



MSME Sector in India: A Review of Literature

Dr.P.Suresh

Associate Professor, Department of MBA, Aristotle PG College, Osmania University, Hyderabad, Telangana.
E-mail: psureshmbaphd@gmail.com

To Cite this Article

Dr.P.Suresh. MSME Sector in India: A Review of Literature. International Journal for Modern Trends in Science and Technology 2023, 9(05), pp. 234-237. <https://doi.org/10.46501/IJMTST0905038>

Article Info

Received: 06 April 2023; Accepted: 02 May 2023; Published: 14 May 2023.

ABSTRACT

MSMEs (Micro Small Medium Enterprises) play a very critical role through its contribution towards the economic development of any country and thereby it determines the major economic indicators for a developing nation. MSMEs role has been clearly understood as the pillars of our growing economy. The MSME sector plays a vital role in the growth of our country. The contribution of the MSME sector to the economy, the minister said that MSMEs have an integral role to play. "There are 6.3 crore MSMEs in the country and the sector employs 11 crore people. MSME sector is considered the backbone of the Indian economy and contributes nearly accounts for 27% of the country's GDP. It primarily works for the development of people from backward and rural areas. . This paper would study the role of MSMEs in Indian Economy and its effects on employment creation in the nation. The present study investigates the literature to identify major problems faced by MSMEs in the competitive environment.

Key words: MSMEs, Indian economy, Employment, GDP.

1. INTRODUCTION

Indian MSMEs are a vital part of our economic sector. The interesting characteristics of this sector are that they need less capital investment as compared to large firms and also provide high job opportunities. This has created a high importance to the MSME sector. Indian MSME is the second highest in employment which is next to agricultural sector as per the Development Commissioner of Micro, Small and Medium Enterprises. This MSME sector is creating job opportunities which is eliminating poverty and also creates an ecosystem for generating high revenue. It is also helping in optimizing the available resources like manpower and capital by adopting different strategies. This small sector is acting as a catalyst to instigate the zeal among entrepreneurs to respond to the ever changing market demands. MSMEs are able to compete locally and as well as globally and

the reason behind this capability is due its strong network and also due to the support from the various financial agencies. Indian MSMEs has got a huge role in the contribution towards the country's economy. The present data related to Indian MSMEs is that, the sectors contribution is around 45% of the total industrial output, 40 % of exports and around d 1.3 million jobs every year.

Definition of MSMEs

The broad classification of Indian enterprises is mainly catering towards manufacturing and service rendering organizations. This is further categorized as Micro, Small and Medium enterprises. As per the Development Commissioner of MSME, 2009, MSMEs under manufacturing sector are categorized based on their investment in plant and machinery and it is on equipments for the service rendering firms.

The 73rd national Sample Survey (NSS) estimated that there were more than 6.33 crore non-agriculture micro, small and medium enterprises (MSME's) engaged in various services and manufacturing industries. Over 99% of these are micro-enterprises. Between 2006-07 and 2015-16, the number of MSME's grew from 3.62 to 6.33 crores.

The last major policy revision set a new set of qualification criteria for registration as a micro, small or medium enterprise. With effect from July 1, 2020, the capital investment cap has been increased. So, more enterprises qualify under the new definitions. It also introduced annual turnover as a second criterion and ruled out the distinction between enterprises.

Table: 1 classification of MSME

	Old definition (Inv.)		New definition	
	Manufacturing	Services	Investment	Turnover
Micro	≤ 25 lakhs	≤ 10 lakhs	≤ 1 crore	≤ 5 crore
Small	≤ 5 crore	≤ 2 crore	≤ 10 crore	≤ 50 crore
Medium	≤ 10 crore	≤ 5 crore	≤ 50 crore	≤ 250 crore



2. Objectives of the study

The current study aims to fulfill following objectives:

- To know the need of MSMEs in India.
- To understand the present role and challenges of MSMEs for growth of nation's economy and employment creation.

3. Research Methodology

The study is based entirely on secondary data and is descriptive in nature. Data has been extracted from articles, journals and annual reports related to MSMEs. A systematic review of literature was conducted by using an archival method.

