MSME (Micro, Small and Medium Enterprise) category on the basis of their investment size. Manufacturing enterprises are classified with respect to their investment in plant and machinery, while the classification of service enterprises is based on investment in equipment. According to a World Bank Study, there are more than 60 definitions of SMEs used in 75 countries surveyed. An SME in India is defined on the basis of limit of historical value of investment in plant and machinery, as per MSMED Act. Today, India's small sector consists of (i) micro enterprises (village and cottage industrial units) (ii) small enterprises and (iii) medium enterprises. In accordance with the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 the micro, small and medium enterprises (MSMEs) have been classified:

Table1

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: Development Commissioner (MSME) Government of India www.dcmsme.gov.in

Since, 1991, Indian Government has been relaxing import restrictions, promoting the growth of trade in order to improve India's economic standing within the International community. The rapid expansion of commerce into international markets has resulted in a growing demand for global brands and services (Javalgi and Ramsey, 2001).Small and medium-sized businesses within the country began to feel the pressure from increasing competition from firms that were previously locked out of the domestic market. This has resulted in an increasingly competitive environment to which SMEs must adapt.

3. Status & Role of Indian SMEs

Indian MSMEs have moved up the value chain from manufacture of simple goods to manufacture of sophisticated products. In line with the overall growth in Indian economy, SMEs have entered the services sector as well. Associated with this high growth rates, 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 working. Innovation could be on multiple parameters like business processes, product/ service development, technology, handling external environment to compete with large enterprises globally. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

Clustering and networking approach adopted by Government of India and State Governments for development of MSMEs has helped these enterprises in boosting their competitiveness. Current figures related to the aggregate performance (output,

employment and exports) of India's MSMEs point to the contrary.

- There are more than 100 lakh MSME units in India with an investment of more than Rs 1 lakh crore.
- The sector has recorded double digit growth in the last four years.
- The contribution of the MSME sector to the entire output of the country is 40% and to the GDP 8%.
- Currently, there are over 11 million MSME units in India that produce more than 8000 products.
- Ninety per cent of the industrial units in India belong to the MSME sector.
- These MSMEs units contribute 35% to Indian industrial exports.

These bold statistics are seen at the table below of the continuous incremental growth of India's small sector with MSMEs constituting the growth engine of the country's economy. Accounting for almost 45% of the manufacturing output, 95% of the number of industrial units, 40% of exports and providing employment to almost 60 million people make MSMEs the largest source of employment after the agriculture sector.

Sl. No.	Year	Total Working MSMEs	Employment	Fixed Investment	Production (Current Prices)	Exports
		(Lakh numbers)	(Lakh persons)	(Rs. crore)		
I	II	III	IV	V	VI	VII
3	2003-04	113.95	271.42	170219	364547	97644
		(4.07)	(4.31)	(4.87)	(15.78)	(13.52)
4	2004-05	118.59	282.57	178699	429796	124417
		(4.07)	(4.11)	(4.98)	(17.90)	(27.42)
5	2005-06	123.42	294.91	188113	497842	150242
		(4.07)	(4.37)	(5.27)	(15.83)	(20.76)
6	2006-07	261.12	595.66	500758	709398	182538
		(111.57)	(101.98)	(166.20)	(42.49)	(21.50)
7	2007-08	272.79	626.34	558190	790759	202017
		(4.47)	(5.15)	(11.47)	(11.47)	(10.67)
8	2008-09	285.16	659.35	621753	880805	N. A.
		(4.53)	(5.27)	(11.39)	(11.39)	
9*	2009-10	298.08	695.38	693835	982919	N. A.
		(4.53)	(5.46)	(11.59)	(11.59)	
10#	2010-11	311.52	732.17	773487	1095758	N. A.
		(4.51)	(5.29)	(11.48)	(11.48)	

Source: MSME Annual Report 2011-12

3.1 Clusters Approach for SMEs

A cluster is basically a local agglomeration of enterprises encountering common opportunities and hurdles. The enterprises produce and sell a range of related and complementary products and services. Clusters mainly consist of SMEs but often also include some large enterprises. In other words, clusters are characterized by sectoral and geographical concentration of enterprises.

With firms located in close proximity to each other there is the opportunity to reap the benefits arising out of joint efforts and shared vision of the future. Efforts made collectively viewing the cluster as a whole can give the cluster a competitive edge.

