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Acharya Bangalore B-School  
Bengaluru

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# AMBER

**ABBS**  
**Management**  
**Business**  
**and**  
**Entrepreneurship**  
**Review**

**Acharya Bangalore B School**

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# Editorial

Dear AMBER Stakeholder,

Greetings from Acharya Bangalore B-School!!!

I am happy to place AMBER, 10th Volume on your hand. We are very happy to mulch what we have done in the last ten years. We feel happy but that does not make us complacent. We have to take the Journal to newer heights. Quality is a journey, not a destination.

In the last ten years one definite accolade we got is for the theme we have been selecting. I have to profusely thank my colleagues who passionately took part in freezing the themes. The earlier themes were Business Vision 2020, NGO Management, Changing Global Dynamics and Business Opportunity for India, Indian Business and Industry- An Historical Perspective, Corporate Responsibility and Governance, Tourism-Growth Engine for India, Green Entrepreneurship and Sustainable Development, Cross Cultural Management in Global Business, Financial inclusion in India, Gender Budgeting in India: Emerging issues and challenges, South Indian Business History, Technology and Human Resource Management, Financial Markets, Retailing, Financial Derivatives Market in India, Ecosystem for Growth of Business, Entrepreneurship and Start-Ups and Logistics and Supply Chain Management.

The theme of this issue is 'The Role of MSMEs in India's Development'. This theme is more relevant today in India, than any time in the history of India. At a time when India is reeling under sever unemployment rate, it is necessary to encourage MSMEs. Per unit of capital invested in large scale industry will not generate the employment that is generated by MSMEs. The Demonetization has stifled the growth of MSMEs. We have to find ways to rejuvenate them. India's trade balance is not healthy. MSMEs contribute close to 40 percent of our exports. This has to be given fillip. From the perspectives of balanced regional development, reducing the gap between rich and poor, and for Entrepreneurship development MSMEs are very strategic. Hence this issue topic is on 'MSMEs'. I thank all the contributors who made this issue to see the light of the day. I profusely thank editors of this issue, my colleagues Dr.C.Sengottuvelu and Prof.R.Girish. I fail in my duty if I do not thank our Management for supporting continuous publication of AMBER for the last ten years.

The theme for the forthcoming issue is 'Digital Marketing'. I am sure technologies, particularly the Industry 4.0 technologies change the way we 'Market'. It is time to research different nuances of the same. Hereby, I invite research articles in any of the related topics.

**Dr. H. R Venkatesha**, Director  
Acharya Bangalore B-School, Bengaluru

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# Pradhan Mantri MUDRA Yojana

## - Serving Micro Units at the Cost of Lenders?

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### Importance of MSMEs

Many studies, committees, commissions, etc., have shown the importance and role of micro, small and medium enterprises (MSMEs) in the overall development of the country including in its economic development. In the post-independent India, this sector has emerged as a highly vibrant and dynamic sector of Indian economy. It is through its contribution in many ways such as, (i) generation of large employment opportunities at comparatively and substantially lower level of capital employment, (ii) industrialization of not only industrially backward regions but also rural are aspreading the industrial activities across the nation and acting as a major partner in the country's ambitious mission of inclusive growth thereby contributing to the balanced regional development, (iii) working towards more equitable distribution of national income and wealth, etc. Besides, 3.6 crore units in this sector are producing more than 6,000 products for both domestic and overseas markets, contributing about 8% to country's gross domestic product (GDP), accounting for about 45% of manufacturing output and 40% to country's exports. Further, these enterprises, as ancillary units, complement the operating activities of large-scale organizations. All these statistics signify the vital role being played by the MSMEs.

### Problems of MSMEs

'Micro Unit/Enterprise' is defined in the Micro, Small and Medium Enterprises Development Act, 2006 as an enterprise which is engaged in the manufacture or production, processing or preservation of goods and where investment in plant and machinery (excluding

land and building) does not exceed Rs 25 lakh. Further, the Act defines the micro units engaged in the generation and/or rendering of services. Accordingly, 'micro enterprise' is an enterprise engaged in rendering of services and where the investment in equipment (original cost excluding land and building, and furniture, fittings and other items not directly related to the service rendered) does not exceed Rs 10 lakh.

Though this sector has been contributing substantially, it has not been able to contribute its full potential owing to many problems it is facing. Examining the role of SMEs in India, Guntur Anjana Raju & Mythili Kurpad (Summer 2013) concluded that these enterprises have not been able to utilize their full potential due to many reasons such as stiff competition from large scale organizations, inadequate infrastructure, lack of skilled human resource, rural domination, etc. Further, they felt that the major problem of SMEs is the 'financial gap' i.e., a situation wherein the demand (of SMEs) for financial assistance exceeding the supply of the same (by the banking companies and other financial institutions). Similarly, many studies including the committees and commissions (constituted by the governments and their authorities) have examined the problems of MSMEs. For instance, the committee constituted by the Department of Financial Service, Ministry of Finance, Government of India (GoI) under the chairmanship of Shri. K. V. Kamath, Chairman of ICICI Bank to examine the financial architecture of MSMEs has identified a few common financial problems of MSMEs as summarized below (Report of the Committee, February 2015).

## Role of MSMEs in India's Development

Formal financial institutions such as banking companies find it difficult to assess the credit risk of MSMEs due to the absence of relevant financial information such as historical cash flows, credit track record, tools to assess the credit risk associated with MSMEs in the absence of relevant information, etc. This is an important reason as to why most of the MSMEs are deprived of credit facility from the banking companies.

As a source of financing, 'equity' is underutilized and the investment by venture capital and angel investors is comparatively low in India. Most of the Indian MSMEs, therefore, depend on friends and family as major sources of equity.

MSMEs in India are also facing the problem of delayed payments from their buyers who are mostly large corporate enterprises. This delayed payment is adversely affecting their working capital as well as their next cycle of production besides their ability to service (their) existing debt obligations.

Further, many MSMEs do not have adequate knowledge about different schemes formulated and introduced by the governments for the MSMEs. In some cases, they lack technical know-how and the necessary wherewithal to provide the required information to avail of the benefits of these schemes.

The above findings of the Committee bring the point to the fore that, 'finance' is one of the important and common problems of MSMEs in India. And this is true even in the case of micro units/enterprises which account for a larger percentage of (number of) MSMEs in the country.

### Literature Review

Many studies on MSMEs by both the individual researchers/academicians and institutions have been undertaken and completed in the past. These studies comprise both macro- and micro-level studies by committees, individual researchers, etc. However, only a few important studies are reviewed in this Section to comprehend the role and problems of, and schemes for the MSMEs.

For the purpose of review, relevant literature is collected from a few important sources such as libraries, Shodhganga, UGC-Infonet e-resource consortia, research/reference books, government/committee reports, data bases like Jastor, Emerald, Ebesco, 'Business Source Complete' database, etc.

MSMEs are playing a stupendous role in the development of the country's economy through the generation of employment opportunities, diffusion of economic power (in the hands of a few discouraging monopolistic situation in the production and distribution), earning foreign exchange (with low import-intensive operations), etc. This way, these enterprises are contributing substantially for the economic development of the country with their exposure to many opportunities for expansion and diversification across the sectors. However, they are facing many problems. Some of the common and major problems of MSMEs, as identified by the Prime Minister's Task Force (2010), are summarized below.

Non-availability of adequate and timely credit, high cost of credit, lack of access to global capital markets, etc., are the important common financial problems of MSMEs. For instance, in India, the borrowing cost is very high at 13-18% as compared to 6-8% in other developed nations. This higher cost of capital is adversely affecting their competitiveness. Besides, collateral security requirements and limited access to equity capital are proving to be other major obstacles for MSMEs in obtaining the required finance.

Problems in the supplies to government departments/agencies, non-availability of raw materials and their procurement at competitive prices, problems of changing business environment, inadequate demand, managerial deficiencies, etc., are other major problems of MSMEs. Inadequate infrastructural facilities such as power, water, road network, etc; low and/or obsolete/outdated technology including inability to access to modern technology, etc., fall into another set of problems of MSMEs.



## Role of MSMEs in India's Development

Tough competition - both in domestic and foreign markets, and also competition from large-scale organisations, and issues related to taxation are other problems of MSMEs.

Analysing what is going on in the way small and medium enterprises (SMEs) are financed in France, Jean-Paul Betbèze (June 2014) felt that credit hardly grows and companies, more particularly new and tiny, even complain about difficulties in obtaining the required fund. Similarly, in Europe, though SMEs are at the heart of the economy and they are financed primarily by the banking companies, the regulatory measures taken in the past have deeply affected financing of SMEs - say, Jocelyne Bendriss, Bertrand Lavayssière & Mark Tilden (June 2014). As a result, a few alternative sources of financing such as Euro Private Placements (Euro PP), crowd-funding mechanisms, etc., are emerging. And their market shares are expected to increase slowly over the years but substituting only a part of the bank financing. In the light of economic/ financial crisis lowering bank lending affecting SMEs, Iota Kaousar Nassr & Gert Wehinger (2014) felt that the capital markets are required to play a bigger role in financing SMEs to make them more resilient to financial shocks.

After examining the nature of shocks that hit the SMEs in Japan (during the global financial crisis owing to massive number of non-performing subprime loans in the US) and how the SMEs responded to these shocks, Kazuo Ogawa & Takanori Tanaka (August 2013) identified three major shocks as demand, supply and financial shocks. Of the three, demand shock was the most prevalent and the financial shock was the least frequent. To face the demand shock, the SMEs initiated many measures including seeking the help from suppliers and financial institutions. However, these measures depended on the bank-firm and customer-supplier relationships. The bank-dependent SMEs had approached their closely affiliated financial institutions for help, and others approached their suppliers for help. Further, it was found that the long-lasting customer-supplier relationship plays a crucial role in mitigating the supply shock.

Due to the problems they are facing, many MSMEs have become sick and many more are on the verge of

becoming sick. And to address this problem of widespread sickness in MSMEs, the Reserve Bank of India (RBI)/Ministry of MSMEs of Government of India (GoI) issued the revised framework on 17 March 2016. The effort of the apex bank and that of Ministry of MSMEs is to make the MSMEs sound economic entities which in turn enhances the performance of their lending (banking) institutions and also that of the whole economy (Inchara P. M Gowda, January 2017).

Though many schemes have been designed and implemented by the governments for the promotion/ development of small-scale industries (SSIs), many of these enterprises are facing the financial problem. To help these SSIs, commercial banks are also lending. However, these lender-bankers are facing many problems in recovering their money from SSIs. Hence, it is necessary for the banks to strengthen their debt recovery mechanism and also to follow rigorous credit appraisal by the lending banks - suggests Parameshwara (2015).

On the lines of the above, many more studies have been undertaken and completed by the researchers in the past throwing light on different dimensions of MSMEs. However, all these studies bring the point to the fore that 'finance' is an important and common problem of MSMEs. Both the GoI and the state governments which realized the role and problems of micro enterprises designed many schemes to help them in their financial requirements. One such recent scheme of the GoI is its flagship scheme viz., Pradhan Mantri MUDRA Yojana (PMMY) where MUDRA stands for 'Micro Units Development and Refinance Agency'.

### Objective of the Study

In the above backdrop, the present study primarily aims at analysing and presenting the relevant Provisions of PMMY including the role of MUDRA in arranging for financial assistance to micro enterprises during this nearly four-year period of its functioning (after the Scheme was launched on 8 April 2015).

### Sources of Data

The primary source of data (i.e., performance statistics of this Scheme) is the website of MUDRA. Besides, necessary literature is also collected from a few

## Role of MSMEs in India's Development

secondary sources such as research papers, news items in the newspapers, etc.

### Methodology

Nature of the present study is purely analytical and descriptive in nature as it (i.e., the present study) aims at analysing the role of MUDRA in arranging for the loans and advances to micro enterprises from banking and other financial institutions. And for the purpose of analysis of data, simple ratios and a few descriptive statistics such as Mean, Standard Deviation (SD), Coefficient of Variation (CV) besides Compound Annual Growth Rate (CAGR) are used.

### Pradhan Mantri MUDRA Yojana

After realizing the role and problems of micro enterprises, and also the failure of existing schemes to provide the necessary financial assistance to them, the GoI thought that there is a need for another appropriate mechanism to assist the micro enterprises. Once it realized and convinced about the need for a new mechanism, the work started very briskly as evident from the following.

- 1 The Finance Minister, GoI, in his budget speech for 2015-16 made an announcement of the intention of the government to set up MUDRA.
- 2 Registered MUDRA as a company in March 2015 under the Provisions of the Companies Act, 2013 and also as a non-banking financial institution with the RBI on 7 April 2015.
- 3 And the Scheme was officially launched on 8 April 2015 by the Prime Minister - on the 8th day of the financial year, 2015-16.

The target group of this Scheme is the micro enterprises in the sectors like manufacturing, processing, trading and service such as small manufacturing entities, fruits and vegetable sellers, shopkeepers, street vendors, taxi and truck operators, repair/workshops, food processing units and food service units, machine operators, artisans, etc. These enterprises are proprietary form of units i.e., single ownership units. And most of these units are 'own account enterprises' i.e., the enterprises which are conducting their economic/revenue generating

activities without hired persons on regular basis. Hence, these units are also referred to as, 'non-corporate small business sector'.

Most importantly, only about 5% of these units have access to formal credit from the banking companies and other financial institutions. This only shows that most of these entrepreneurs have been deprived of financial services and assistance from formal banking and financial institutions. Consequently, they are depending on their own finance, and finance from their relatives/friends, and/or private money-lenders.

