Significance and Contributions of Small and Medium Enterprises in India

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ABSTRACT

The Small and Medium enterprises play a vital role in the Indian economic structure due to its significant contribution in terms of output, exports and employment. For a developing nation like India, where the labour is abundant and capital is scarce, the small sector is a major source of employment for millions of people. Keeping in view the importance of SMEs, the Indian government has included this sector in its five-year plans. The SMEs are still hampered by the problems of finance, marketing and low quality. Taking into account the enormous potential of the small sector, the entrepreneurs and the policymakers must act collectively to facilitate growth in this sector.

INTRODUCTION

Small enterprise promotion has continued to remain an important and integral part of Indian development strategy much before the First Five-Year Plan, even dating back to 1938 when the National Planning Committee documents were being prepared. The concerted policy emphasis upon small firms as a vital vehicle of progress draws upon this sector’s crucial historical role in generating substantial employment and income at the regional level and acting as a shock-absorber during periods of economic crisis. The small enterprise sector has continued to contribute immensely in creating large scale job opportunities across space and, in the process, helped reduce inter-regional and rural-urban disparities in growth. The remarkably diverse range of products manufactured in this sector (estimated to a staggering over 8000 distinct products), often available at affordable prices, has successfully catered to a calibrated yet vast domestic market. Certain products in this sector have also been consistently figuring in the export basket during the recent decades, although the export performance in the global market has been unimpressive. After pursuing at least four decades of ‘controlled’ industrialization – protecting infant industry and supporting an import-substitution strategy – in 1991, through the formal pronouncement of economic reforms of the Indian economy, the hitherto protected small enterprise sector began to come to terms with the imperatives of globalization. An increasing emphasis upon external orientation, competitiveness and networking with agencies within and beyond the sector and nation seemed to have been the bedrock of current policy paradigm; the recent policy framework corroborates this notable shift in focus. It may, however, be pointed out at this stage that till as late as October 2006, by when the Micro, Small and Medium Enterprises...
Development (MSMED) Act came to be legislated, the ‘medium’ category never had been formally defined; albeit, especially, in certain sub-sectors and regions many dynamic small enterprises had been operating at a much higher level of investment in plant and machinery and market reach.

Small and Medium Enterprises is an integral part of the Indian industrial sector. The distinctive feature of Small and Medium Enterprises (SMEs) are less capital investment and high labour absorption which has created unprecedented importance to this sector. As per the Development Commissioner of Micro, Small and Medium Enterprises (2001), the sector has the credit of being the second highest in employment, which stands next to agricultural sector. The nature of the businesses in this sector plays an important role to alleviate poverty and propel sustainable growth and equitable distribution of income in India. The SMEs play an important role in efficiently allocating the enormous labour supply and scarce capital by implementing labour intensive production processes. SME triggers private ownership, boosts entrepreneurial skills and their flexibility in responding quickly to changing market demand and supply conditions are noteworthy.

MICRO, SMALL AND 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. The definition of medium enterprises is given for the first time. It integrates the three tiers of the enterprises namely, micro, small and medium (Development Commissioner of MSME, 2009). Annual report of Micro, Small and Medium Enterprises of India (2011) states that, MSMED Act 2006 was enacted to address issues affecting Micro, Small and Medium Enterprises (MSMEs) and to cover the investment ceiling of the sector. The salient features of the Act includes, setting up of a National Board for MSMEs, classification of enterprises, advisory committees for promotion, development and enhancement of MSMEs, schemes to SMEs in India: Importance and Contribution control delayed payments to MSMEs and enactment of rules by state governments to implement the MSMED Act, 2006 in their respective states. In India, the enterprises have been classified broadly into manufacturing and those engaged in providing or rendering of services. These categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery for manufacturing enterprises and on equipment for enterprises providing or rendering services (Development Commissioner of MSME, 2009). The limit for investment in plant and machinery for manufacturing / equipment for service enterprises before and after October 2, 2006 are as under:

DEFINITION OF SMEs

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

i. A micro enterprise is an enterprise where investment in plant and machinery [original cost excluding land and building and the items specified by the Ministry of Small Scale Industries] does not exceed Rs. 25 lakh;
ii. A small enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries) is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and

iii. A medium enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries) is more than Rs.5 crore but does not exceed Rs.10 crore.

(b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006). These will include small road & water transport operators (owning a fleet of vehicles not exceeding ten vehicles), retail trade (with credit limits not exceeding Rs.10 lakh), small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs.20 lakh) and professional & self employed persons (whose borrowing limits do not exceed Rs.10 lakh of which not more than Rs.2 lakh should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15 lakh with a sub-ceiling of Rs.3 lakh for working capital requirements).

i. A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;

ii. A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and

iii. A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

Small and medium-sized enterprises (SMEs) are a very heterogeneous group. SMEs are found in a wide array of business activities, ranging from the single artisan producing agricultural implements for the village market, the coffee shop at the corner, the internet café in a small town to a small sophisticated engineering or software firm selling in overseas markets and a medium-sized automotive parts manufacturer selling to multinational automakers in the domestic and foreign markets. The owners may or may not be poor; the firms operate in very different markets (urban, rural, local, national, regional and international); embody different levels of skills, capital, sophistication and growth orientation, and may be in the formal or the informal economy.