An example of a cluster can be localized knitwear and garment industry comprising knitting firms, cloth-finishing, dyeing and printing units, garment producers, merchant buyers and others located within a small geographical area. The internationally known cluster of Bangalore, operating in the software sector is also worth mentioning.

According to a UNIDO survey of Indian SSI clusters undertaken a few years ago, there are 350 SSI clusters and approximately 2000 rural and artisan based clusters in India. It is estimated that these clusters contribute 60% of the manufactured exports from India. Among the prominent ones is the cluster at Panipat accounting for 75% of the total blankets produced in the country. Tirupur accounts for 80% of the country's cotton hosiery exports.

4. Need of Innovation for SMEs

Innovation has been defined as the intersection of invention and insight that leads to commercial and social value. In India, there are many instances where innovation, as defined, has occurred and is occurring. A careful analysis of the innovations suggests that the translation of new ideas into value generation is not a simple process. Though innovation starts with the idea and ends with value, there are a number of intervening steps that an innovator has to go through. There are no roadmaps that a person with ideas can follow to reach one's destination. Hence, to nurture innovative ideas, it is essential to have an innovation eco-system that opens up a large network of roads on which an innovator may possibly travel.

There is a widely held view that Innovation is primarily driven by high-end technology and R&D. However, high-end technology and R&D are only two of several sources of Innovation. The reach and impact of Innovation is seen across the value chain to also include other sources of Innovation such as various processes and services, marketing, branding, trade, entrepreneurship, market research, customer surveys, etc. The National Knowledge Commission (NKC) therefore defines Innovation in a more comprehensive sense, where along with products and services, processes and economic value enhancements are also paramount. NKC defines Innovation in the following manner:

'Innovation is defined as a process by which varying degrees of measurable value enhancement is planned and achieved, in

any commercial activity. This process may be breakthrough or incremental, and it may occur systematically in a company or sporadically; it may be achieved by:

- introducing new or improved goods or services and/or
- implementing new or improved operational processes and/ or
- implementing new or improved organizational/ managerial processes in order to improve market share, competitiveness and quality, while reducing costs.'

According to a recent World Bank report focused on enhancing the innovation capacities of India's enterprises to unleash its innovation potential, India needs to develop a strategy that does the following:

- Focuses on increasing competition as part of improving its investment climate, supported by stronger skills, better information infrastructure, and more finance–public and private.
- Strengthens its efforts to create and commercialise knowledge, as well as better diffuse existing global and local knowledge and increase the capacity of smaller enterprises to absorb it. If all enterprises could achieve national best practices based on knowledge already used in India, the output of the economy could increase more than five-fold.
- Fosters more inclusive innovation, by promoting formal R&D efforts for poor people and more creative grassroots efforts by them, and by improving the ability of informal enterprises to exploit existing knowledge.

Irrespective of the dimensions of technological innovations, MSMEs intend to achieve cost-effective, improved versions of existing products to gain and maintain technological momentum. Studies of the innovation pattern of global MSMEs point to the fact that there is a relationship between innovation and the growth of MSMEs. So, while MSMEs of north-east England pursued radical innovation as a strategy of firm growth (Bala Subrahmanya 2001) Estonian MSMEs improved their performance in terms of market share and a diversified range of goods and services through innovation. Empirical studies like those by Engel et al (2004) and Coad and Rao (2008) have found that there was a positive impact of innovation output on the sales turnover change in the craft-dominated industries of Germany as well as in the high-tech sectors in the US. However, all these

findings are related to industrialised countries and therefore their relevance in the context of a developing country is questionable.

Innovation under local conditions is a critical element to help MSMEs, both new and existing, to address India's mega challenges. First and foremost, any innovation must think about the concept of scale in the Indian context, the target customer size, reach, price points, and how to leverage local resources given all attendant cultural and regional insensitivities. To address this, the country should have its own indigenous pervasive models. To emulate established global models, India needs to re-assess the applicability of these models in the Indian context. India has always seen abundant localised creativity, or jugaad. This literally means working around a lack of resources by making best use of available resources and coming up with a quick-fix solution. Many Indian MSMEs innovate and offer new products and services that address a multitude of problems. But this innovation fails to sustain. Few companies go beyond the one innovative product or service. So, even while new technology start-ups can embark on breakthrough innovations for building knowledge-intensive businesses, MSMEs should look at incremental innovation to ensure competitiveness.