Of course, MUDRA is not a direct lender to micro enterprises but only a refinancing institution. It does not lend money directly to the micro enterprises. Instead, it (i.e., MUDRA) makes necessary arrangements which enable these micro enterprises to avail (under PMMY) loans and advances from the nearby branches of commercial banks, regional rural banks (RRBs), co-operative banks, non-banking financial companies (NBFC), micro-financial institutions (MFIs), etc. MUDRA refinances these lender-institutions i.e., provides refinance to lender-institutions that seek refinancing of small business loans disbursed under this Scheme. Most importantly, MUDRA is entrusted with the responsibility of monitoring the performance of the Scheme by collecting the details about the number of micro units assisted by banks, amount of loan sanctioned/dispensed by them, etc.

### MUDRA Schemes

Under PMMY, MUDRA has designed three schemes/products viz., Shishu, Kishore and Tarun based on the stage of growth/development and also the financial requirements of micro enterprises (Figure - 1).

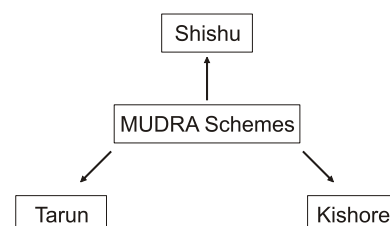


Figure - 1: MUDRA Schemes

## Role of MSMEs in India's Development

It may be noted here that the maximum amount of loans and advances (to be) sanctioned by the lender-bankers and other financial institutions depends upon the category to which the applicant-entrepreneurs belong. This becomes evident from the following.

- 1 **Shishu:** Loans up to Rs 50,000 per applicant under Shishu category with rate of interest being 1% per month or 12% per annum, and the repayment period is up to five years;
- 2 **Kishore:** Loans exceeding Rs 50,000 and up to Rs 5 lakh per applicant - however, the rate of interest is left to the lender-bankers to decide depending upon the credit history of the applicant, guidelines of the Scheme, etc. Further, the banks are free to fix the repayment period; and
- 3 **Tarun:** Loans exceeding Rs 5 lakh and up to Rs 10 lakh per applicant - even in this case, both the interest rate and repayment period are left to the discretion of lender-bankers as under 'Kishore'.

And the most important feature of this Scheme is that the provision of collateral security for loans under MUDRA is not mandatory i.e., the bankers/lenders are asked not to insist on the collateral security from the loan applicants.

Another important feature of the Scheme is the targets fixed/set for each year and for each bank in terms of amounts of loans and advances sanctioned/dispensed to entrepreneurs under PMMY. For instance, for the financial year 2016-17, the authorities had set a target loan sanction of Rs 1,80,000 crore - public sector banks, Rs 77,700 crore; private sector banks and foreign banks: Rs 21,000 crore; regional rural banks, Rs 15,000 crore; and NBFCs: Rs 66,300 crore. And their (i.e., of lenders) performance is monitored and assessed (against the targets set) by MUDRA periodically.

### MUDRA Schemes - Performance

This Scheme is in the fourth year of its functioning after it was formally/officially launched on 8 April 2015. A few statistics for the first three years and up to 15 February 2019 for the fourth year are available. During this short period of 3 years and 10 months, loans and advances are sanctioned to 16.01 crore

entrepreneurs, and the amount of loans and advances sanctioned to them is to the tune of Rs 7.73 lakh crore. Year-wise performance show that in each of these years, the amount of loan sanctioned exceeded the target set. For example, for 2017-18, target set was Rs 2.44 lakh crore of loan, and the lender-organizations sanctioned loans to the tune of Rs 2.53 lakh crore which works out to 103.69% of target loan amount. And even the amount of loan disbursed (of Rs 2.46 lakh crore) is higher than the target loan sanction of Rs 2.44 lakh crore. Most importantly, the ratio of amount of loan disbursed to that sanctioned is very high at 97.23% (for 2017-18) and 96.51% (for the entire study period of 3 years and 10 months). During 2017-18, about 4.81 crore micro entrepreneurs were assisted (Inchara P M Gowda, February 2019).

All these performance statistics signify the laudable success of the Scheme and/or achievements of the government and its agency. The performance statistics for other years are also on the same lines as evident from the following table (Table - 1).

Table - 1: MUDRA - Performance

Year	Number of PMMY Loans Sanctioned	Loan Amount (Rs lakh crore)		
		Target	Sanctioned	Disbursed
2015-16	3,48,80,924	1.22	1.37	1.33
2016-17	3,97,01,047	1.80	1.80	1.75
2017-18	4,81,30,593	2.44	2.53	2.46
2018-19	3,73,39,752	3.00	2.03	1.95
Descriptive Statistics:				
Sum	16,00,52,316	8.46	7.73	7.49
Mean	4,00,13,079	2.12	1.93	1.87
(SD)	57,58,389	0.77	0.48	0.47
CV	14.39	36.51	25.00	25.06
Skewness	1.33	-0.03	0.20	0.27
CAGR	1.72	25.22	10.33	10.04

## Role of MSMEs in India's Development

Note: Performance statistics for 2018-19 are incomplete - available only up to 15 February 2019. And the target loan amount for this financial year is enhanced to Rs 3 lakh crore (Budget Speech of Finance Minister).

Source: Compiled the table based on the data retrieved from, <https://www.mudra.org.in/> on 24 February 2019 and the calculations made from the above, it is unequivocal that the CAGR is positive for all the four variables/ parameters indicating the overall increase during the period of study. This is reflected in the CAGR of 1.72% (number of units for which loan is sanctioned), 25.22% in the case target loan amount sanction, 10.33% in the case of actual amount of loan sanctioned and 10.04% with regard to the amount of loan disbursed. Besides, both the Standard Deviation and Coefficient of Variation indicate no wide variation in the performance from one year to another. Further, except in the case of target loan sanction (-0.03), in all other three parameters, the Skewness is also positive showing that the number of units for which loan is sanctioned (1.33), amount of loan sanctioned (0.20) and loan amount disbursed (0.27) are skewed towards positive values than the negative values during the study period. These results also substantiate the conclusions drawn earlier based on simple ratios. However, another important dimension is the analysis of scheme-wise sanction of loans and advances. For instance,

- 1 Out of the total loan amount sanctioned during 2015-16 of Rs 1,37,449 crore, Rs 62,894 crore is for 324.01 lakh entrepreneurs under 'Shishu' category. This amount works out to 45.76% of the total loan sanctioned for all three categories. However, the number of entrepreneurs under 'Shishu' category who were sanctioned loans and advances account for 92.89% of total number of loanees of all three categories. Further, the amount of loan sanctioned works out to a meagre Rs 19,411 per loanee under 'Shishu' category.
- 2 On the other hand, 4.10 lakh entrepreneurs under 'Tarun' category were sanctioned loan to the tune of Rs 31,501.76 crore (1.18% of all loanees but

22.92% of total loan amount sanctioned) working out to Rs 7,68,335 per beneficiary as against only Rs 19,411 of loan per loanee/beneficiary under 'Shishu' category.

- 3 In the case of 20.69 lakh entrepreneurs under 'Kishore'(5.93% of loanees), lenders sanctioned loan to the tune of Rs 43,052.55 crore during 2015-16 accounting for 31.32% of total loan sanctioned and this works out to Rs 2,08,083 per loanee.

The above analysis shows that, 92.89% of beneficiaries (Shishu) received only 45.76% of the loan sanctioned, 5.93% of entrepreneurs (Kishore) received 31.32% of loan sanctioned, and the remaining 1.18% of loanees (Tarun) garnered 22.92% of loan sanctioned (Figure - 2). And more or less, same is the pattern in other years i.e., majority of loanees receiving minor share in the loan amount and minority receiving major portion of loan sanctioned

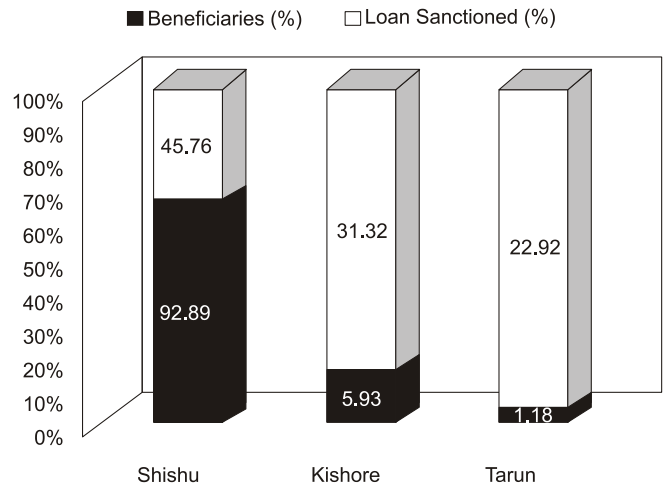


Figure - 2: Shishu, Kishore and Tarun - Relative Share (%)

### Findings - Positive Aspects of the Scheme

For many reasons, the Scheme is praiseworthy. However, a few important positive aspects of the Scheme are enumerated below.

- 1 Immediately after the budget presentation (for 2015-16), the Scheme was launched on 8 April

## Role of MSMEs in India's Development

2015 - making all necessary preparations within a short period of two months and launching of the Scheme within eight days after the commencement of 2015-16 financial year. This shows the necessary preparations made and the effort put in by the government and its Departments. This is commendable as one can observe inordinate delay in the implementation of budget proposals.

- 2 Another positive aspect is the achievements exceeding the targets set for each of the years (except for 2018-19 for which complete details are not available) which is an exceptionally good achievement in India and more particularly, in government sector. Even the amount of loan disbursed exceeded 97% of loan sanctioned which is appreciable.
- 3 The third positive aspect is the continuous improvement in the performance year after year perennially - in terms of number of beneficiaries, targets set, and amounts of loan sanctioned and disbursed (except for 2018-19 for the reasons already stated).

Besides the above, this Scheme has a few more positive aspects. These are summarized below.

- 1 It is reported that 74% of the beneficiaries under this Scheme are women and only the remaining 24% of the loanees are men. Of course, as the Scheme accords preference for women-entrepreneurs, men may be getting/availing the loans and advances sanctioned in the names of women of their families.
- 2 Of the total loan accounts, more than 50% belong to SCs, STs and OBCs - stated the GoI on various occasions.
- 3 Further, 28% of the loanees are first time entrepreneurs i.e., first to take up entrepreneurial activities from their families.
- 4 Another important aspect is that the Gross NPA ratio (of loans under PMMY) is only at 5.38% (as at 31 March 2018) as against little over 10% across all sectors in the country.

## Findings - Negative/Undesirable Aspects of the Scheme

Though the Scheme is appreciable and the performance is commendable if one takes the statistics at their face values, it suffers from a few shortcomings. The important short-comings are summarized below.

- 1 As already pointed out, the Scheme requires the lender-bankers not to insist on the collateral security at the time of processing loan applications and sanctioning loans and advances. This 'specification' is contrary to the generally accepted and widely used lending principle of banking companies. It may be noted here that even if majority of borrowers are able and/or willing to repay the borrowed amount promptly, one can find many defaulters including wilful defaulters. In the absence of adequate collaterals, how can the lender-bankers recover the outstanding loan amount from these loanees/defaulters? In this regard, Ashwini Rana, Vice President, National Organization of Bank Workers, criticised the government policy of directing the lender-bankers to sanction loans and advances to micro enterprises without insisting on the collaterals. Devinder Sharma, Policy Expert, went a step ahead by saying that the government has just doled out money to people without any security and lakhs of accounts turning into NPAs. Though the intention of the government is good but diluting the process of credit appraisal is neither desirable nor justifiable. This Clause (of waiving-off the condition of collaterals) may be good politics but bad economics - reported in the press.
- 2 PMMY requires MUDRA to set the targets for the lender-bankers in terms of amount of loan sanctioned/dispensed. Of course, every Scheme must have certain objective, real and measurable targets - realistic and achievable targets but without compromising on the quality of loan assets. However, due to the (over) emphasis on targets and achieving these targets, the bank managers, more particularly that of PSBs, were/

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are under pressure in the race to meet the targets set for them. In the process, lender-organizations might not have been able to evaluate loan applications from the point of view of their financial viability resulting in the quicker sanction of loans and advances based on lightly evaluated credit appraisal reports or without verifying the credentials of loan seekers and with inconsistent appraisal amounts (Mehmet Yazici & Erkut Baloglu, October 2012). To put it alternatively, credit targets are achieved by abandoning appropriate due diligence which only creates a conducive environment for future NPAs - said Dr. Raghuram Rajan, former Governor of RBI in a note to the Lok Sabha Committee on Estimates. Due to these reasons, among others, it is reported that the loans were given, under this Scheme, to the people without any purpose. It is also reported in the press that in the race to meet the targets, the banks even invited/encouraged their customers (i.e., account holders) to avail of the loan facility up to ₹ 50,000 under 'Shishu' category. And even a few unscrupulous bank managers have/are sanctioned/ing loans under PMMY for personal favours e.g., a case (Barmer, Rajasthan) investigated by the Central Bureau of Investigation (CBI) has revealed a senior official of a PSB providing 26 loans worth ₹ 62 lakh under PMMY without proper verification. On the other hand, the bank officials are in a quandary - if they sanction loan (without objective credit appraisal), it harms their banks, and if they do not sanction loan, loan seekers complain to politically light to heavy weights.

- 3 The above lacunae (viz., without insisting on collaterals and setting target for lender-bankers) are expected to worsen the already NPA-ridden banks and economy. For instance, the amount of outstanding loan under PMMY is Rs 2.02 lakh crore as at 31 March 2018 and of this, Rs 9,770 crore is classified as NPAs. Some experts projected the NPA figures under PMMY at over Rs 14,350 crore within the short span of three years. It may be noted here that the Scheme has completed only 3 years and 10 months, and major portion of the loan disbursed

under this Scheme has not yet become outstanding. Still, already thousands of crores of Rupees have been classified as NPAs. In spite of this increase in the amount of bad loans, target loan is, more or less, unaffected - rather, it is increasing year after year. Besides, the amount of loan disbursed is also increasing continuously which should be a matter of great concern for bankers and other lenders. This is because of the reason that, the government has not given any assurance to the banker-lenders that any loss (either the loss of interest income or loss on account of failure to repay the borrowed sums by the micro enterprises under PMMY or both) caused to the lenders will be made good by the government. Consequently, already NPA-ridden bankers have to bear the entire loss which will further aggravate their problems.