4. Literature Review

MSME is the backbone of our Indian economy and it is facilitating a sustained growth over the years both in terms of employment and economic growth. Its role in exports and industrial growth is significant. In spite of these facts, our Indian MSMEs are lagging as compared with developed economies of the world. MSMEs are facing many hurdles and as a result, the expected high growth has become a nightmare. The hurdles can be listed as financial constraint, lack of strategies in marketing, lack of quality, lack of newness or novelty etc. Hence in this paper, an attempt has been made by considering Innovation as one of the main constructs which might have considerable impact on the performance of MSMEs of Indian origin.

Nagaraj and Vaibhav [2020] suggested two major reasons behind the recent change. Since the last update, the increase in caps has been meant to account for inflation. It could also support growing startups to achieve economy of scale before they disqualify for benefits under the MSME schemes. The authors also estimated that an additional 2597 enterprises qualified under the new definition with an average capital of ₹22.6 crores and ₹87 crores of annual turnover.

Subramanian et al (2019) has pointed that the importance of MSME has been recognized in recent years in both developed and developing countries for its significant contribution in gratifying various socio-economic objectives such as higher growth of employment, output, promotion of exports and fostering entrepreneurship. They play a crucial role in the industrial development of any country. The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy. This sector even assumes greater importance now as the country moves towards a faster and inclusive growth agenda.

Ujjal Bhuyan (2016) has analysed that the Micro, Small and Medium Enterprises (MSME) sector has emerged as

a highly vibrant and dynamic sector of the Indian economy. 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.

Kankipati et al (2017) has observed that the entrepreneurship generally speaking refers to the overall course of action undertaken by an owner in starting and managing his enterprise for profit. 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. Over last 5 decades MSME sector emerged as extremely effervescent and vigorous segment of Indian economy. There is continuous growth in MSME employment and MSME providing more employment opportunities over last 7 years.

Paramasivan C & Mari Selvam P (2013) has explained the contribution of micro, small and medium enterprises (MSME) sector to manufacturing output, employment and exports of the country is quite significant. According to estimates, in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 percent of the total exports of India. The MSME sector employs about 42 million persons in over 13 million units throughout the country. There are more than 6000 products, ranging from traditional to high-tech items, which are being manufactured by the Indian MSMEs.

MSME Sector Boosting the Indian Economy

- The MSME sector is giving a much-needed boost to the Indian Economy. Around 63 mn MSMEs operating pan India contributed 30.5% to the nation's GDP in FY 2019 and 30% in FY2020.
- It has also created ample job opportunities across different sectors. As per the Ministry of Statistics & PI data released in 2016, the MSME sector had created around 111 million jobs in India.
- When contrasted with the large entities, MSMEs have played a prominent role in the industrialization of rural areas without conceding too much capital cost.
- The sector has made considerable contributions to the nation's socio-economic growth and supported

prominent industries. Presently, the MSME sector accounts for 40 percent of the nation's overall export and around 25 percent of GDP from the service sector.

5. Future potentials in MSME's

The lots of potentials are available in the field of MSME'S. The prospectus of this sector are explained as under-

1. Employment generation- There is numerous possibilities in the field of manufacturing and service rendering of MSME'S. In recent year, the MSME IS are generating different and ample amount of employment in the field of retail and manufacturing sector. The rate of employment generation extended more by promoting the Indian MSME's. 1. Customer satisfaction oriented- The MSME'S produce goods according to the needs or expectations of the customers. Primarily, the MSME'S manufacture goods considering the taste and preferences, liking and disliking of the local consumer .So, the MSME'S can be ore customer satisfaction oriented.

2. Minimization of regional imbalance-The MSME'S can be a good vehicle to minimize or remove the regional imbalances. The rural areas of the nation can equally developed through the running of MSME units in such areas. The MSME'S will utilize the work force of rural areas and lead to the removal of regional imbalance.

3. Enhancement of export- The MSME'S can be a mean to enhance the export of India. There will be a great demand of Indian product at international level of market. The Indian items like –dari, kaleen, wooden items and other hand- made souvenir articles demanded in the world.

4. Attraction to the foreign investment –Though, the Indian MSME'S are the booming field and the growth rate and return on investment is satisfactory. This sector is more responsive than other sector of economy. Therefore, this sector might be a source to attract foreign investment in India.