Statistical definition of SMEs varies by country and is usually based on the number of employees, and value of sales and/or value of assets. Due to its ease of collection, the most commonly used variable is the number of employees. The EU and a large number of OECD5, transition and developing countries set the upper limit of number of employees in the SMEs between 200-250, with a few exceptions such as Japan (300 employees) and the USA (500 employees). At the lower end of the SME sector, a large number of countries define a group, which is a mixture of the self-employed and “micro” enterprises, with less than 10 employees. Irrespective of the level of development of an economy, a significant proportion of micro and, sometimes, small enterprises are found in the informal sector or the shadow economy. Schneider (2003) compared the size of the informal sector in 22 transition (former Soviet Union and Central and Eastern Europe) and 21 OECD economies from 2000-2002 and
found that the size of the informal sector amounted to an average of 16.7%, 29.2% and 44.8% of GDP in OECD, Central and Eastern Europe and the former Soviet Union economies, respectively.

SIGNIFICANCE OF SMEs

The importance of small and medium enterprises (SMEs) is well understood by national economies. World over half to two-thirds of all businesses are SMEs and in many regions this proportion is much higher. SMEs are capable of creating jobs with least amount of capital and in dispersed locations which makes SMEs attractive to policy makers. However they remain as a heterogeneous group, in different organizational structures ranging from proprietorship to corporate, engages in factories to service organizations activities and with different definition in different countries and in some countries they differ from industry to industry. The heterogeneous nature and small size needs adequate support from organized intermediaries. These intermediaries exist in every country in different forms. SMEs development agencies such as Small Business Administration (SBA) of the US, Small Business Service (SBS) of United Kingdom and SIDO (Small Industries Development Organization) in India are the intermediaries set up by the Government (Chandra, 2004).

SMES SUPPORTING AGENCIES IN INDIA

Some of the important organizations that are associated with SMEs 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), SMEs in India: Importance and Contribution 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 (PHDCCI), Federation of Indian Exporters Organization (FIEO), Federation of Associations of Small Industries of India (FASII), Consortium of Women Entrepreneurs of India (CWEI), Indian Council of Small Industries (ICSI), Indian Institute of Entrepreneurship (IIE), National Institute for Entrepreneurship and Small Business Development (NIESBUD) and Small Entrepreneurs Promotion and Training Institute (SEPTI) (Ghatak, 2010).

CONTRIBUTION OF SMEs

The contribution of individual SMEs are small but collectively they have emerged as a dominant player in the national economies. The unprecedented importance of Small and Medium Enterprises in India is due to the maximum number of units and its employment opportunities. This sector plays a significant role in the development and employment to minorities, backward class people and also to women. Annual report of Ministry of MSME (2010-11) show that, in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 59 million people in over 26 million units throughout the country. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the Micro, Small and Medium enterprises in India. The benefits of the SMEs have created a special status and importance in the Five-Year Plans right from its
inception. In recent years, the MSME sector has consistent higher growth rate compared to the overall industrial sector. In this globalised environment the government of India has felt that, there is a need to enhance the global competitiveness of the MSMEs by simplifying systems and procedures, easy access to capital and taking the MSMEs in the global value chain by increasing their productivity. To promote and develop the MSMEs, the government has implemented several schemes/programmes to cater to the needs of the sector (Rai, 2009). The attractiveness of SMEs can be summed up as, SMEs are usually started by a single or a group of people mainly to earn their livelihood, flexibility in deciding the price and product with response to the market changes, incur lower overheads thus reducing the cost of production up to a certain volume, capable of meeting the niche market requirements and also export their products in small quantity, create 80% of the jobs, found to be labour intensive compared to the larger counterparts, utilize the manpower locally, located in the dispersed location and emerge as „clusters” for similar kind of units. The dispersed location of SMEs has attracted from national and regional policy (Laghu Udyog Bharti, n.d).

FACTORS AFFECTING SMEs IN INDIA

MSMEs in India face several problems such as, lack of availability of adequate and timely credit, high cost of credit, lack of collateral requirements, limited access to equity capital, problems in supply to government departments and agencies, procurement of raw materials at a competitive price, issues of storage, designing, packaging and product display, lack of access to global markets, inadequate infrastructure facilities like power, water and roads, low technology and lack of access to modern technology, problems of skilled labour for manufacturing, services and marketing, multiplicity of labour laws and complicated procedures, absence of a suitable mechanism which enables the quick revival of sick enterprises and measures to close down the unviab le entities and issues relating to direct and indirect taxation and their procedures (Report of Prime Minister”s Task Force, 2010). SMEs in India: Importance and Contribution The government policy towards SMEs may either encourage or discourage further expansion. India offers attractive incentives to small enterprises but these measures backfire beyond a specified level leading to loss in valued benefits (Little et al, 1987; Mitra and Pingali, 1999). SMEs lack export competitiveness due to product reservation, regulatory policies at the entry and exit stages, lack of sufficient finance at affordable interest rates, rigid labour markets and infrastructure issues like power tariff and lack of export infrastructure (Das et al, 2007).

CONCLUSION

In India SMEs has achieved steady growth over the last couple of years. The role of SMEs in the industrial sector is growing rapidly and they have become a thrust area for future growth. The Indian market is growing and the Indian industry is making rapid progress in various Industries like manufacturing, food processing, textile and garments, retail, precision engineering, information technology, pharmaceuticals, agro and service sectors. Under the changing economic scenario the SMEs have both the opportunities and challenges before them. The support given by the national and the state governments to the SMEs is not adequate enough to solve their problems. However for the sector to fully utilize its potential, it is essential that the entrepreneurs along with the government support take necessary steps for further development. It is quite evident that, nurturing this sector is essential for the economic well-being of the nation.
REFERENCES