### Suggestions-cum-Conclusion

In the light of the above factual/objective analysis, and also in the light of the experience with the Scheme during the last 3 years and 10 months, it is necessary to strengthen the Scheme by making suitable changes to the guidelines on the following lines.

- 1 The relevant Provision of the Scheme should be revised to incorporate the insistence of adequate collaterals by the banks at the time of processing loan applications. This is necessary to ensure credit culture and to protect the banks. Otherwise, the asset quality of banks may deteriorate further and this may result in many other adverse implications on the performance of banks such as capital adequacy, return on assets, etc.
- 2 Though setting targets is both desirable and necessary, it is not desirable to insist on the banks to achieve/exceed the targets by diluting the quality of credit appraisal. Evaluation of loan applications objectively is the foundation of banking business. Further, it is necessary for the government to allow the lender-bankers to lend only to genuine parties - those who are honest in starting entrepreneurial/business activities and those who provide adequate security for the loan sought.

3 The Gol considers PMMY as one of its ambitious projects. The government expects this Scheme to ensure self-employment to loanees - loanees becoming the employers of their business entities (however small they are) - this is more so under 'Shishu' category. Under 'Kishore' and 'Tarun' categories, the loanees are expected to generate a few more employment opportunities to others. Under 'Shishu', average amount of loan provided per loanee/entrepreneur amounts to about Rs 20,000 which is very meagre to start any industrial/business unit. Hence, it is necessary to increase the amount of maximum ceiling appropriately.

In the light of above, it is concluded that the Scheme is good but needs revisions on the lines suggested above. Again, it is necessary for the banking companies which provide the loans and advances under this Scheme to monitor the projects funded by them closely to ensure that the money is used by the loanees for the purpose for which it is sanctioned/dispensed. On their part, the loanees should make use of the opportunity to take up the revenue generating activities in whatever little way they can with the limited resources. And they should aim at continuous improvement/expansion in the business thereby mitigating the unemployment problem of the country and also by contributing to the country's GDP.

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# An Empirical Study on Problems and Prospects of Micro Small and Medium Enterprises in Bengaluru, Karnataka

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## Abstract

*The Unemployment Rate of India is climbing high year on year, end of March 2018 the unemployment rate of the country has gone up to 4.1% and the number of unemployed persons is at 6.7 million. The job market of India is mostly conducive for skilled and educated. Micro Small and Medium Enterprises (MSMEs) play an important role in plugging this problem of India. They not only provide employment for unemployed but also motivate low skilled labor to start up his own enterprise. MSMEs are nurseries for entrepreneurship and innovation. Despite their tremendous potential, the MSMEs faces several difficulties, there have been high cost of traditional credit, restricted access to equity capital, raw materials at a competitive cost, unsuitable infrastructure, low technology levels, dearth of skilled manpower and lack of resources for marketing and competency, lack of access to global markets. Karnataka is one of the most progressive and industrialized states in the country and is leading States in driving India's economic growth. The State Government has taken various measures to safeguard the interest of these micro, small and medium enterprises. The study analyses the problem and prospects of MSMEs in Bengaluru.*

**Key words:** MSME, Employment, Entrepreneurship, Karnataka

## 1. INTRODUCTION

India is the fourth largest economy in the world (in PPP terms) and the second largest in developing Asia. By 2032, it is expected to overtake Japan to become the third-largest economy in the world. By the end of

the year India accounts for 17 per cent of World's GDP [as per PWC report], 17.74 per cent of world population [21]and 32.5 per cent of potential workforce in developing Asia. [23]While declaring the vision for India, Mr. Pranab Mukherjee stated that "India being the oldest civilization is going to be younger" in coming years with the largest number of skilled young working professionals and India has to provide leadership to the world".

The world aging population is estimated to be close to 360 million older people who will no longer be working. In two years, 13 countries, and 34 by 2030, will be "super-aged" - with more than 20% of their population over 65.[22]It is also estimated that due to India's demographic dividends majority of the supply to the global labor force will come from India, with 50 % of its population under the age of 25 and more than 65% below the age of 35.

But India being a developing country faces many difficulties. "Unemployment" is one of that kind. The Unemployment Rate of India is climbing a new high as the time passes. End of March 2018 the unemployment rate of the country has gone up to 4.1% and the number of unemployed persons is estimated at 6.7 million. Moreover, the job market of India is mostly conducive for skilled, educated and urban.

Micro Small and Medium Enterprises (MSMEs) play an important role in plugging this problem of India. This sector has the ability of reduction of regional disparity through income generation, creates employment opportunities, reduce poverty and above all induce regional development. Apart from creating



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employment opportunities at comparatively lower cost compared to large industries, it initiates industrialization in less developed areas, minimize regional imbalance and persuade equitable distribution of growth and development. MSME support entrepreneurs for development of existing enterprises and encourage entrepreneurs for new establishment.

The MSMEs are contributing 45% of total industrial output, 8% to Indian GDP, and 40% of all exports, provides employment to more than 10 crores, providing 40% of India's workforce after the agriculture sector and producing more than 8000 different products. MSMEs are nurseries for entrepreneurship and innovation. Despite being the big form, it faces lot of problems. Lack of proper financing, obsolete technology, lack of proper infrastructure and increasing debt are to name a few. In the present study the problems and prospects of MSMEs in Bangalore are identified and analyzed empirically.

### 2. REVIEW OF LITERATURE

MSMEs are contributing significantly towards the economic development of the country [20][19]. The sector is contributing in the industrial production in rural and backward areas, employment generation [5][17], contribution to export promotion [19], utilization of local resources is the major contribution of this sector. Many studies revealed the changing role of MSMEs in the development process and the access of MSMEs to informal and formal finance, including the role of microfinance [4] the role of small & medium enterprises (SMEs) in the industrial sector is growing rapidly and they have become a thrust area for future growth [18]. MSMEs contribute towards national growth and they are getting support from government regarding finance marketing infrastructure etc. MSMEs entrepreneurs can come together and can afford the burden of the cost of foreign collaboration of technology easily as the decline took place in agricultural employment and virtual stagnation in the organized manufacturing sector, employment in MSME sector has emerged as the only ray of hope. In developing countries small enterprises with low

investment is achieving more productivity of capital than the larger, more capital-intensive enterprises. [15] It is empirically tested that there is causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) [7].

Contrary to the many studies [4] in his paper highlights the importance of quality in employment generation by the SSIs and negates the short-term attitude of increasing the volume of employment generation compromising with quality. The author argues that employment generation by the SSIs may be high in quantitative term but very low in quality which can be up graded by technological up gradation in that sector. He further viewed that advanced technology enables the small firms to create quality employment improving remuneration, duration and skill [3].

### Performance of MSMEs

There is a remarkable progress in the performance of SSI sector in terms of their units, production & employment levels. [15][19][04][18], During the post liberalization era the performance the small scale sector has grown rapidly compare to pre liberalization era [9]. A study result has revealed that due to more SSI firms has entered into the protected areas, the capacity utilization by SSI and their aggregate production are both lower for reserved item in comparison to unreserved items. [1] Compared the performance parameters of SSIs in the pre and post liberalization era as well as examined the performance of SSI in relation to three important variables like GDP, output and exports. The study found that in the period of nineties vis-à-vis the pre-reform years the annual average growth rate of different parameters of SSIs have declined. Further it reveals that there is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.

### Opportunities and Problems

The critical problems that are being faced by the MSME sector in India are highlighted by many studies. It is [8] observed that small and medium enterprises

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(SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization[2] in the fields of management, marketing, product diversification, infrastructural development, technological up gradation[09][17] feel that innovation as main construct which impacts on growth and performance of MSME's in India. Availability and procurement of raw materials collaboration of foreign technologies costs more which small enterprisers can't afford[19].

The policy changes [18] domestic reforms on small-scale industries sector [2] have opened new opportunities for MSME sector. The resources available to start up and SSIs in Karnataka, where they can produce different type of products for domestic consumption and exports support from the Karnataka state government to the development of MSMEs is an added advantage for MSME entrepreneurs in Karnataka. [8][6] It is recommended that there is a need for the dedicated STOCK Exchange for the MSME sector to cater to their needs better which are different from the large industries. The above literature highlights the various aspects viz. performance, growth, problems and opportunities of MSMEs in Indian economy and induces for continuous research in this field.

### 3. OBJECTIVES

The main purpose of the study is to analyse the problems and prospects of micro and small enterprises confined to Bengaluru City of Karnataka. The study also focused on the performance of MSME in terms of units, employment generation and contribution to GDP.

### 4. METHODOLOGY

- 4.1 The study calls for both secondary data and primary data. Secondary data is collected from 2007 to 2018 from various annual reports published by the Govt. of India, Ministry of Micro, Small and Medium enterprises, published documents of District Industry Centre of Bengaluru and other journals.
- 4.2 Companies with a less than total income of Rs.500 Mn are selected for the study. To collect Primary

data, 250 owners and/or managers of MSMEs spreading across Bengaluru are interviewed with the help of a structured questionnaire. However, 29 responses could not be included due to missing data. Data collected from different sectors as below.

Sector	No of Units
Wearing Apparel, dressing, dying	18
Interior decoration, Furniture	17
Food Products and Beverages	26
Nonmetallic mineral Products	9
Computer and related activities	26
Handicrafts and Handlooms	17
Weaving	11
Sales, maintenance, repair of Automobiles	18
Hotels and Restaurants	22
Services	14
Others	43

### 5. ANALYSIS

Table1: Number of MSME units in India, Karnataka, Bangalore.

YEAR	Number of MSMEs INDIA (In lakhs)	Number of MSMEs in Karnataka (in units)	Number of MSMEs in Bangalore district (in units)
2007-08	272.79	14984	2652
2008-09	285.1	15705	2373
2009-10	298	17195	2767
2010-11	311.5	18434	3696
2011-12	447.5	21021	4478
2012-13	467.5	24208	7130
2013-14	488.46	25966	7526
2014-15	510.57	28574	8031
2015-16	633.88	30542	9685
2016-17	199	NA	NA
2017-18	362	NA	NA
CAGR	50.42%	192.20%	167.50%

Source: Annual Reports MSME

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In the year 2007-08 the number of MSMEs is 27.2 million which has increased to 36.2 million units with a CAGR of 50%. In Karnataka, the number of MSME was 14984 units in 2007-08 that has increased to 30542 in 2015-16. The compound annual growth rate of the same is 192% over a period of nine years. The number of MSME in Bengaluru was 2652, increased to 9685 in 2015-16 with a CAGR of 167%. It can also be observed that while at the national level the number of units has increased at the rate of 50% only, in Karnataka the same has grown by 192% and in Bengaluru the number of MSME units has raised by 167%. That implies that here is a remarkable increase in the number of MSME sector in Karnataka. This could be due to support and financial assistance extended by the Karnataka state government to the development of MSME [05].

Table2: PERFORMANCE OF MSME SECTOR IN INDIA

Year	Total working MSMEs (in Lakhs)	Employment (in Lakh person)	Share of MSME Sector in total GDP (%)*
2006-07	361.76	805.23	35.13
2007-08	377.36	842	34.41
2008-09	393.7	880.84	36.12
2009-10	410.8	921.79	36.05
2010-11	428.73	965.15	36.69
2011-12	447.64	1011.69	37.97
2012-13	467.54	1061.4	37.54
2013-14	488.46	1114.29	30.64
2014-15	510.57	1171.32	30.74
2015-16	633.88	1109.89	28.77
2016-17	797.34	1172.52	28.21
2017-18	NA	NA	NA
CAGR	7.37%	3.48%	-1.97%

Source: MSME Annual Reports

The total working of MSME has increased from 361.76 in 2006-07 to 797.34 in 2016-17 with a compound annual growth rate of 7.37% only which is not very impactful. In contrary to the many existing literature which suggested that there is a significant contribution of MSME sector to GDP of the country, the above table shows that the contribution of MSME towards GDP has come down to 28.21% in 2016-17 with the CAGR of -1.97% .

Based on the existing literature five factors are identified as the opportunities for MSME operating in Bengaluru. The different factors are administered to the sample entrepreneurs and managers of MSMEs on Likert five-point scale. For every statement, scores are allotted. Each factor is ranked in order of merit by means of weighted mean and most influencing variable is ranked in ascending order.

The same methodology has been adopted to identify the problems as well.

Table3: Prospects of MSMEs in Bengaluru

Opportunities	Weighted Mean	Rank
Karnataka Government schemes	102	1
Locational Advantage	71	4
Resources available to Start up	58	5
Ease of doing business	83	2
Export promotion	79	3

Source: Primary Data

The MSME enjoy the benefits from government schemes. Government provide lot of reimbursements to small industries regarding the employment, marketing and other following schemes. The above table shows the ranking about the opportunities for MSMEs in Bengaluru. Entrepreneurs in Bengaluru have ranked "Government initiatives" as number One followed by ease of doing business in Karnataka. The respondents also feel that the resources available for Start Ups in Karnataka are not Very Significant.

