

PROBLEMS AND PROSPECTS OF SMALL AND MEDIUM ENTERPRISES IN INDIA

Dr. G. AZAD BASHA, Ph.D

*Assistant Professor of Commerce, Vivekanandha College of Arts and Sciences for Women
Elayampalayam, Tiruchengode*

Abstract

The SMEs have been characterized by their traditional strengths of relatively low investment requirements, effective resource utilization, greater operational flexibility, mobility and higher innovativeness. MSME, sector worldwide is being considered as the growth engine of any economy. This paper throws light on various problems being faced by SMEs in India at present and tries to find solutions to these problems, so that the SMEs become more energetic and are able to make forays to new un-chartered areas such as infrastructure etc.

Introduction

The Indian SME market is valued at \$5 billion. The 11 million SME units, which make up the Indian SME sector, produce over 8000 products. These constitute 95% of all industrial units and contribute 40% to industrial output. The SME sector also plays a significant role in the development of entrepreneurial skills and forms a substantial portion of the country's export earnings. Small and Medium Enterprises (SME) play an important role in the development of a country. There are around 26 million MSME units in India, of which 13 million are SMEs. SMEs contribute nearly 45% share of manufactured output, accounting for 40% in overall exports of the country and providing employment to about 32 million people. The performance of SMEs in India though impressive comes next to China where this sector provides employment to 94 million people with a network of 37 million units. 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 SME sector is imperative. The need of the hour is to empower the SME Sector so that it is able to take its rightful place as the growth engine of the economy.

Importance of SMEs

Small-scale industries have been playing an important role for development of the Indian economy. These small-scale industries not only help to create employment opportunities, but also generate income, investment and savings in the economy. Further, these industries may also help in developing regional economy, promotion of export potential, promotional of market facilities, development of infra-structural facilities etc. Small-scale industries also help in eradicating poverty, unemployment problems. The opportunities through SMEs have been helping to provide employment opportunities to rural, urban masses, generating income, and raising the levels of living. The SMEs play a

pivotal role in the overall industrial economy of India. SMEs constitute more than 80% of the total number of industrial enterprises and support industrial development. SMEs contribute nearly 45% to manufacturing and about 40% to the Indian export sector. Their contribution to the Indian GDP is 8% and the sector has registered growth rate of 10.8%. Indian MSMEs have moved up from the manufacture of traditional goods including leather, gems and jewelry, agricultural goods to much more value addition in the manufacturing sector to its entry in the value added services as well. Small and medium enterprises (SMEs) have been the backbone of the Indian economy. That is both a good and a bad thing. The good part first. Employing close to 40% of India's workforce and contributing 45% to India's manufacturing output, SMEs play a critical role in generating millions of jobs, especially at the low-skill level. The country's 1.3 million SMEs account for 40% of India's total exports.

Problems faced by SMEs

Small and Medium Enterprises (SMEs) are often confronted with problems that is uncommon to the larger companies and multi-national corporations. These problems include the following:

Lack of IT Support

IT personnel are in high demand and are often attracted to bigger companies and MNCs. It is very difficult for SMEs to attract good IT personnel. It is even more difficult to retain them. Moreover, good IT personnel are expensive and may not be affordable by most SMEs.

Lack of IT Literacy

Many of the employees in SMEs started from the ground up after working with the company for many years. Some of them are often holding supervisory and managerial positions. These employees may not be IT literate and often have high resistance to the changes in the working process that they are comfortable with after many years.

Lack of Formal Procedure and Discipline

Most SMEs do not have formal procedure or often these are not documented. Furthermore, there is tendency for these procedures to change frequently. This makes it difficult for third party and newcomer to understand the existing business practices and match them with the IT process.

Uneven IT Awareness and Management Skill

As company grows, new managers are often introduced into the company. There will also be old managers who are promoted from the rank and file. Some of these managers may not been trained in the leadership and management skill. These uneven skill among the managers often caused conflicts during the implementation.

Lack of Financial Resources

As a SME/SMI, financial resources are often limited. This often forces company to select a solution, which appear to be cheap initially. However, the hidden costs will start to emerge during implementation. This sometime causes the project to be abandoned or sometime sent the company into further financial crisis.

