

Identifying Performance Gaps in MSMEs in the Era of Make in India

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ABSTRACT: Indian economy cannot deny the significance of MSME sector in economic growth. The government often terms it as the “growth engine” of the Indian economy, and with a number of schemes in place to promote the sector; it seems that policy makers are doing their up most best for the welfare of the sector. But taking the view of any of the SME owners, a completely different picture comes up. They often complain that the rhetoric of support hardly translates into reality, and when it comes to providing the right ‘ecosystem’ for entrepreneurs, the government needs to do much more. This paper is an attempt to look into the problems faced by MSMEs that affects their economic performance.

KEYWORDS: MSMEs, Problems faced by MSMEs, Labour Problems.

1. INTRODUCTION

Industries have been given an important place in the economy of both developing and developed countries. The economic development achieved by many developed countries can be linked directly to the growth of this sector. In India the small-scale industrial, now widened and termed as MSMEs sector has registered rapid growth. In view of the importance of this sector, the growth and development has attracted a good deal of academic attention.

The Indian economy has entered a phase of high growth in the recent years, after a long period of low growth. Since economic growth itself is not sufficient to achieve economic development, the concern of policy makers seems to have shifted towards making the growth inclusive – a process wherein employment is at its core. In India, Micro, Small and Medium Enterprises (MSME’s) play an important role in employment generation. After reforms the protection indigenous industries enjoyed from government has been abolished and exposed them into greater market competition. To meet this heightened competition they have to improve their productivity and competitiveness through technological improvement.

Though alot has been said and written about the importance of industries in economic growth, the lacunas and problems in the Indian Industrial Environment and steps taken up by the Indian Government to provide favorable conditions of growth; this paper is an attempt to take a fresh insight into the above listed issues.

2. OBJECTIVES

- 2.1 To review the concept of MSME’s in India.
- 2.2 To list the importance of MSME’s in the Economic Growth.
- 2.3 To specify the constraints faced by MSMEs.
- 2.4 To identify the labour problems in MSMEs.

3. RESEARCH METHODOLOGY

In this paper, secondary sources of data have been explored. The secondary sources of data are the census report, NSS reports and also the statistical handbooks and other statistical publications. Published and unpublished books, theses and the internet sources have been used for the background materials. We seek to capture the MSMEs- working environment as well as its relevant sub-components-

economic, political and social dimensions. The study is basically analytical and descriptive in nature.

4. DATA INTERPRETATION

4.1 MICRO, SMALL AND MEDIUM ENTERPRISES (MSME'S)

In India, the enterprises have been classified broadly into two categories:

- (i) Manufacturing; and
- (ii) Those engaged in providing/rendering of services.

Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipment (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under:

Table.1 Investment Ceiling for Plant, Machinery or Equipments

Classification	Manufacturing Enterprise	Service Enterprise
MICRO	Upto Rs. 25 lakhs	Upto Rs. 10 lakhs
SMALL	Above Rs.25 lakhs and upto Rs.5 crores	Above Rs. 10 lakhs and Upto Rs. 2 crores
MEDIUM	Above Rs. 5 crores and Upto Rs. 10 crores	Above Rs. 2 Crores and Upto Rs. 10 Crores

The contributions of small and medium scale businesses have been known as the main sustenance of an economy because of their capacity in enhancing most economies output and improve human welfare. It can be well thought-out as a back bone of national economic development. Due to the considerable contributions of small scale businesses towards the development of an economy, various agencies, particularly that of government, have attached a lot of importance to the development of this sector. In order to support these businesses, a number of programmes and facilities are provided to improve their performance and competitiveness.