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Table 4: Problems faced by MSMEs in Bengaluru

PROBLEMS	Weighted Mean	RANK
Availability and Procurement of raw material	83	8
Strain of government regulations	62	12
Cut Throat Competition in Market	132	3
Government Price Control	112	4
Problem in Infrastructure	87	7
High Cost of Production	178	1
Lack of Skilled Labor	98	5
Lessaccessibility to finance	163	2
Discriminative treatment by banks and other FIs	92	6
Lack of Technological up gradation	71	11
Lack of Knowledge about the Government Schemes	79	9
Weak Market Demand	78	10

Source: Primary Data

It is evident from table 4 that the major problem of MSME in Bangalore is the High Cost of Production followed by low accessability to Finance. Difficulty in marketing the product due to Availability of better substitute is ranked 3 whereas dealing with government laws is the least important factor affecting the performance of MSME.

### 6. Conclusion

The MSME sector plays an important role in economic development of a country. The study found that the growth and performance of MSME in terms of units is appreciable. But the matter of concern is that the contribution to GDP is getting lower over a period of time. The sector has huge potential to generate employment, contribute to export and to make "Make in India" project successful. The study found that High cost of production is most worrisome factor to the entrepreneurs and dealing with government laws is the least important factor.

In the present study only, the external factors affecting the performance of MSME are considered but there is a further scope of research by including internal factors. A comparison between internal and external factors will also be contribution to the existing research.

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# Performance and Prospects of Small Scale Enterprises in India -A Macro Economic Study.

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## **Abstract:**

*It is very clear that the small scale sector plays a pivotal role in the Indian economy in terms of employment, output and exports. The growth in this sector has resulted into wider dispersal of industrial and economic activities and ensures better use of local resources. The small sector covers a wide spectrum of industries and small scale services and business enterprises and thus is referred to as small scale Enterprises (SSEs). SSEs include modern small scale industries (SSIs), tiny enterprises, small scale service enterprises and village and cottage industries. Modern SSEs are capital-intensive and involves high-tech in the production. These are generally concentrated in the urban areas and may procure raw materials from distant places and produce sophisticated goods that are sold both in national and international markets. These industries produce sophisticated goods. The overall objective of the study is to examine the performance and prospects of small scale Enterprises in India. The specific objectives of the study are to examine the role of Small scale Enterprises, to examine the progress of small scale Enterprises in India, to examine the problems of public sector enterprises in India, to examine the Government initiatives to reduce the problems of Small Scale Enterprises, to examine the opportunities and performance of small scale enterprises in India, to examine the employment generation by small scale enterprises, to examine the investment of Small scale enterprises, Top 10 states in terms of number of MSME establishment, to examine the exports of Small Scale Enterprises in India, to examine the challenges faced*

*by Small Scale Units. SSEs enjoy inherent advantages over their larger counterparts in terms of generation of employment opportunities, equality of income and wealth and greater export potential. The globalize economy has ushered in greater accessibility to the market, need of greater linkage of SSEs with larger companies and improved manufacturing techniques. The measure adopted by Government have been attempted to alleviate the problems of SSEs. The recent initiatives have changed the outlook of business from protection to liberalization. It has created a sense of competition amongst SSEs which has helped a lot to enhance efficiency, productivity, competitiveness, profitability of Small Scale Enterprises. SSEs enjoy inherent advantages over their larger counterparts in terms of generation of employment opportunities, equality of income and wealth and greater export potential. The globalize economy has ushered in greater accessibility to the market, need of greater linkage of SSEs with larger companies and improved manufacturing techniques. The measure adopted by Government have been attempted to alleviate the problems of SSEs. The recent initiatives have changed the outlook of business from protection to liberalization. It has created a sense of competition amongst SSEs which has helped a lot to enhance efficiency, productivity, competitiveness, profitability of Small Scale Enterprises.*

**Key words:** business enterprises, modern small scale enterprises, GST Network, export earnings, dispersion of industries.

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### Introduction:

It is very clear that the small scale sector plays a pivotal role in the Indian economy in terms of employment, output and exports. The growth in this sector has resulted into wider dispersal of industrial and economic activities and ensures better use of local resources. The small sector covers a wide spectrum of industries and small scale services and business enterprises and thus is referred to as small scale Enterprises (SSEs). SSEs include modern small scale industries (SSIs), tiny enterprises, small scale service enterprises and village and cottage industries.

Small-scale industry takes place at the low end of the business spectrum, where companies and the revenues they generate are small. The very smallest of all are referred to as cottage industries, with production work actually taking place in their homes with the help of their family members. That can be as simple as making jams to sell at the local farmer's market or as formal as doing piecework like sewing, welding or woodworking, which is then passed on to a larger company to be incorporated into a finished product.

Since 1950s Small Scale Industries (SSIs) and later MSMEs have been traditionally defined based on their investment in plant and machinery for manufacturing units, and investment in equipment for service enterprises, and now the new definition define them based on their annual turnover. This decision, which came on the heel of the Budgetary proposal to reduce corporate tax to companies having turnover up to Rs 250 crore, is a welcome one.

According to the new definition, a micro enterprise is a unit where the annual turnover does not exceed Rs. 5 crore, a small enterprise is one where annual turnover is between Rs. 5 crore and Rs 75 crore, and a medium enterprises is where the turnover is more than Rs 75 crore but does not exceed Rs 250 crore. In order to give this new MSME definition into effect, the Section 7 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 will be amended in the coming days.

It is clear from the secondary data and information that the move also aligns the definition with GST regime. It will be easier now for authorities to verify claims of businesses using the sales data they have from the GST Network. This will eliminate the need for inspections, make the classification system progressive, and contribute to ease of doing business as well. It is also expected that with this new definition the Government will do away with those clauses that exclude medium sector from various promotional schemes for the sector.

Meanwhile, in another positive development, the RBI has recently gave MSMEs an extension of up to 180 days to clear their loans to banks. Now, they shall continue to be classified as a standard asset in the books of banks and NBFCs subject to amount from the borrower overdue as on September 1, 2017 and payments from the borrower due between September 1, 2017 and January 31, 2018 are paid not later than 180 days from their respective original due dates. No doubt, this move will help MSMEs to adjust to the new formalised business environment under the GST.

Because small businesses contribute so much to the economy, the federal government dedicates an entire agency - the Small Business Administration - to providing the tools you need to be successful. The government also gives preferential treatment to small businesses in a number of other ways, from reduced oversight in some industries to contracts that only small businesses can bid on. The standards of small industries are different from one industry to another since the industries themselves are different. A farm is considered small at up to \$750,000 in annual revenues, for example, but if you're a home builder your business is still small at anything under \$36.5 million.

### The Research Methodology:

The overall objective of the study is to examine the performance and prospects of small scale Enterprises in India. The specific objectives of the study are to examine the role of Small scale Enterprises, to examine the progress of small scale Enterprises in India, to

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examine the problems of public sector enterprises in India, to examine the Government initiatives to reduce the problems of Small Scale Enterprises, to examine the opportunities and performance of small scale enterprises in India, to examine the employment generation by small scale enterprises, to examine the investment of Small scale enterprises, Top 10 states in terms of number of MSME establishment, to examine the exports of Small Scale Enterprises in India, to examine the challenges faced by Small Scale Units.

### Analysis of the results:

#### Modern vs. Traditional Cottage SSEs

Traditional SSEs are labor-intensive, requires specialized skills and craftsmanship which are often handed down from one generation to another. The cottage industries are generally located in the rural areas, mostly make use of local resources and cater to the local demands. These industries involve the production of conventional goods.

Modern SSEs are capital-intensive and involves high-tech in the production. These are generally concentrated in the urban areas and may procure raw materials from distant places and produce sophisticated goods that are sold both in national and international markets. These industries produce sophisticated goods.

#### Role of Small Scale Enterprises:

SSEs have surely acquired prominent role in the industrial and economic development. It has contributed significantly to the socio-economic welfare of the country. The SSEs continue to be a vibrant sector of the Indian economy. It contributes significantly to the growth of Gross domestic product (GDP), employment generation, exports and creation of entrepreneurial base. It is very much clear that the secondary data source information that increasing importance of small scale industries.

**1 Employment Generation:** The small scale sector contributes about four-fifth of

manufacturing employment in India. The SSEs are generally labor-intensive and thus create more employment for the given amount of capital. SSEs provide employment to locally available semi-skilled and unskilled workers who would otherwise be unemployed.

Apart from this, SSEs develop self-employment and entrepreneurial base in the country. Given the acute unemployment problem in India, creation of employment opportunities largely depends upon the development of SSEs.

During Xth plan period (2002-07), SSEs register around 4.57 percent growth in employment where as large industries growth was around 0.85 percent. It is the segment which provides employment next to agriculture. The growth in employment in this sector is much above the population growth of India (i.e. 1.5 percent) The employment intensity of this sector can be judged from the fact that 1 person is employed for every Rs. 1.49 lakh rupees invested in fixed assets of SSEs as against 1 person for every Rs. 5.56 lakh in the large organized sector.

#### 2 Equitable distribution of Income and wealth:

The equitable distribution of income and wealth emerged as the large numbers of SSEs are dispersed in wide range of regions and is held by large number of people. The number of SSEs account for more than 95 percent of total industrial units in the country. Large scale industries on the other hand are owned by few big owners and so led to concentration of income and wealth in the hands of few. Further, SSEs possess much larger employment potential as compared to large enterprises. Small sector thus enable a vast majority of people to derive the benefits of economic development.

#### 3 Mobilization and utilization of local latent resources:

SSE mobilizes the latent i.e. unused or idle resources in terms of surplus labor, idle capital and deploys these resources in the productive activity. The SSEs provide



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opportunities to develop entrepreneurial skills and encourage the innovations at the grassroots level. It provides large amount of supply links by sourcing inputs from the local areas and so have greater local multiplier effect than large enterprises. This is a definite gain to the society as a whole.

**4 Regional Dispersal of Industries:** SSEs are dispersed across wide range of areas and regions. The large scale industries are concentrated in big metropolitan cities as these cities provide an easy access to the basic facilities of power, transport, roads, banking etc. as such it resulted into regional disparities with already well-off states developed faster than other. The small scale industries with localized operations spread in the remote corner of the economy. These industries can be easily set up in different parts of the country and energizes the village industries. This led to reduction of regional economic disparities.

**5 Contribution toward GDP and output growth:** SSEs contribute around 39 percent of gross manufactured output. The output in Xth plan recorded a growth rate of 8.87 percent p.a.

**6 Contributes towards Foreign Exchange:** SSEs hold a significant share in exports earnings. The products like handicrafts, gems, jewelry, carpets, silk which is a forte of SSEs possess huge demand in foreign market. These products require low import-content. Further, the financial constraints and small size of SSEs inhibit the sourcing of raw inputs from abroad and greater use of local resources and save foreign exchange. Thus SSEs contribute to the precious foreign exchange of the country. The direct exports from SSEs accounts for nearly 34 percent of total exports. Moreover direct exports SSEs indirectly contribute to the export earnings in terms of production of parts or components for use in exportable goods or export order from large units. Further, the non-

traditional products account for more than 95 percent of total SSEs exports. The products groups' where SSEs dominates are sports goods, readymade garment, processed food and leather products.

**7 Arrest Rural-Urban Migration:** The rapid increase of population and lack of enough job opportunities in the rural areas has caused migration of rural population to urban areas. This excessive migration has resulted into problems like housing shortage, low level of civic facilities, growth of slums and additional social problems like theft etc. The development of SSEs in the rural areas can provide employment opportunities near the homes of rural people and so reduce rural migration.

### Progress of SSEs in India:

The SSEs in India has made progress over past few decades. It has emerged as a very significant sector of the Indian economy with considerable contribution towards GDP, industrial production, employment generation and exports. It has grown tremendously from mere 8.7 lakh units in 1980 to 128.44 lakh units in 2007(Table1). SSEs have also witnessed significant growth in the total production, employment and export earnings.

**Table1: Progress of SSEs Sector:**

Year	Units (Lakh nos.)	Production (Rs. crore) At 1993-94 Prices	Employment (Lakh nos.)	SSI Exports Rs. crore
1980-81	8.7	72200	71.0	1600
1985-86	13.5	118100	96.0	2800
1990-91	67.9	84728	158.3	9664
1995-96	82.8	121175	197.9	36470
2000-01	101.1	184401	240.9	69797
2005-06	123.4	418884	299.9	150242
2006-07	128.44	473339	312.52	NA

NA: Not Applicable

Source: Office of the Development Commissioner (MSME)

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It is clear from the above table that there is substantial increase in the number of SSI units from 1980-81 to 2006-07. Production of Small Scale industries substantially increased from 1980-81 to 2006-07. Employment of Small scale industries enhanced from 1980-81 to 2006-07. SSI exports increased substantially from 1980-81 to 2005-06.