Lack of Human Resources

Implementations of some bigger scale IT project especially those that involve business process across different departments or require large amount of initial data entries require human resource during the implementation. Some SMEs are often in the stage of frequent fire fighting and shortage of manpower. This makes it very difficult for them to allocate time to carry out implementation. Furthermore, there is always a conflict between getting the daily routing work going and to do the "Extra" IT implementation.

Lack of Experience of Using Consultants

A good consultant often save time and effort, and help to prevent pitfalls during the IT projects. However, most SMEs are lacked of experience in working with consultants. The lack of knowledge in the field of IT makes them difficult in identifying good consultant for the projects. They often feel that the consultant costs is too high and they can handle it with their own staff. If the company has no staff that are experience and knowledgeable in t he IT project, avoiding external help often costs more to the company eventually.

Measures Taken by Government of India

Ministry of Small Scale Industries is primarily responsible for promotion and development of SMEs in India, and has evolved several policies, institutional and support measures, spread all over the country, in order to enable SMEs to meet their changing needs. Small Industries Development Bank of India (SIDBI) has developed various financing schemes. Ministry of Science and Technology (DST, DBT, DSIR) has evolved several measures and programmes for technological assistance and development and transfer of technologies for SMEs. Some of the economic ministries such as Ministry of Textiles, Department of Food Processing and Department of Handicrafts etc. have also recently announced initiatives for technical assistance in various firms.(DCSSI 2006)

Some of the measures and new initiatives to promote SMEs include:**SME development fund**

- A specialized stock exchange for SMEs
- Encouragement for patenting and ISO Certification
- SME venture capital fund
- National Commission for Small Industries (informal sectors)

- SME development bill
- Credit Rating Agency
- Improve the working of credit guarantee and export promotion institutions
- Progressively reduce protection measures and simplify implementation policies and control mechanisms
- SME Development Centres at SIDBI and IIFT
- Considering liberalizing FDI in SMEs and encouraging their linkages with TNCs and large companies
- Promoting industrial growth centres/clusters, EOUs, district industry centres, business incubators and business parks
- Market assistance and export promotion
- National Small Industries Corporation
- Small Industries Development Organization
- Limited Liability Partnership Bill 2006

Steps Taken Recently

The Micro, Small and Medium Enterprises (MSME) sector contributes significantly to manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 % of the manufacturing output and 40% of total exports of the country. The sector is estimated to employ about 69 million persons 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 MSMEs in their ranging from traditional to high-tech items, which are being manufactured by MSMEs in the country. It is well known that MSME sector provides maximum opportunities for both self employment and jobs outside agriculture sector. The inclusiveness of the sector is underlined by the fact that nearly 50% of the MSMEs are owned by disadvantaged groups of the society.

To make this sector to become more vibrant and significant player in development of the Indian economy the Government of India has taken various initiatives. The definition and coverage of the MSME sector was broadened MSME Development Act 2006 which recognized concept of 'enterprise' to include both manufacturing and service sector besides defining medium enterprises setting up a Board for developing policy frameworks and indicating procurement policy.

Conclusion

Small and Medium Enterprises (SMEs) contribute to economic development in various ways such as creating employment opportunities for rural and urban population, providing goods & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole. SMEs in India face a number of problems - absence of adequate and timely banking finance, non-availability of suitable

technology, ineffective marketing due to limited resources and non availability of skilled manpower. Small and Medium Enterprises (SME) play an important role in the development of the country. There are around 26 million MSME units in India, of which 13 million are SMEs. contribute nearly 45% share of manufactured output, accounting for 40% in overall exports of the country and providing employment to about 32 million people. The Micro, Small and Medium Enterprises (MSME) sector contributes significantly to manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 % of the manufacturing output and 40% of total exports of the country. To make this sector to become more vibrant and significant player in development of the Indian economy the Government of India has taken various initiatives. The definition and coverage of the MSME sector was broadened MSME Development Act 2006 which recognized concept of 'enterprise' to include both manufacturing and service sector besides defining medium enterprises setting up a Board for developing policy frameworks and indicating procurement policy.

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