5. Amicable industrial policies: Relaxed industrial policies have played a key role in boosting the MSME sector in India. The amicable norms pertaining to labor and regulatory requirements have enabled this sector to grow healthy.

6. Encouragement of FDIs: The influx of overseas players has poured considerable investment into the MSME sector. This aids MSMEs in adopting better

technologies and resources, thereby ensuring improved productivity and competitiveness in the given marketplace.

7. Technology: The advent of cutting-edge technologies and improved production methods have aided MSMEs in improving their overall supply chain and productivity.

8. Access to capital: Several credit schemes launched by GOI are backing up MSMEs with adequate financial support to meet productivity needs with ease and maintain a healthy interplay with suppliers.

6. Challenges faced by MSMEs

1. Financial assistance – The most common problem that all small-scale businesses have faced, and are still facing is of credit. MSMEs struggle to obtain financial assistance due to several factors like absence of collateral, lengthy paperwork, and lack of trust in loan repayment capabilities.

2. Marketing – Increasing marketability of products is a difficult task not just for MSMEs, but for large-scale businesses as well. Inconsistence and sporadic marketing efforts yield no results. When it comes to small-scale businesses, the lack of resources – time, money, and skilled employees make it impossible to increase visibility and generate quality leads.

3. Technology – Majority of the MSMEs in India operate on stale and obsolete technology which obstructs them from keeping up with the new age world. This is despite the fact, that India is said to have the third largest pool of technologically trained manpower.

4. Upskilling – Skilled employees are essential for growth of businesses. Multi-national companies (MNCs) understand this and keep on-the-job training at the centre of their functioning.

5. Procurement of raw material – The prices of raw materials have increased manifold, especially since the beginning of the Covid-19 pandemic. For MSMEs in the manufacturing sector, the procurement of raw material is extremely important to continue operations.

6. Hiring – MSMEs struggle to hire skilled and competent manpower. Lack of name recognition of the company reduces the talent pool from which MSMEs can hire employees as there are fewer responses to job postings by small-scale businesses.

7. Innovation – The role of creativity and innovation has increased in this change process for survival. Businesses

are becoming knowledge-based and their success & survival is directly related to their creativity, innovation, discovery and inventiveness.

7. CONCLUSION

India is most likely to become a 5 trillion Economy by FY 2025, and MSMEs shall play a pivotal role in this regard. To attain this monumental figure, the MSME sector must have an adequate and consistent backup of funds and resources. Needless to say, the government has to play a vital role in this regard by providing necessary aid and scheme to this sector. The government is making a constant endeavor to incentivize this sector by introducing export-based initiatives and other growth-driven schemes. The sector is yet to achieve its full potential despite witnessing consistent growth in the past few years. This slow surging growth is mainly attributed to dependence on lackluster technologies, reluctance to boost R&D activities, and lack of quality standard certification.

Conflict of interest statement

Authors declare that they do not have any conflict of interest.

REFERENCES

- [1] Government of India, MSME annual report 2022-23
- [2] Nagaraj, r., & Vaibhav, v. (2020). Revising the definition of MSME's: Who is likely to Benefit from it? The Indian Journal of Labour Economics, 63(1), 119- 126.
- [3] Government of India, national Sample Survey (NSS) 73rd round 2015-16
- [4] Government of India, all India Census of MSME's 2006- 07
- [5] Subramanian, Sp Mathiraj & Balasundari, Mrs & Sarojadevi, R. (2018). Performance of MSME Units In India. Conference: Prospects of Micro, Small & Medium Enterprises (MSMEs) in Indian Scenario at: The American College, Madurai.
- [6] Ujjal Bhuyan (2016). A Study on the Performance of Micro, Small and Medium Enterprises (MSMEs) in India. Global Journal of Management and Business Research: A Administration and Management, 16(9), 33-36.
- [7] Kankipati, Ajay & Shaik, Meervali & Ramesh, & Shekar,. (2017). Performance of MSMEs Sector in India. International journal of economics and management studies. 4(3), 11-15.
- [8] Paramasivan C & Mari Selvam P (2013). Progress and Performance of Micro, Small and Medium Enterprises in India. International Journal of Management and Development Studies, 2(4), 11-16.