### Problems of SSEs in India

Concurrent with an impressive growth SSEs face number of problems which are manifested in such a way that this sector fails to achieve the required amount of dynamism and growth. The problems of SSEs are discussed below:

- 1 **Financial Problems:** Finance is the most important aspect for any industrial development. The scarcity of finance and credit is the main obstacle in the growth of SSEs. These enterprises are generally organized in sole-proprietary and partnership concerns and so have no access to the capital market. There exists insufficient equity type institutional support. Delays in institutional finance, unhelpful attitude of banks are the common problems of SSEs. The delay in sanctions of loans occur due to lengthy procedural formalities, insistence upon certificate from local authorities such as village office, block development officers etc and over-emphasis on collateral security. Banks generally avoid financing smaller SSEs due to high mortality rate, low overall recovery performance and high cost of servicing SSEs loans. In this scenario SSEs have to depend upon high interest non-institutional finance.
- 2 **Slow Technological Progress:** Paucity of funds is the major concern for the slow adoption of innovative practices in the business. The unsatisfactory technology delivery mechanism such as arrangement for demonstration of cost and use of new technology also cause low technical progress in SSEs. SSEs especially the cottage and village industries have to depend upon outdated and obsolete production technique. This adversely affects the quality of output and increases manufacturing cost.
- 3 **Marketing -Related Problems:** The problem of marketing products of SSEs generally arise due to small scale production causing high product cost, lack of standardization of product, adequate marketing research, competition from big industrial units and insufficient research and holding capacity. Another related problem is the weak bargaining power of tiny and village industries vis-à-vis large buyers which is causing long overdue from these buyers. SSEs thus fail to obtain fair and timely price for their products. Lack of proper marketing is an important factor causing sickness in SSEs. The inadequate organized marketing support for cottage and village industries also causes low promotion of their products.
- 4 **Lack of Proper Planning:** Planning comprises of the outlay of the quantum of output, time framework of implementation, product and marketing strategies. The performance feasibility study are often neglected by SSEs due to time and cost factors. As a consequence, SSEs face large sickness at early stage of their operation.
- 5 **Sickness:** There exists large level of sickness amongst SSEs. The incipient sickness (ie. Sickness at an early stage of existence) is largely due to lack of planning, professional management and financial problems. The sickness causes wastage of large amount of finances that remain locked into these units. Further, sickness also leads to various socio-economic problems such as lower production, employment and exports.
- 6 **Shortage of Raw Material:** Raw material scarcity caused disruption in the production process. SSEs fail to make bulk purchases and thus have to pay higher price for inputs. The suppliers of scarce raw material give preference to large buyers. SSEs have to depend upon low quality localized high price raw material. Further, SSEs fail to make alternative arrangements for critical inputs such as power due to financial constraints. These factors adversely affect product quality and cost of production.

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### Government Measures

An important place is assigned to SSEs sector in the development policy of the country. Till 90's Government focused more on protectionist policy towards SSEs. The shift in policy paradigm towards this sector occurred since 1991 to impart more vitality and growth-impetus to the sector. The sector has been substantially delicensed. The regulations and procedures have been reviewed and modified to instill competition and efficiency in this sector. The policy initiatives adopted to promote this sector are discussed below:

- 1 Reservation:** The policy of reservation was initiated in 1967 primarily as a promotional and protective measure for exclusive production in SSEs. The number of items reserved is continually revised by Government. In 1967, 47 items were reserved for exclusive production by SSEs which expanded to 873 in October 1984. The rationale of reservation policy was to expand employment opportunities through setting up of SSEs and to protect them from competition by large enterprises. Further it is clear from the secondary data and information that in the new global scenario with WTO agreement Government is required to remove quantitative restrictions on imports of items. A large number of items exclusively reserve for SSEs can now be freely imported. Thus the reservation has lost its relevance so the government has drastically reduced the number of items reserved for exclusive manufacture by micro small and medium enterprises (MSMEs). As on March 2007, the list of items for exclusive production contains 114 items which was further reduced to 35 in February 2008. Non-MSMEs units can undertake manufacture of reserved items only if they undertake 50 percent export obligations.
- 2. Financial Support:** Government has made efforts to ensure adequate and timely availability of financial assistance to SSEs. RBI has issued guidelines to public sector banks to ensure 20 percent growth in credit to SSEs. Small Industries Development Bank of India (SIDBI) which is an apex institution and coordinates the financial assistance availability to SSEs has scaled up and strengthens its credit operations to this sector. The branch network of SIDBI has been increased. In order to improve an access to the capital market, the equity participation by other industrial undertaking not exceeding 24 percent of total shareholding has been allowed. The legislative changes are under way to allow limited liability partnership for SSEs. This would limit the financial liability of some partners who have invested capital. Risk capital fund has been created to provide equity-type long term loans to SSEs. The credit guarantee fund scheme is launched by government in 2000 to allow collateral free credit to SSEs.
- 3. Fiscal Support:** Government has allowed tax concessions in terms of lower excise duty on production, lower sales tax on sales, tax-holiday and extended the time limit for payment of excise duty by SSEs.
- 4. Marketing Support Measures:** In order to provide market support to SSEs, Government has taken following measures:
  - (i) Preferential Purchases and Price Preferences by Government: The Government organizations are statutorily required to make specified level of purchase from SSEs and the same has to be disclosed in their annual reports. At present the number of items for exclusive purchase from SSEs stood at 358. Government also provides price preference to SSEs in their purchases over large scale units.
  - (ii) Financial Assistance is allowed for participation in the international trade fair by representatives of SSEs.
  - (iii) Training Programmes on various aspects of marketing like marketing management, export marketing etc are conducted by Government.
  - (iv) Institutional Marketing Support is provided by National Small Industries Corporation (NSIC) and Small Industries Development Organization (SIDO).

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**5. Institutional Support:** Government has established various organizations to help SSEs. These institutions assist SSEs in purchase of raw material, marketing of goods, technological and skill improvement and arranging credit. The important organization established are Khadi and Village Industries Commission and commodity specific organizations such as Handloom Board, Cottage Industries Board, Coir Board etc. Specialized financial and consultancy institutions such as SIDBI, NABARD (for supporting rural industries), SIDOs, NSIC has been established to provide financial, marketing and managerial assistance to SSEs.

**6. Raw Material Assistance:** The institutional support is provided to allow availability of raw material (both indigenous and imported) at fair price. The centers have been established to distribute scarce raw material to SSEs. Buffer stocks are maintained for raw materials. This has helped SSEs to focus on production of quality products.

### Recent Government's Initiatives

In view of liberalization and globalization and reduced Government intervention in market-driven economy the protectionist policies has been replaced by supportive policies. The recent measures adopted by government are as follows:

**i) Legislative Measures:** Micro, Small and Medium Enterprises Development Act, 2006 has been enacted to facilitate the promotion and development of SSEs. This Act seeks to facilitate promotion and development and enhancing competitiveness of these enterprises. It provides the first-ever legal framework for recognition of the concept of "enterprise" (comprising both manufacturing and services) and integrating the three tiers of these enterprises, namely, micro, small and medium. The basic purpose is to develop the consultative mechanism at the national level that represents stakeholders from three classes of enterprises. The act provides for the establishment of specific funds to support SSEs. The progressive credit policy with targetted growth of credit to SSEs

has been incorporated in the Act. The mechanism has been designed to reduce the problems of delayed payment to SSEs.

**ii) Support for Cluster-Based Development:** The holistic approach is adopted to develop cluster of SSEs so as to provide common facilities in these clusters. The existing industrial infrastructure will be upgraded and new facilities will be created in the public-private partnership mode.

**iii) Technology and Quality Up Gradation:** The support is provided by establishing training-cum product development centers.

**iv) Strengthening of Entrepreneurial and Managerial Development Programmes:** Financial assistance is provided to B-schools to conduct tailor-made management courses for SSEs. Entrepreneurial clubs are established in Colleges or Universities.

**v) Empowerment of Women-Owned Enterprises:** The concessions, marketing and credit facilities on priority basis are provided to enterprises owned and managed by women.

**vi) Strengthening of Data base for SSEs:** It is decided to collect database on SSEs through annual sample surveys and quinquennial (i.e. happening every five years) census so that policy decisions can be framed for SSEs based on systematic data that provides inputs for systematic policy initiatives.

Small scale industries are the second largest employer of human resource after the agricultural sector and produce a wide variety of products ranging from traditional to high-tech. SSI plays a pivotal role in the Indian economy as of being labour-intensive, helps to generate employment in rural as well as in urban areas. The SSIs had also played a cardinal role in the growth operation of Indian economy since independence despite of drastic competition from the big industrial houses and not immensely enriching support from the government. The following are some of the principal role played by small-scale industries in India.

**1. Origination of employment:** The elemental problem that is confronting the Indian economy is escalating pressure of population on land and needs to create enormous employment opportunities. This problem can be solved to a larger scale by the help of small-scale industries as small scale industries are labour intensive in nature and has shown an outstanding growth in the last decade. The employment generation by Small Scale Industries discussed in detail with the help of the following table.

**Table 2. Employment generation by SSIs**

SI No	Year	Employment Generated (in lakh)	Growth(%)
1.	2002-03	260.21	-
2.	2003-04	282.57	4.11
3.	2004-05	294.91	4.37
4.	2005-06	805.23	173
5.	2006-07	846.20	4.57
6.	2007-08	889.08	4.61
7.	2008-09	921.79	4.65
8.	2010-11	965.15	4.70
9.	2011-12	1011.69	4.82
10.	2012-13	1061.40	4.91
11.	2013-14	1114.29	4.96
12.	2014-15	-	5.12

Source: Annual report, Government of India, Micro, Small and Medium Enterprises (2012-13) &(2015-16).

It is clear from the above table that the employment generation by Small Scale Industries showed increasing trend. Growth rate of Small Scale Industries showed again increasing trend.

**2. Equitable distribution of income:** Small scale industries trigger the equitable distribution of wealth and income within societies in ways that are economically positive and without being politically turbulent, which is chiefly categorized by more concentration of income and wealth in the

organised sector keeping behind the unorganised sector underdeveloped.

**3. Assembling of resources and entrepreneurial skill:** Small scale industries can assemble an adequate amount of savings and entrepreneurial skill from semi-urban and rural areas remain unblemished from the clench of large scale industrial sector, also helps to improve the social welfare in the country by identifying hidden talents from the weaker section of the society and investing the intellectual skill for producing or manufacturing commodities. The investment by small scale industries had increased over the last decade.

Table 3.

Investment by small scale industries

SI No	Year	Investment (in crore Rs)
1.	2006-07	868546.79
2.	2007-08	920459.84
3.	2008-09	977144.72
4.	2009-10	1038546.08
5.	2010-11	1105934.09
6.	2011-12	1182757.64
7.	2012-13	1268763.67
8.	2013-14	1363700.54
9.	2014-15	1471992.94

Source: Annual report, Government of India, Micro, Small and Medium Enterprises (2015-16)

**4. Regional dispersion of industries:** There has been an enormous agglomeration of industries in few metropolitan cities of different states of India. People in search of employment migrate from semi-urban and rural to these developed metropolitan cities to earn a better standard of living which ultimately leads to malicious outcome of over-populated, pollution, creation of slums, etc. Small scale industries can overcome this problem of Indian economy by utilising local recourses in terms of raw material, investment, intellectual skill, etc, thus brings about dispersion of industries in various

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parts of the country and promote balance regional development.

Table 4.

Top 10 states in terms of number of MSME establishment

Rank	State	Number of establishments
1	West Bengal	52698142
2	Uttar Pradesh	52385683
3	Maharashtra	45455814
4	Tamil Nadu	32821975
5	Andhra Pradesh	27812916
6	Kerala	23640857
7	Rajasthan	22709368
8	Gujarat	22184649
9	Karnataka	21888601
10	Madhya Pradesh	1958550
	Total	32118346
	All India	45363786

Source: Annual report, Government of India, Micro, Small and Medium Enterprises (2015-16)

It is clear from the above table that Number of SSI establishment highest at West Bengal followed by Uttar Pradesh, Maharashtra, Tamil Nadu, Andhra Pradesh, Kerala, Rajasthan, Gujarat, Karnataka and Madhya Pradesh.

**5. Export enhancement:** Small scale industries have registered a magnificent growth in export over the years. The value of products exported by the SSIs has increased from Rs 155 crores in 1971-72 to Rs124417 crores in 2004-05. The SSI units contributes about 40% of India's total export, thus this helps India in increasing the foreign exchange reserve and reduces the pressure on country's balance of payment.

**6. Supports the growth of large industries:** The small scale industries play a pivotal role in serving big

industries by providing accessories, components, small parts and semi finished goods required by big industries.

**7. Better relation between employer and employees:** In small scale industries better industrial relation between employer and employees helps in increasing employee's efficiency and minimise the chance of industrial dispute, leading to comparatively less loss of production and man-days.

Table 5.

Exports of Small Scale Enterprises in India

YEAR	Total Export	Export by SSIs	% Share of SSIs in Export
1971-1972	1608	155	9.6
1976-1977	5142	766	14.9
1981-1982	7809	2071	26.5
1986-1987	12567	3644	29.00
1991-1992	44041	13883	31.5
1992-1993	53688	17778	33.1
1993-1994	69571	25307	36.4
1995-1996	-	36470	34.3
1996-1997	117524	39248	33.4
1997-1998	126286	44442	35.2
1998-1999	141604	48979	34.6
1999-2000	159161	54200	34.0
2000-2001	202510	69797	34.47
2001-2002	207746	71244	34.29
2002-2003	252790	86013	34.03
2003-2004	-	97644	33.49
2004-2005	361879	124417	34.38

It is clear from the above table that the total exports increased from 1971-72 to 2004-05. Percentage share of SSIs in exports again increased from 1971-72 to 2004-05.

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### Challenges faced by Small Scale Industries:

In spite of expedient contribution by the SSIs towards the Indian economy, SSIs does not get the indispensable support from the related Government departments, financial institutions, Banks, credit societies and corporate thus the SSIs are becoming handicap in the face of competition at national and international markets. It is clear from the secondary data and information that the major problems faced by the SSIs are as follows:

#### 1. Scanty credit assistance

Scanty and timely supply of credit is one of the major problems faced by SSIs in India. Scarcity of finance and weak creditworthiness is the main barrier for the development of SSIs in India. The creditworthiness of these small borrowers is generally weak and therefore they face unwilling creditors who may be persuading to lend only at high rate of interest.

#### 2. Uneven and poor quality of raw material

SSI units face extreme problems in procurement of raw materials whether from local or international market. The problems arise due to absence of sufficient quantity of raw materials, poor quality of raw material at exorbitant price. The entrepreneur of SSI units has lack of knowledge about the procurement from foreign market. Large scale industries enjoy economies of large scale operation hence can procure the quality raw material at very reasonable price, thus can sell the products at cheaper price as compared to SSIs.

#### 3. Absence of organised marketing process

SSI units do not have any organised marketing process and even does not appoint any marketing organisation for marketing of products or services and hence their products compare unfavourably with the quality of the products of large scale industries.