Recognising the importance of generating, commercialising and absorbing R&D, in recent years, the government has created a number of support programmes, which could of course be more effective. The principal sources of technological innovations are the academia, R&D organisations, individual innovators, etc. Notably, a few laudable initiatives from various government agencies, e.g Department of Scientific and Industrial Research **(**DSIR**)**, Department of Biotechnology(DBT), etc, foster innovation, technology entrepreneurship and above all, opportunities to SMEs to attempt high-risk pre-proof-of-concept R&D. Globally, many organisations are successfully linking academic institutions with the industry. In India, the Foundation for Innovation and technology Transfer (FITT) (est. 1992) has been a pioneering industry-interfaceorganisation (modelled broadly on the pattern of The Foundation for Scientific and Industrial Research (SINTEF, Norway).

The working group on science and technology for SMEs has prepared and

delivered its report to the government of India. This has already been implemented through the 11th Five Year Plan (2007 - 2012) of India. The working group recommended the existing schemes and programmes of 'technology business incubators' (TBIs) and technology innovation centres (TICs) to continue. The working group also recommended the role of polytechnics and industrial training institutes (ITIs) in serving the manpower requirements of SMEs in rural and mofussil areas.

However, a recent report by the National Skill Development Council of India forecasts that there could be an incremental shortfall of 240 million to 250 million people by 2022 in 20 high growth sectors of the Indian economy and in the unorganised segment. Over 13 million people are required every year in 90 skill categories. The inability of vocational training institutions to attract school drop-outs, tailor their courses in accordance with the changing needs of the industry and being able to scale quickly enough are other factors that have compounded the problem. MSMEs as the biggest generators of employment in the country, it is necessary to reduce skill gaps amongst MSMEs to promote the concept of inclusive growth.

5. Government Initiative & Policies

One of the key driving forces for industrial augmentation is the growth of MSMEs because it helps create employment. However, several factors like credit policies and innovation barriers restrain the profitability of this sector. SMEs form the foundation of the manufacturing sector in all large manufacturing countries. They generate employment within the manufacturing sector, and contribute to the country's exports. India has abandoned the approach of reserving sectors for its SMEs and instead, has adopted the more sustainable approach of nurturing competitive SMEs.

The Indian government realises the role played by MSMEs in the economic and social development of the country because employment potential and the overall growth in the MSME sector is much higher than in the large industries. The Indian government has announced policy measures for easy and adequate availability of credit for the MSME sector. In addition to the policy packages, the Indian government has also introduced schemes like the credit

guarantee scheme and the performance and credit rating scheme to ensure better availability of credit to MSMEs. The role of government policies for creating competitive MSMEs has been discussed in detail in the following sections.

The prime minister's task force set up in February 2010 has recommended steps to encourage many MSMEs.

- The task force has asked for a target of 6% for micro enterprises under priority sector lending. The panel also recommended that in case there is a shortfall by banks in lending to SMEs, the deficit should be put in a separate fund with SIDBI to ensure required assistance to MSEs in one way or the other.
- Interest subvention will help MSMEs avail the required credit at a better rate than what has been available till now.
- The SME exchange will allow MSMEs to acquire equity or risk capital. The sector has been relying heavily on debt capital so far.
- A uniform application form common to all banks simplifies the process of loan application of up to Rs 25 lakh. Banks should also open more MSME-focused branch offices at different MSME clusters which can also act as counselling centres for MSMEs. Banks may also be persuaded to adopt the banking code for MSMEs to bring about uniformity in operations.

5.1 RBI initiatives

The RBI has taken several measures to make credit available to the employment-intensive sector of MSMEs. In June 2011, the RBI asked banks to ensure that lending to SMEs grows at a decent pace. According to the data provided by the RBI, bank credit to SMEs grew by 13% in May, as compared to 14.8% growth recorded in the same month last year. Banks were given instructions to step up credit to micro and small units to 55% of the total SME financing by 2012 and 60% by 2013.

5.2 The office of the **development commissioner (MSME)** has also done a lot for the fiscal betterment of the MSMEs through many of its schemes.