It is important to note that employees/apprentices are indispensable to the performance and progress of these businesses. They contribute their knowledge, skills, abilities and common sense to the steady progress of these businesses. They are also responsible for all the menial jobs in such businesses. Notwithstanding the decisive function employees/apprentices playing small businesses, they are as well, the producers and executors of products and services of small businesses. Sometimes they are caretakers in the absence of their owners. Albeit the vast contributions of employees to the growth of small scale businesses, their performance seems not encouraging, while some people have blamed the low performance of employees or lack of skills and training, others also attribute it to employee lack of creativity and motivation. Although, there have been a number of studies on the effects of entrepreneur competencies on the performance and growth of small businesses none have probed into the competencies of employees/apprentice on their performance in small scale businesses. It is in view of this that the study sought to fill this gap in literature by assessing the human capital of employees and its relation to their performance in small scale businesses.

“Since the industrial revolution, no country has become a major economy without becoming an industrial power.”

4.2 INDUSTRIES AS AN ENGINE OF GROWTH

The Following are the attributes that allow a sector to serve as an Engine of Structural Transformation and Rapid Economic Growth:

- 4.2.1 High level of productivity: Economic development is about moving from low productivity to high productivity activities.
- 4.2.2 Unconditional Convergence (i.e. faster productivity growth in lower productivity areas): The convergence

ensures that the relevant sector acts as an “escalator” which automatically leads to higher levels of sectoral and economy-wide productivity.

4.2.3 Expansion: To ensure that the dynamic productivity gains from convergence spread through the economy, it is necessary that the sector experiencing convergence absorbs resources. Convergence accompanied by contraction will fail to ensure economy-wide benefits, because the country’s resources that are outside the sector in question will not experience higher, convergent productivity growth.

4.2.4 Alignment with comparative advantage: To ensure that expansion occurs and the benefits of fast-growing sectors are widely shared across the labor force, there should be a match between the skill requirements of the expanding sector and the skill endowment of the country.

4.2.5 Tradability: Historically, countries that had growth spurts enjoyed rapid growth in exports. Rapid growth has seldom been based on the domestic market. Part of the reason for this might be that trade serves as a mechanism for technology transfer and learning, which may have spillovers on related industries. Perhaps a more important part is that trade and exports in particular provide a source of unconstrained demand for the expanding sector. This is particularly important for a country of India’s size because of the possibility that its expansion can run up against the limited political and economic ability of trading countries to absorb Indian exports and/or to turn the terms of trade against itself.

Industry accounts for 26% of GDP and employs 22% of the total workforce. According to the World Bank estimates, India’s industrial manufacturing GDP output in 2015 was 6th largest in the world on current US dollar basis (\$559 billion), and 9th largest on inflation adjusted constant 2005 US dollar basis (\$197.1 billion). The Indian industrial sector underwent significant changes as a result of the economic liberalization in India economic reforms of 1991, which removed import restrictions, brought in foreign competition, led to the privatization of certain government owned public sector industries, liberalized the FDI regime, improved infrastructure and led to an expansion in the production of fast moving consumer goods. Post-liberalization, the Indian private sector was faced with increasing domestic as well as foreign competition, including the threat of cheaper Chinese imports. It has since handled the change by squeezing costs, revamping management, and relying on cheap labour and new technology. However, this has also reduced employment generation even by smaller manufacturers who earlier relied on relatively labour-intensive processes.

The 3.61 crore (MSMEs), contributing 37.5 per cent of the country’s GDP, have a critical role in boosting industrial growth and ensuring the success of the Make in India programme.

4.3 CONSTRAINTS FACED BY MSMEs IN INDIA

4.3.1 Finance: Finance is one of the most important problem confronting these industries. Finance is the life blood of an organization and no organization can function properly in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.

4.3.2 Raw Material: These industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis.

All these factors adversely affect the functioning of these units. Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

4.3.3 Idle Capacity: There is under utilization of installed capacity to the extent of 40 to 50 percent in case of MSME units. Various causes of this under-utilization are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.

4.3.4 Technology: Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernize their plant and machinery. Due to obsolete methods of production, they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modern large scale units.

4.3.5 Marketing: These small scale units are also exposed to marketing problems. They are not in a position to get first-hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion.

4.3.6 Infrastructure: Infrastructure aspects adversely affect the functioning of MSME units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts. Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to

adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical and unviable.