They suffer competitive disadvantages in comparison to large scale industries, as large scale industries infuse large amount of money on branding and promotion activities.

#### 4. Inadequate infrastructure

Inadequate infrastructure is a major problem for the SSI units to grow and prosper. Most of the SSI units are located in semi-urban and rural areas where the power supply is inadequate to run big machines and poor road connectivity. Thus absence of adequate infrastructure adversely affects the productive schedule of the enterprise leading to under- utilization of capacity. More over the machineries, equipments and technology employed by the SSIs are out dated, where the large scale organisation enjoys the competitive advantages.

Beside the above mentioned problems SSI like units suffer from a number of other problems also poor managerial capabilities, lack of adequate warehousing for free supply of goods, lack of skilled manpower, lack of appropriate information, etc. Due to all these problems the progress and development of Small scale industries could not reach the distinguished stage.

### Conclusion

The advancement of SSIs is very much essential for the development of Indian economy to achieve reduction in poverty, reduction in unemployment level, impartial distribution of income and wealth, economic self-dependence and economic sustainable developments.

It is essential to support MSMEs by educating them to make optimum utilisation of inbuilt capacity to be successful both under human and economic activity. Some appropriate measures to be taken by the government in providing financial assistance at minimum formalities, a platform to be built by government to help the MSMEs in procurement of quality raw material and train them for organised marketing process. So that one can expect more enhanced development of MSME Sector.

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# An Economic Analysis of MSMEs: A Case Study of Ramanagara District

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## Abstract

*Micro Small and Medium Enterprises (MSME) form the backbone of the Indian manufacturing sector and has become engine of economic growth in India. This paper closely analyses the growth and development of the Indian small scale sector from opening of the economy in last few years. Another part looks into the present scenario of MSMEs and the problems they faces like lending, marketing, license issues in detail. The Micro, Small and Medium Enterprises Act, 2006 is intended to boost the sector. The provisions of the Act are examined closely. The final part in this paper provides some future policy framework for the sustainability of the sector and analysis the facts on MSMEs.*

**Key words:** MSMEs Act, Economic growth, Ownership.

## INTRODUCTION

Micro Small Medium Enterprise (MSMEs) constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession. In India, the MSMEs play a pivotal role in the economy of the country. In recent years, this sector has consistently registered higher growth rates compared to the overall

Industrial Sector. With its agility and dynamism, the sector has shown an admirable innovativeness and adaptability to survive the recent economic downturn and recession. As per the available statistics, (4th All India census of the MSME sector), this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, the MSME sector accounts for about 45 percent of the manufacturing output and around 40 percent of the total exports of the country. 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.

MSMEs not only play a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries, but also help in industrialization of rural and backward areas, thereby reduce regional imbalances and assure more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socioeconomic development of the country. Ministry of Micro, Small & Medium Enterprises (M/o MSMEs) envision a vibrant MSME sector by promoting growth and development of the MSME Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries /Departments, State Governments and other Stakeholders, through providing support to existing enterprises and encouraging creation of new enterprises.

## Research Methodology

In this study the researcher has studied the Micro, Small and Medium scale enterprises because many

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researchers had already done their research on only medium scale enterprises. So researcher will use the descriptive and analytical research methodology to better understand the nature of problem and uses interviews with MSMEs industries which are located in Ramanagara District only. Sampling Size in Indian geographical area has very large number of population. It is very difficult to cover the full population. So the survey shall include 100 respondent units from the geographical area of Ramanagara district, Karnataka.

### MAIN OBJECTIVES

The main objectives are:

- i. To understand the role of Micro, Small and Medium scale industries in the economic development of Ramanagara district.
- ii. To know the policy measures for the exponential growth of Micro, Small and Medium scale industries.

### SCOPE

The current study is mainly concerned to know the current position of the small and medium scale enterprise in Ramanagara district and what all the problems are in the MSMEs in Ramanagara district. The study also intends to find out MSMEs role in economic development.

### Review of Literature

Sudan, F. K. (2005) described the challenges in Micro and Small Scale Enterprises Development and policy issues by arising different questions related to Micro and Small Enterprises. The study explained the meaning, advantages, problems and policy options of MSE sector. The study concluded that all the policies which were opted by GOI were the efforts to form a dynamic MSE sector and a diversified economy providing expanded employment opportunities to absorb all new labor force and offer exciting career opportunities.

Saxena.H.M. (2002) has studied the factors underlying the growth of marketing system as a result historic economic reforms and is linked to the growth of human civilization, specifically to the economic development, population growth and urbanization. The study

emphasized on understanding the behavior of the market participants the behavior of market participants due to market dynamics and concluded with a suggestion as to how the development of markets and their efficiency could be strategized.

J.M.Keynes (1936) identifies the forces that influences formulation of employment policy during industrialization. He propounds the theory of entrepreneurship that will offer the quantum of employment that can be created to maximize the output and profitability. He further, stresses that the productivity of labors determinant factor of the level of employment.

### Statement of the Problem

Despite its strategic importance in any industrialization strategy, the opportunities that the Indian landscape presents and its immense potential for employment generation, the MSME sector confronts several challenges. They face problems at every stage of their operation, whether it is buying of raw materials, manufacture of products, marketing of goods or raising of finance. Some of the challenges Indian MSMEs face have been discussed below:

- i. Problems in supply to government departments and agencies
- ii. Procurement of raw materials at a competitive cost
- iii. Low technology levels and lack of access to modern technology
- iv. Lack of skilled manpower for manufacturing, services, marketing, etc

### Analysis and Interpretation of the Data

Table-01-Ownership pattern of the unit

Sl.No	Ownership Pattern	Response
1	Sole proprietorship	24
2	Private Limited	45
3	Partnership Firm	27
4	Public	4
5	Others	0
	<b>Total</b>	<b>100</b>

Source: Primary Data

## Role of MSMEs in India's Development

This table reveals that study area of Ramanagara district has most of private firms are participating by this we can see the organizations having the private owners. Partnership firm and sole proprietorship firm showing little bit equal participation. But the study area of Ramanagara public organization is very less to other type organizations, so Ramanagara area organizations having ownership pattern most of all is private.

Table-02

The Table Showing Registered Organization Respondents

Sl.No	Registered	Response
1	Yes	100
2	No	00
	<b>Total</b>	<b>100</b>

Source: Primary Data

We can see that every organization has got the registration. The study area Ramanagara District has various types of industries in that all industries has got registration which we have surveyed.

Table-03

The table showing role of organization playing in economic development of Ramanagara District

Role of organization in Economic Development	Yes	No
Creating Employment Opportunities	93	7
Enhancing Standard of Living of People	31	69
Contributing to Development of Social Infrastructure	40	60
Social Responsibility for providing for Common good	24	76
Other please specify	9	91

Source: Primary Data

Above table reveals that in total Ramanagara MSMEs playing role in economic development activity. That is first they are playing to create employment opportunity for unemployed educated people, the second role

contributing to social development infrastructure. Enhancing standard of living of people and social responsibilities for providing for common good role is playing in economic development of Ramanagara district. So MSMEs provide better help to Ramanagara people to develop their economic condition.

Table-04

The table showing the important measures for the growth of MSMEs

Measures that would steer the growth of MSMEs	Yes	No
Financial Assistance	55	45
Government Assistance	43	67
Reducing tax deductions	60	40
More availability of raw materials	50	50
Improve the technology	33	67
Innovations	18	82
Improve the production capacity	64	36
Fulfill employee incentives	44	56

Sources: Primary Data

The above table reveals that effective measure to growth of MSMEs by their opinion is improve the production capacity, Reducing tax deductions, Financial assistance, More availability of raw material, Fulfill employees incentives, Government assistance, Improve the technology, Innovations are the measures they need for growth of MSMEs but first is Improve the production capacity, financial assistance, and more availability of raw material are more important factors to develop the MSMEs.

## 8. CONCLUSION

The study area Ramanagara district has various MSMEs to improve the economic condition of the country. The MSMEs role is most important in Ramanagara district area to improve the life style of people and these MSMEs also having social development activity. MSMEs are providing employment opportunity to unemployed people.

## Role of MSMEs in India's Development

MSMEs having the relationship with other country to sell their product by this activity Ramanagara district got good identity.

Nowadays MSMEs are facing lots of problem because of various reasons that may be finance, employees, technology, and innovation problems etc. MSMEs having the social development activity to improve the present economic condition of the Ramanagara district. The role of MSMEs in economic development is first and foremost thing is providing employment opportunity to unemployed people. The study area Ramanagara district is very comfortable to open more MSMEs because of this area is having required and enough raw materials to related industries and this area having comfortable market.

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# Schemes of National Small Industries Corporation Limited–An Overview

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## Abstract:

*This paper reveals that the schemes of National Small Scale Industries Limited (NSIC) and its salient features/benefits to Micro Small Medium Enterprises (MSMEs) in India. This is a descriptive study. The important schemes are market support, material sourcing support, B2B portal, credit support, financing assistance, buyer and seller meet etc. Secondary data has been used. The practices that are followed by Public Sector Enterprises (PSEs) are referred. The various approaches that are practiced by NSIC also brought out in this paper. Further empirical study is needed to evaluate the effectiveness of each schemes. The paper also suggests the direction for further study.*

**Key words:**b2b portal, marketing intelligence, credit, financial assistance, material sourcing.

## Introduction

National Small Industries Corporation (NSIC), is an ISO 9001-2015 certified Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME). NSIC has been working to promote, aid and foster the growth of micro, small and medium enterprises in the country. NSIC operates through country wide network of offices and Technical Centres in the Country. In addition, NSIC has set up Training cum Incubation Centre managed by professional manpower. NSIC is facilitating the growth of small enterprises since 1955.

NSIC facilitates Micro, Small and Medium Enterprises with a set of specially tailored scheme to enhance their competitiveness. NSIC provides integrated support

services under Marketing, Technology, Finance and other Support service.

The vision and mission of NSIC are stated below:

**Vision:** "To be a premier Organization fostering the growth of Micro, Small and Medium Enterprises (MSMEs) Sector".

**Mission:** "To promote and support Micro, Small & Medium Enterprises (MSMEs) Sector by providing integrated support services encompassing Marketing, Technology, Finance and other services."

## Main objectives of the study

The main objectives are as mentioned below:

- i. To understand the various schemes of NSIC in MSMEs growth and development
- ii. To know the new initiatives of NSIC towards the development of MSMEs.
- iii. To describe the salient features of schemes of NSIC

## Research Methodology

The study is descriptive in nature. The data has been collected from secondary sources such as company's website, articles published in journals & newspapers and brochures & company reports.

## Schemes of NSIC

NSIC facilitates Micro, Small and Medium Enterprises with a set of specially tailored scheme to enhance their competitiveness. NSIC provides integrated support services under Marketing, Technology, Finance and other Support service. The various schemes of NSIC are listed below:

## Role of MSMEs in India's Development

### i. Marketing Support

Marketing has been identified as one of the most important tool for business development. It is critical for the growth and survival of MSMEs in today's intensely competitive market. NSIC acts as a facilitator and has devised a number of schemes to support enterprises in their marketing efforts, both domestic and foreign markets. These schemes are briefly described as under:

#### Consortia and Tender Marketing

Small Enterprises in their individual capacity face problems to procure & execute large orders, which deny them a level playing field vis-a'-vis large enterprises. NSIC forms consortia of Micro and Small units manufacturing the same product, thereby pooling in their capacity.

NSIC applies the tenders on behalf of single MSE/ Consortia of MSEs for securing orders for them. These orders are then distributed amongst MSEs in tune with their production capacity.

### ii. Single point Registration for Government Purchase

The units registered under Single Point Registration Scheme of NSIC are eligible to get the benefits under "Public Procurement Policy for Micro & Small Enterprises (MSEs) Order 2012" as notified by the Government of India, Ministry of Micro Small & Medium Enterprises, New Delhi vide Gazette Notification dated 23.03.2012.

- a. Issue of the Tender Sets free of cost;
- b. Exemption from payment of Earnest Money Deposit (EMD),
- c. In tender participating MSEs quoting price within price band of L1+15 per cent shall also be allowed to supply a portion upto 20% of requirement by bringing down their price to L1 Price where L1 is non MSEs.
- d. Every Central Ministries/Departments/PSUs shall set an annual goal of minimum 20 per cent of the total annual purchases of the products or services produced or rendered by MSEs. Out of annual requirement of 20% procurement from

MSEs, 4% is earmarked for units owned by Schedule Caste /Schedule Tribes (as per PPP Order dated 23.03.2012 overall procurement goal shall be mandatory w.e.f. 01/04/2015)

- e. In addition to the above, 358 items are also reserved for exclusive purchase from SSI Sector. All PSUs are governed by these regulations. Besides this, the PSUs are advised by the concerned ministries to submit their returns / reports on quarterly, half-yearly and annual basis to the ministry and also a copy to the Development Commissioner MSMEs, Ministry of MSMEs, Govt. of India (HAL Annual Report 2017-18 and BEL Annual Report 2017-18). All PSUs have appointed / nominated the Nodal Officers to coordinate and report to DC-MSMEs on purchases from MSMEs.

### iii. MSME Global Mart B2B Web Portal for MSMEs

With increase in competition and melting away of international boundaries, the demand for information is reaching new heights. NSIC, realizing the needs of MSMEs, is offering Infomediary Services which is a one-stop, one-window bouquet of aids that will provide information on business & technology and also exhibit the core competence of Indian MSMEs. B2B Web portal is offering following benefits to the members of Infomediary Services.