- The credit guarantee fund scheme for micro and small enterprises provides collateral-free loan of up to Rs 50 lakh.
- The micro finance programme contributes towards security deposits

required from the micro finance institutions (MFIs) or NGOs to get loan from SIDBI. The scheme is being operated in underserved states. As on 31 March 2010, a cumulative loan amount of Rs 1299.68 crore has been provided to MFIs and NGOs under the scheme, benefiting around 20.21 lakh people. More than 80% of these are estimated to be women beneficiaries.

5.3 Information accessibility

'Udyami helpline'(1800 180 6763), the call centre of the Ministry of MSME, has been created as a single-point facility for a wide spectrum of information and accessibility to banks and other MSME-related organisations. Udyami provides information to first-generation entrepreneurs regarding project profiles available on the website of the ministry, the Khadi and Village Industries Commission (KVIC) and other ministries. It also gives information on the other formalities required in setting up an enterprise, for getting loans from banks, the availability of subsidy under various schemes of the ministry, etc.

5.4 Intellectual property

The Ministry of MSME has set up an intellectual property cell which provides a range of IP related services such as prior art-search, validity search, patent landscape, studies on technology development, etc. The implementation of proper intellectual rights regime will help SMEs gain access to newer markets, avoid wasteful investment in R&D and marketing, negotiate licensing, franchising or other IP-based contractual agreements and increasing market value to lead to other potential benefits.

5.5 Manpower Development

The government has realised the importance of vocational education and skill upgradation of the existing workforce. So, it has taken initiatives to upgrade nearly 1,390 industrial training institutes (ITIs) in public private partnership mode across the nation. Under the scheme, various institutions like engineering colleges, research labs, etc. are provided with funds up to Rs 6.25 lakh for handholding each new idea or entrepreneur. The incubators provide technology guidance, workshops, lab support and linkages to other agencies for the successful launch of business.

5.6 Additional support mechanisms by the Indian government

The government has taken various measures to support and ensure growth and development of Indian MSMEs, especially to enhance their competitiveness in the present global environment.

- The development commissioner (MSME) is the focal point for all policy matters including the formulation of promotional and developmental schemes as well as channelising certain incentives and subsidies.
- The Small Industries Development Organisation (SIDO) and the Small Industries Service Institutes (SISI) have been providing technology development services to the Indian MSMEs.
- The National Small Industries Corporation (NSIC) has established NSIC-Technical Services Centres (NTSC), and a number of extension and sub-centres across the country. NSIC provides a range of technical services through these centers, focusing on energy audit, environmental standards, testing, among others.
- Export-Import Bank of India caters to the technological development of Indian SMEs through various support services, helping them to move up in the value chain and to make them internationally competitive.
- Small Industries Development Bank of India (SIDBI) is a principal financial institution for the promotion, financing and development of small scale sector.
- The Ministry of MSME is implementing a cluster-based scheme titled "Scheme of Fund for Regeneration of Traditional Industries (SFURTI)" for development of around 100 clusters in khadi, village and coir sectors with a total cost of Rs. 97.25 crore.
- Skill development in MSME sector is essential for achieving all-round growth. The Ministry of MSME, Government of India plays an important role in providing skill development related training of diverse nature.
- National Institute for Micro, Small and Medium Enterprises (Ni-MSME) has been established by the Ministry of MSME, Government of India with the objective of promotion, development and modernization of the SME sector, through a gamut of training, consultancy, research and education.
- Entrepreneurship Development Institute (EDI), has been established by the leading banks and financial institutions in India,

viz., IDBI Bank, ICICI Bank, State Bank of India, IFCI Ltd.

- The Indian Institute of Entrepreneurship (IIE) was established under the Ministry of MSME, Government of India with other stakeholders being North East Council; Governments of Assam, Arunachal Pradesh and Nagaland; and SIDBI.
- The Development Commissioner, Ministry of MSME has established several MSME-Development Institutes all over the country with active support of State Directorate of Industries.

Conclusion

The growing importance of SMEs, which account for about one-sixth of India‟s total GDP, is manifesting itself in various quarters of the economy. Government is trying to push it forward with a number of plans to foster technology, innovation and quality in SMEs. India's manufacturing SME sector is well equipped to grow, and the fundamental drivers are in the right place. Continued empowerment of SMEs will enable them to attain high and sustainable growth in the long-run.

Indian SMEs are increasingly organising themselves in clusters, which improve their access to business associations are technical assistance providers. It also helps in building inter-firm cooperation that adds to productivity and innovation.

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