4.3.7 Under Utilization of Capacity: Most of the small-scale units are working below full potentials or there is gross underutilization of capacities. MSME units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross under-utilization of capacities are problems of finance, raw material, power, underdeveloped markets for their products and most of all lack of skilled workers.

4.3.8 Project Planning: Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e. both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement. They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weightage. Small entrepreneurs often submit unrealistic feasibility reports and incompetent entrepreneurs do not fully understand project details. Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result is poor project planning and execution. There is both time interests of these small scale enterprises.

4.3.9 Skilled Manpower: A production unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers. Besides, non-availability entrepreneurs are confronted with various other problems like

absenteeism, high labour turnover indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

4.3.10 Managerial: Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves. Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs.

Shortage of skilled workers across industries, does not augur well for sustaining India's economic growth

4.4 LABOUR PROBLEMS IN MSMEs

4.4.1 Absenteeism and attrition:- Continuous absenteeism and attrition are the major problems of labour who work in MSMEs that ultimately influences negatively on the production of firm. The basic reason of this is due to unhygienic condition at work, lack of incentives, worst atmosphere at work place and dis-satisfaction with a pay-scale. Every labour is used to quit from earlier industry that brings a continuous trend of turnover of labour which brings adverse effect on the production and further progress of SSI unit.

4.4.2 Untrained and unqualified intake of labour force:- Training is a perfect guideline for particular labour of particular firm. If the worker is untrained, it may affect the overall production activities of the firm. In India small scale industries are mostly located at rural area and operated on small fund/capital. However, MSMEs are unable to conduct and provide a proper training to their employees as it becomes obstacle for employers and employees of SSI. Majority of the workers in these units are termed as

non-skilled workers who work without training that ultimately caused lower productivity, less-output and unnecessary expenses of firm.

4.4.3 Low productivity:- It is said that practical knowledge is better than theoretical knowledge. There is no proper performance appraisal system of workers to find out the potentialities of the workers as well as requirement of training to the workers, those who do not work much efficiently. Due to lack of proper knowledge of particular work, the labours of SSI units cannot enhance their efficiency. That is why productivity as per labour of MSMEs is much lower than the productivity of trained labour of large scale industries.

4.4.4 Unionization:- This is a root problem of SSI which is existed due to continuous unionization of labours. Many SSI units are broken down or shifted from one place to another just because of labours unionization. Unionization refers to a unity of labour which is made for particular period of time to satisfy some requirements on the ground of collective bargaining against employers. If employers do not look after or pay attention to employee's demands and requirement then it is forced to labours to go on strike for few days under such unionization. In short we can say that unionization exists strike and strike bring an adverse effect on firm's production that increases production cost and industrial sickness.

In a Country like India, which is the second most populated country in the world, Vocational and Skill training of the manpower cannot be ignored. The manpower could be a blessing in disguise if trained properly and can lead to high growth of the economy. This research proposes to find out the gaps in Vocational Education System in India and the requirement of the MSMEs, which promises rising and shining India.

5. CONCLUSION

Out of all the constraints faced by MSMEs in India, the most important one that should be catered

immediately is the Labour problem. It will lead to the dual benefit of increasing employment as well as improving the productivity of the MSME units.

Thereby, it can be stated that there is a dire need to push vocational education and training in the country. At present, our education system is excessively oriented towards general academic education, and although there is a good network of ITIs and ITCs across the country, most of the courses offered there do not lead to a job, and there is little incentive to pursue them. Facilities available in most of the institutes are inadequate and performance outcomes in them are not measured with industry participation. In addition, while R&D and innovation activities are fundamental drivers of value creation in today's business, the level of such activities in India compare poorly with other countries. To address this challenge, we need policies that encourage greater participation by international players, promotion of industrial cluster among small firms, facilitation of cheap finance to boost SME R&D, and introduction of industry-specific policies. In addition, it is essential that the industry and the academia come closer to create a more skilled workforce for employment in today's high performance workplace.

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