- a. Interactive database of MSMEs
- b. Self -web development tool
- c. National Tenders on email
- d. Centralized mail system
- e. Popular Products Section
- f. Unlimited global Trade Leads
- g. Trust Seal of NSIC
- h. MSME Web Store
- i. Multiple Language Support
- j. Discussion Board
- k. Call Centre Support & Live Chat
- l. Other Value added Services
- m. Payment Gateway for membership subscription

## Role of MSMEs in India's Development

### iv. Marketing Intelligence

Collect and disseminate both domestic as well as international marketing intelligence for the benefit of MSMEs. This cell, in addition to spreading awareness about various programmes / schemes for MSMEs, will specifically maintain database and disseminate information.

### v. Exhibitions and Technology Fairs

To showcase the competencies of Indian SSIs and to capture market opportunities, NSIC participates in select International and National Exhibitions and Trade Fairs every year. NSIC facilitates the participation of the small enterprises by providing concessions in rental etc. Participation in these events exposes SSI units to international practices and enhances their business prowess.

### vi Buyer-Seller Meets

Bulk and departmental buyers such as the Railways, Defence, Communication departments and large companies are invited to participate in buyer-seller meets to enrich small enterprises knowledge regarding terms and conditions, quality standards, etc required by the buyer. These programmes are aimed at vendor development from MSMEs for the bulk manufacturers. NSIC conducts exhibitions / putting stalls in Defence-Exhibition regularly.

### vii Credit Support

NSIC facilitates credit requirements of small enterprises in the following areas:

Financing for procurement of Raw Material (Short term)

NSIC's Raw Material Assistance Scheme aims at helping Small Enterprises by way of financing the purchase of Raw Material (both indigenous & imported). The salient features are:

- Financial Assistance for procurement of Raw Materials up to 90 days.
- Bulk purchase of basic raw materials at competitive rates.

- NSIC facilitates import of scarce raw materials.
- NSIC takes care of all the procedures, documentation & issue of letter of credit in case of imports.

NSIC conducts a survey for raw material requirements of MSMEs in each state for both manufacturing and construction sectors. This facilitates NSIC sourcing of raw materials at competitive prices.

### viii. Finance through Syndication with Banks

In order to ensure smooth credit flow to small enterprises, NSIC is entering into strategic alliances with commercial banks to facilitate long term / working capital financing of the small enterprises across the country. The arrangement envisages forwarding of loan applications of the interested small enterprises by NSIC to the banks and sharing the processing fee.

### ix Technology Support

Technology is the key to enhancing a company's competitive advantage in today's dynamic information age. Small enterprises need to develop and implement a technology strategy in addition to financial, marketing and operational strategies and adopt the one that helps integrate their operations with their environment, customers and suppliers.

NSIC offers small enterprises the following support services through its Technical Services Centres and Extension Centres:

- Advise on application of new techniques
- Material testing facilities through accredited laboratories
- Product design including CAD
- Common facility support in machining, EDM, CNC, etc.
- Energy and environment services at selected centres
- Classroom and practical training for skill up gradation

## Role of MSMEs in India's Development

NSIC -Technical Support Centres conduct short term training programmes for the needy people. It is learned from their success stories that people got employment with a decent salary after their successful completion of training ([www.nsic.co.in/success stories](http://www.nsic.co.in/success_stories)).

### x. Software Technology Cum Business Parks

NSIC has established Software Technology cum Business Parks at New Delhi and Chennai for providing the space to small and medium enterprises in software development and to IT/ITES/MSME units not regd. with STPI or the units that are falling under the overall definition of MSME as per the guidelines of Ministry of Micro, Small and Medium Enterprises. Units other than MSME such as Banks/PSUs/Financial Institutions, corporate sector etc. would also be considered for allotment on a case-to-case on merit with the approval of Competent Authority.

### Direction for further study

This paper is more of concept level one. Further, it is suggested to conduct empirical study on each scheme and its effectiveness. Data should be collected from MSMEs for analysis and interpretation.

### Conclusion

This paper has highlighted the various schemes of NSIC towards the growth and development of MSMEs in India. NSIC helps MSMEs in identifying the markets

for their products and services. NSIC applies the tenders on behalf of single MSE / Consortia of MSEs for securing orders for them. Single Point of Registration for Government Purchases is yet another scheme, wherein 'Public Procurement Policy for MSMEs has been evolved. i.e preferential buying from SSIs. The salient features of this scheme also highlighted in this paper. B2B Web Portal for MSMEs is offering the host of benefits to MSMEs. This is also highlighted. Marketing intelligence, exhibitions and technology fairs, buyer-seller meets, credit support and financial assistance from banks, technology support, and training programmes were discussed in this paper. This paper also suggested to conduct empirical studies on various schemes and its effectiveness.

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# A Study on the Financial Challenges Faced by Women Micro Entrepreneurs Under Kudumbashree in Kasaragod District, Kerala

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## Abstract:

*Across the globe women enterprise development has acquired significant attention in recent years. Women have been taking increasing interest in recent years in income generating activities, self-employment and entrepreneurship. This is seen in respect of all kinds of women both in urban and rural areas. In developing countries large percentage of rural women are engaged in micro enterprises in order to support their household. Women who try to enter into entrepreneurship, whether big or small are generally exposed to various environmental constraints. Starting and operating business involves considerable risk and effort on the part of the entrepreneur, particularly in the light of highest failure rate. Perhaps, this rate is even higher in the case of women entrepreneurs who have to face not only the usual business problems but also their family problems. Survival of women micro enterprises is a challenge. At the micro level, many individuals or group of individuals belonging to Kudumbashree (the Poverty Eradication Mission of Kerala state) units tend to respond to increasing demand for self-employment by starting new firms. While the new firms entering the market in rural area are large in number only a few tend to survive over a longer period, and there is little knowledge of the attributes that leads to non-survival of these enterprises. Finance is the most crucial factor that enables an enterprise to survive and sustain. When there is insufficient finance challenges will be more. The study aimed at analyzing the financial challenges faced by women micro entrepreneurs operating under Kudumbashree in Kasaragod district, Kerala. It was*

*found that insufficient initial capital, non availability of credit during operation and problems of collateral security are the most important challenges faced by women micro entrepreneurs under Kudumbashree in Kasaragod district.*

**(Key words:** Micro entrepreneurs, Kudumbashree, financial challenges, demographic characteristics, strength of association)

## Introduction

A microenterprise is a small business that employs small number of employees. Though they are individually small in size and scope can collectively represent a substantial portion of the economy and employment. The role of micro-entrepreneurship in poverty alleviation and economic development in developing countries is promising. It has already been identified that micro-entrepreneurship is a major contributing factor to economic growth. Last century witnessed men domination in entrepreneurship. But the present age is witnessing a change in that dominancy due to change in position, technological innovation and modern way of thinking. In the present era, women empowerment through provision of employment and enterprise creation has become the need of the hour. Women constitute around half of the total world population and also in India. Kerala is the only state in India where the number of women is higher than men as per 2011 census.

It has been rightly said by economic experts that "small businesses are key to India's growth". India's micro, small and medium scale sector has recorded more than 10 per cent growth in recent years despite the

## Role of MSMEs in India's Development

economic slowdown. Thus, the government is focusing on these sectors at this juncture considering their potential for providing growth and employment. But in a developing country like India poor people especially women cannot initiate a startup due to lack of accessibility to banking. A major effort to provide banking services to the weaker and unorganized sector was the Bank Self Help Group Linkage Programme that was launched in early 1990s.

Swarnajayanti Gram SswarozgarYojana Scheme is a holistic approach towards poverty eradication in rural India through creation of self-employment opportunities to the rural people. This objective is to be achieved by organizing the rural poor in to Self Help Groups (SHG) through the process of social mobilization, their training and capacity building, and provision of income generating assets. In the state of Kerala Kudumbashree Mission- the poverty eradication and women empowerment mission of the state was launched in 1998 with the active support of Government of India and NABARD. The objective behind launching Kudumbasree mission was to eradicate absolute poverty under the leadership of Local-Self Governments. The name Kudumbashree in malayalam language means 'prosperity of the family'

Micro Enterprise promotion and development is one of the significant strategies of Kudumbashree Mission to facilitate economic empowerment of the poor. Kudumbashree provides skill development training to women, motivating them to take up micro enterprises for livelihood. The mission played a decisive role in the spontaneous growth of women micro enterprises in the state. There are more than 31,000 women owned micro enterprises in the state as on 31st July 2017 (Kudumbahsree Report 2017).

Survival of women micro enterprises is a challenge. At the micro level, many individuals or group of individuals belonging to Kudumbashree units tend to respond to increasing demand for self-employment by starting new firms. While the new firms entering the market in rural area are large in number only a few tend to survive over a longer period, and there is little knowledge of the attributes that leads to non-

survival of these enterprises. For women owned micro enterprises the challenges and threats are more than men owned enterprises. There are many factors that hinder the growth and expansion. The prior studies reveal that finance is the most important factor for a micro enterprise. Therefore the study aims to analyze the financial factors that hinder survival possibilities of women micro enterprises under Kudumbashree in Kasaragod district.

### Statement of the Problem

Many studies are being done on the topic micro enterprises and women in Kerala. But the number of prior studies held in and around the district of Kasaragod on micro enterprises are few. There is an increasing trend in the number of women micro entrepreneurs in the district in the recent years. But investigations have shown that most of them discontinue their business in the year of establishment itself or in the initial years itself. From the previous literatures it is clear that small entrepreneurs consider finance as the most important factor that ensures the easy functioning of their business. The prior studies have analyzed the general challenges faced by women micro entrepreneurs. But among those challenges financial challenges are considered to be the worst affected challenge. Hence this study has concentrated mainly on the different aspects of financial challenges affecting the women micro entrepreneurs under Kudumbashree in Kasaragod district.

### Objectives of the study

The present study aims at analyzing the financial challenges faced by women micro entrepreneurs under Kudumbashree. The specific objectives the study are

- i. To find out the demographic characteristics of women micro entrepreneurs under Kudumbashree in Kasaragod district.
- ii. To investigate the financial challenges faced by women micro entrepreneurs under Kudumbashree in Kasaragod district.
- iii. To analyze the strength of association between various financial challenges faced by women micro entrepreneurs in different sectors.

### Literature Review

The main aspect that distinguishes small firms from large firms is the likelihood of death of the firm at the initial phase. A study based on UK small firms using Frank model of entrepreneurial decision have concluded that rather than talent, luck is a prime factor in determining survival or non-survival (Storey & Wyncarczyk, April 1996). Government can enhance employment by promoting new business firms. But the new firms face risk of dissolution especially when the size of the firm is small. In order to reduce the failure rate, the authorities must be aware of individual determinants of business survival. Non survival of small business could be voluntary or forceful withdrawal from business (C. Mirijam Van Praag, 2003).

One of the top priority activities of small business owners is to adopt an appropriate survival strategy and such small enterprises can survive and sustain only when they overcome obstacles on their path from internal and external environment around (Ifekwem, N., & Adedamola, O, 2016). Chowdhury, M. S et.al (2013) also explains that entrepreneurs in all parts of the world irrespective of their location have the problem of accessing finance which hinders their success, survival and growth. According to Ayanda, A. M., & Laraba, A. S. (2011) "finance is the most important and cogent key of any enterprise". Gichuki, C. N et.al (2014) observed that accessibility of credit is essential for better performance of the enterprises. Credit accessibility from informal sources also leads to improved performance only if credit rates of informal sources are affordable for the entrepreneurs. Based on the study of selected small and medium enterprises in Lagos state Ifekwem, N., & Adedamola, O, (2016) argues that small setup capital and improper book keeping are the challenges that hinder the growth of small and medium enterprises. Older or well established business firm have multiple alternatives for compensating any deficit in financial resources. But it would be difficult for young business founders to access credit from external sources in times of financial resources shortage. (Korunka, C., et.al 2010). Kehinde et.al (2017) says that financial

adequacy and profitability are strongly associated. Accessibility to finance is one of the important challenges of small enterprises in Libya (Zarook, T et.al, 2013). The authors also argue that larger firms and older firms have higher possibility of accessing finance as compared to smaller and new firms.

Fuentes, R., & Dresdner, J, (2013) experimented the role of subsidy and sponsors on the firm's ability to survive. The results indicated that there exists a direct relationship between the amount received and survival rates. That is higher the amount of subsidy higher is the chances of survival. For startups in France bank loan and subsidy are the major source of initial capital. These two factors contribute towards the survival of small firms. The effectiveness of bank loan is higher than subsidies in ensuring the firm survival in France because the amount offered as bank loan is more than subsidies. But globally subsidies are more proficient than bank loan since its outreach is large (Crepon and Duguet, 2003). Small and medium scale enterprises are important to invigorate the stagnant economy and to contribute to the welfare of the society by creating employment opportunities. Credit guarantee can ensure good performance in sales, profitability and survival (J.W. Kang & A. Heshmati, 2008). A German entrepreneur's survival possibilities are affected when they face financial constraints. If government can intervene in medium sized firm's capitalization through specific programs of venture capital the hazard rate in the form of business failure can be reduced to a great extent (Schafer & Talayera, 2009). The small firms in Nigeria can survive only if there is regular profit earning ability, access to microcredit and ability of entrepreneur in converting profit back to investment (Babajide, 2011). Adequate, affordable and sustainable financial and non-financial services provided by microfinance banks ensure survival of small businesses in Nigeria. However, these services can only be useful where the small business owners are exposed to high financial literacy (Kaigama and Taliband Haprizia Ashari, 2016). In a developing country like Malaysia, micro credit influences the performance of micro and small enterprises. The

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crucial problem for a small firm is capital. Government support and provision of microcredit through microfinance institutions helps small firms to compensate the shortage of capital thereby enhancing their performance. Their success also depends on the entrepreneur's ability to grab the opportunities (Mahmood & Rosli, 2013).

