

Indian MSME Sector: A Review

Prof. Girish S. Bagale

Asst. Professor & PhD scholar, SBM, SVKM's NMIMS University, Mumbai-56, India.

***Corresponding Author:**

Prof. Girish S. Bagale

Email: girish.bagale@nmims.edu

Abstract: A literature review in Indian MSME sector. It shows the profound impact of MSME sector on Indian Economy, status of MSME sector in India & governments efforts for this sector.

Keywords: Micro, Small and Medium Enterprises (MSME), Indian Economy

Introduction

It is well-known that Micro, Small and Medium Enterprises (MSME) sector provides maximum opportunities for both self employment and jobs. In the era of globalization & liberalization; SMEs are facing cut throat competition at local, national, international level. To keep their position intact & sustained in a long run; in this highly competitive market they need to implement new change & technologies.

In an increasingly competitive and globalised world, Micro, Small & Medium Enterprises (MSMEs) need to compete more effectively to boost domestic economic activities and contribute toward increasing export earnings. The E-commerce can help small enterprises to present themselves to the world. E-Commerce is emerging as a new way of helping business enterprises to compete in the marketplace and thereby contributing to their economic success. Micro, Small and Medium Enterprises (MSMEs) with a relatively small investments, profits can generate good business opportunities by automating their processes using electronic means. E-Commerce platforms like B2B Portal and B2C Portals are playing very good role in enhancing the reach of MSMEs globally.

MSMEs are increasingly seeing the benefits arising from e-commerce as expanded geographical coverage giving them a larger potential market into which they

can sell their products and services. Akkeren and Cavaye [1] state that e-commerce improves an SME's ability to compete with larger organizations and operate on a global scale. They additionally see e-commerce as a tool for providing very effective ways in which for SME's to plug their business, launch new product, improve communications, gathering data and establishing potential business partners. The web permits small businesses to enter the domain of larger business and compete with them.

Significance of MSME sector in India.

The definition of SMEs varies in different countries and studies. The term SME covers a wide range of definitions and measures, varying from country to country and varying between the sources reporting SME statistics [2]. There is no single and fixed definition for small and medium companies and existing definitions is changed from country to country and from one industrial sector to other industrial sectors. SMEs are defined on the basis of number of employees employed & investment; in most of the countries.

In India; Enterprises have been classified broadly into two categories, namely enterprises engaged in the manufacture/production of goods pertaining to any industry; & enterprises engaged in providing/rendering of services. As per "Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 of Govt. of India" [3]; MSMEs are defined in India as follows.

Table-1: Definitions of SME after 2 October 2006[3]

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Up to Rs. 2.5 million (US\$ 50,000)	Up to Rs. 1 million (US\$ 20,000)
Small	Rs. 2.5 to Rs. 50 million / (US\$ 1 million)	Rs 1 to 20 million Rs (US\$ 40,00,000)
Medium	Rs. 50 million to Rs. 100 million (US\$ 2 million)	Rs 20 to 50 million Rs (US\$ 1 million)

Investment ceiling for plant, machinery or equipments (excluding land & building).

* Investment limit in Plant & Machinery

** Investment limit in equipments ***Rs 50=1USD

Contribution of MSME sector to Indian Economy:

MSMEs, credited with generating the highest rate of employment after agriculture, account for a major share in industrial production and exports. This sector accounts for around 45% of the total manufacturing output; 40% of India’s total exports and contributes around 8% in India’s Gross Domestic Product (GDP). It employs about 59 million persons in over 26 million units across the country. There are over

6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. The total number of MSMEs operating in India significantly increased 207% per cent between 2000-01 and 2009-10 and the sector registered a sterling 21.52% compounded annual growth in terms of production. The employment generating potential of the sector has also grown at an annual compounded rate of 11.74% in the last decade. Nearly 50% of the MSMEs are owned by disadvantaged groups of society. [4]

Table 2: Contribution of MSME sector to the total Industrial Production & GDP of India.[4]

Year	Contribution of MSME(%) to	
	Total Industrial Production	Gross Domestic Product(GDP)
2004-05	38.62	5.84
2005-06	38.56	5.83
2006-07	45.62	7.20
2007-08	45.24	8.00
2008-09	44.86	8.72

Manufacturing sector contributes around 15% in India’s Gross Domestic Product (GDP). In that MSME sector contributes 8% in India’s Gross Domestic Product (GDP) & 45% of the total manufacturing output of India.

The below Graph describes the composition of the MSME in India. In the sector as a whole, majorities of enterprises are in the manufacturing space (67 %).



Graph 1: Describes the composition of the MSME in India. [4]

In the National Manufacturing Competitiveness Program (NMCP), MSMEs are under ‘priority sector’. The share of manufacturing in India’s GDP has stagnated at 15-16% since 1980 while the share in comparable economies in Asia is much higher at 25 to 34%. [5]

National Manufacturing Policy envisages increasing the share of Manufacturing in GDP to 25 % over the next decade and generating additional 100 million jobs in manufacturing sector through an annual average growth rate of 12-14 % in manufacturing sector. MSME sector being the major base of manufacturing sector in India. This would call for quantum jump in plan allocation for the sector during the 12th Plan to address major bottlenecks facing the sector. [6]

Research suggests that SMEs are the major providers of new jobs and contribute positively to

economic growth. SMEs make a significant contribution to India’s economy. This important sector plays a vital role within the development of economy’s infrastructure by providing employment generation, innovation and wealth creation. MSME sector contributes not only to higher rate of economic growth but also in building an inclusive and sustainable society in innumerable ways through creation of non-farm livelihood at low cost, balanced regional development, gender & social balance, environmentally sustainable development and to top it all, recession proofing of economic growth, which the sector has proven time and again. SMEs are significantly contributing to industrial, economic, technological and regional developments in all economies, developed and developing. [7]

To make the sector significant player in the global market place, Government has taken a number of policy initiatives during the recent period. To identify issues inhabiting growth of the sector a task force was

constituted by the prime minister in 2009. In its report; the task force made 85 recommendations to unshackle the Indian MSMEs.

Planning commission constituted the working group on micro small medium enterprises (MSMEs) Growth for the 12th five year plan (2012-17) under the chairmanship of secretary (MSME) with 46 members representing various Ministries /offices of government of India, representatives of selected state governments and industry associations, NGOs etc in May, 2011.

Schemes and Programs of the GOI for the sustainable growth of the MSME sector:

To promote and support MSMEs, GOI are taking various initiatives along with running schemes and programs on following areas -

1. Credit & Finance
2. Competitive Technology
3. National Manufacturing Competitiveness Program (NMCP)
4. Skill Development
5. Marketing and Procurement
6. Export Promotion
7. Infrastructure Development
8. Fiscal Concessions
9. Micro, Small and Medium Enterprises Development Act, 2006[8]

In some countries such as Singapore and Taiwan ; the SMEs are base of economy. While in countries like Japan and Korea base of economy are big companies and small companies operate as their support. Globalization and India's robust economic growth have opened up several latent business opportunities for this sector. With all these developments, there is a huge scope for MSMEs to enter in international markets, explore opportunities abroad and make the 'Made in India' tag global. India has registered a high economic growth (6-9%) consistently over the last one decade. For the sustainability of this kind of growth proper nurturing of MSME sector is imperative. The need of the hour is to empower the MSME Sector so that it is able to take its rightful place as the growth engine of the economy.

Conclusion

We hope that SMEs will increase their abilities to compete with global competition, because the research will introduce appropriate strategies that SMEs can follow to sustain growth. This research has implications for policy makers, managers and owners of MSMEs.

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