Financial capital, social capital and human capital significantly affects the performance of women micro entrepreneurs. More than the amount of micro credit, education of the women entrepreneur and involvement of spouse in managing the business has a positive impact on the success. The women micro entrepreneurs in Nigeria are facing lots of constraints in accessing micro credit. Most of the time the women are reluctant to accept the credit. These women petty traders have internal constraints like lack of confidence in micro credit; socio cultural expectations of Nigerian society, spouse influence and tradition are few (Madichie & Nkamnebe, 2010). ILO and Inter-American Development Bank (2010) have shared a similar view on the fact that in developing countries, the successful operation of women entrepreneurs are affected by social, cultural, political and economic barriers. Women micro entrepreneurs in India are operating in an unfriendly atmosphere where they lack support from family and are working under stress. They are unable to continue their business or sometimes unable to expand their business due to financial crisis, lack of awareness about changing technology, changing behavior of customers, less education and difficulty in balancing work life and family life (Jyothi, 2015). The challenges faced by women SHG members in Karnataka in establishing micro enterprises is capacity building problem among the members as most of the members belong to weaker segment of the economy. Training is a key ingredient in the success of micro enterprises (Suprabha, 2014). The micro enterprises under Kudumbashree units are playing a vital role in full time and part time employment generation. Their average rate of return in a year is also impressive. High market competition and equipping themselves with modern

technology are acting as a hindrance in their efficient growth (Santhosh Kumar, 2011). Self-help groups through the creation of micro enterprises promote empowerment of rural women. The study based on women micro entrepreneurs under Kudumbashree and other promotional agencies have shown that after joining the micro enterprises the economic, social and personal status of women has significantly changed (Vasantha Kumari 2012). The women entrepreneurs in Kerala are facing challenges from many angles. This can be brought under the category of finance, production, labor, marketing and training (Haseena & Mohammed, 2014).

### Research Methodology

Research methodology explains the research methodology adopted in conducting the study in order to achieve the objective which is to assess the financial challenges faced by women micro entrepreneurs under Kudumbashree in Kasaragod district, Kerala. Research methodology includes the research design, target population, sample, data collection and data analysis.

### Research Design

The research design adopted for the study was descriptive because the study finds answers to what are the financial challenges affecting the women micro entrepreneurs and whether these challenges differ significantly across different sectors. Target population of the study comprised of women micro entrepreneurs under Kudumbashree in Kasargod district. Kasaragod is the northern most district of Kerala and one of the backward districts in the state. In this district the women work participation of only 35 percent and though the state claims the credit of 100 percent literacy, the literacy rate of Kasaragad district is only 90 percent. The study targeted female owners of micro enterprises under Kudumbashree engaged in the business of hotel, tailoring, textiles and snack making.

### Sample design and tool for analysis

The present study is descriptive in nature based on primary data collected from women micro entrepreneurs operating under Kudumbashree in Kasaragod district with the help of semi structured

interview schedule and personal interview with the respondents. Sample size was framed by adopting non-probability sampling design in the form of convenient sampling technique. Based on easy accessibility, availability of respondents and willingness of respondents 100 women micro entrepreneurs were selected by the researcher belonging to 4 sectors viz., hotel, textiles, tailoring and snack making. To ensure uniformity, 25 samples were collected from each sector which is shown in Table 3.1. To analyze the data collected and to prioritize the financial challenges faced by women micro entrepreneurs ranking method as per Friedman's test was used. For exploring the strength of association between various sectors selected for the study with regard to financial challenges faced by them Spearman's rank correlation method was applied.

Table 3.1: Respondents

Sectors	No of Respondents	Percentage
Hotel	25	25.00
Textiles	25	25.00
Tailoring	25	25.00
Snacks Making	25	25.00

**Data Analysis and Interpretation**

This section consists of analysis and interpretation of collected data. The data collected through semi structured questionnaire consisted of two parts viz., demographic information and challenges faced by the women entrepreneurs. Demographic information was subject to qualitative analysis. The qualitative analysis consisted of examining, grouping, tabulating and presenting the information in a meaningful manner. The demographic data related to the respondents were grouped into meaningful patterns and expressed with the help of pie diagrams. The age group of the respondents, education level, their marital status and nature of business carried on by them were included under demographic characteristics.

**Demographic Characteristics of Respondents**

The information collected through the questionnaire is analyzed with the help of tables and diagrams.

**Age of the respondents**

Table 4.1.1 and Figure 4.1.1 depicts the Age group of the respondents. It is clear that majority of the respondents belong to age group 30-40 and 40-50. The percentage of respondents below 20 years is lowest. This may be due to the fact that people especially women are more considered about gaining basic educational degree.

Table 4.1.1: Age of the Respondents

Measures	Description	Frequency	Percentage
Age	Less than 20 years	4	4.00%
	20-30 years	17	17.00%
	30-40 years	34	34%
	40-50 years	30	30%
	Above 50 years	15	15%
	Total	100	100%

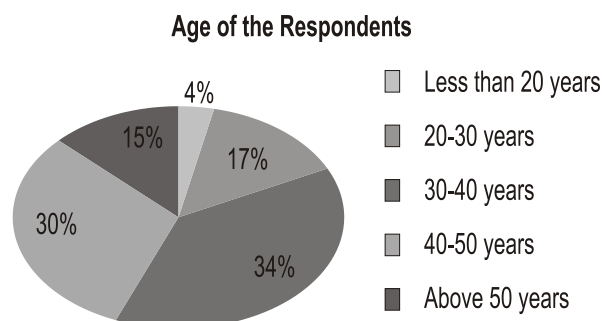


Figure 4.1.1: Age of the Respondents

**4.1.2 Marital Status**

The study sought to know the marital status of women engaged in micro entrepreneurship. The study found that majority of the women engaged in micro entrepreneurship are married with the highest percentage of 81% which is given in table 4.1.2 and figure 4.1.2. An interview with the respondents revealed that most of the time women come forward for micro entrepreneurship to support the family as the responsibilities and income requirement increase with an increase in family size.

Table 4.1.2: Marital Status

Measures	Description	Frequency	Percentage
Marital Status	Single	12	12.00
	Married	81	81.00
	Widow	7	7.00
	Total	100	100

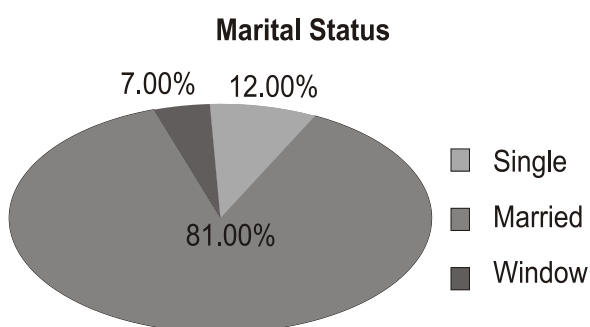


Figure 4.1.2: Marital Status

### 4.1.3 Educational Qualification

The respondents were asked to indicate their highest level of education. Study identified that majority of the women engaged in micro entrepreneurial activities have education less than PUC/+2. And higher education is less among these respondents which is depicted through Table 4.1.3 and Figure 4.1.3. Some of the respondents completed diploma just to take up entrepreneurial activities.

Table 4.1.3: Educational Qualification of the Respondents

Measures	Description	Frequency	Percentage
Education	Not completed SSLC	32	32.00
	PUC/+2	35	35.00
	Diploma	18	18.00
	Degree	11	11.00
	Post Graduation	4	4.00
	Total	100	100

### Education

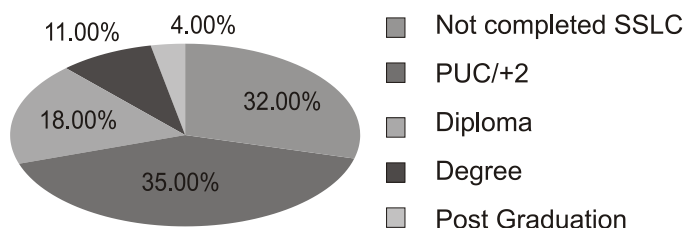


Figure 4.1.3: Educational Qualification of the Respondents

### 4.2 Analysis of Financial Challenges affecting women micro entrepreneurs

The women running micro enterprises face challenges in all aspects. On the basis of interview and discussion with group of women micro entrepreneurs it was identified that the most important factor that affect women micro entrepreneurs is finance. Hence the study focused on ten selected problems due to which the women micro entrepreneurs are facing problems to raise finance. The respondents were asked to rate from highest to lowest by giving ranks 1 to 10 respectively. The ranks given by respondents were added to get the total score obtained for each challenge for all the four sectors separately. Following table 4.2.1 shows the ranking given by respondents in different sectors on the basis of sum of individual ranks. The rankings are given as per Friedman's ranking. The lowest score is given rank 1 and highest score is given rank 10 on the basis of ranks allotted by respondents highest to lowest.

Table 4.2.1: Aggregate scores and ranks given by respondents in different sectors

Sl.No.	Financial Challenges	Hotel		Tailoring		Textiles		Snacks making	
		Score	Rank	Score	Rank	Sore	Rank	Score	Rank
1	Insufficient initial capital	76	2	56	1	47	1	83	2
2	Non availability of credit	61	1	92	2	59	2	106	3
3	Problem with regard to collateral security	91	4	178	9	71	3	63	1
4	High cost of capital	76	3	144	7	126	5	115	5
5	Lack of prompt payment by debtors	162	7	255	10	316	10	151	7
6	Poor credit proposal	218	9	173	8	152	7	212	9
7	Fear of taking more loan	157	6	139	6	140	6	192	8
8	Rigid bank rules	220	10	127	5	207	9	214	10
9	Gender bias in granting loan	167	8	103	3	162	8	110	4
10	Lack of financial literacy	147	5	108	4	95	4	129	6

From the above table 4.2.1 it is clear that the most important factor that hinders the growth and survival of women micro entrepreneurs, irrespective of the sectors is non availability of finance in the initial stages and during the subsequent periods of operation. The requirement of fund suppliers for collateral security is also considered as a challenge.

To analyze the strength of association between different financial challenges faced by respondents in different sectors selected for the study, Spearman's rank correlation method was conducted with the help of Microsoft Excel. Table 2 provides the result of Spearman's rank correlation between different sectors with regard to various financial challenges. Spearman's rank correlation is calculated with the help of following equation.

$$r_s = 1 - \frac{6\sum D^2}{N^3 - N}$$

Table 4.2.2: Result of Spearman's rank correlation

	Hotel	Tailoring	Textiles	Snacks Making
Hotel	1	-	-	-
Tailoring	0.37	1	-	-
Textiles	0.87	0.50	1	-
Snacks making	0.77	0.31	0.73	1

The table 4.2.2 exhibits the Spearman's rank correlation coefficients. When the coefficients are more than 0.7 it is considered that there is strong association between the variables. The present study investigated the strength of association among the opinion of respondents in different sectors with regard to financial challenges faced by them. The study analyzed whether the set of financial challenges faced by women micro entrepreneurs operating under Kudumbashree in Kasaragod district are same across the sectors or not. The results show that the financial factors which affect the non survival of women micro entrepreneurs across different sectors are not same. The coefficient of correlation between women carrying on hotel business, textiles and snacks making units are more than 0.7. Therefore it can be concluded that the opinion of respondents in these sectors strongly associated with each other. In other words the women micro entrepreneurs belonging to hotel, textiles and snacks making are facing same set of challenges. Whereas the coefficient of the micro entrepreneurs running tailoring shop with other sectors are showing a value less than 0.7, which proves that there is no strong association between the challenges faced by them and the respondents in other sectors.

### Findings and Conclusion

The aim of conducting the present study was to know whether the financial challenges faced by women micro entrepreneurs under Kudumbashree in Kasaragod district are same irrespective of the business carried on by them. Based on the consolidated rankings it was identified that the most challenging problem is with regard to arranging finance. Based on Spearman's rank correlation results it was found that women running hotel business, textiles and snack making units are having similar problems which lead to their non survival in the business. The orders in which they prioritize various financial challenges are also similar. But women carrying on tailoring shop though they face financial problems the priority given to various financial challenges are different from other sectors.

It can be concluded that women micro entrepreneurs under Kudumbashree engaged in hotel, textiles and snack making treat same set of challenges as their non surviving factors. Because in order to run these enterprises, finance is required in the initial stages as well as for day to day functioning in the form of working capital. Obtaining stock of raw materials on right time is essential for hotel and snacks making units and arranging stocks is essential for textiles. So the financial challenges faced by them are more or less similar. When it comes to tailoring units the cost at set up stage is higher comparing to the cost required for day to day functioning. Therefore their priority to various financial challenges is different from that of others.

Micro enterprises are contributing largely for the nation's economic and social growth. In order to enhance the survival possibilities of micro enterprises especially run by women necessary remedial actions have to be taken at the authority level. Though the government at local and state level are contributing to their effective growth by providing subsidies, they are not sufficient. The financial and advisory support should be given at different stages of business. And steps should be taken for making availability of finance easily. As most of the women undertaking micro enterprises are financially illiterate, trainings and

orientation programs may be arranged for enhancing their basic knowledge on finance. If corrective and supportive measures are taken at the right time then these micro enterprises can ensure long term survival which in turn will contribute to economic and social empowerment of women and the society at large.

The present study has several limitations. This research is primarily limited by its small sample size and sampling technique as the sampling method lacked the advantage of probability. The study considered different aspects of financial challenges only. Women entrepreneurs are facing challenges from different angle like marketing, training, competition and from external environment at large. And it included women entrepreneurs belonging to four sectors viz. hotel, textiles, tailoring and snacks making. Future studies can be done by increasing the sample size by adopting any of the probability sampling techniques. The study can be extended by including respondents from different sectors other than above mentioned sectors.

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# Role of Microfinance Institutions (MFIs) in Financing Micro, Small & Medium Enterprises

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## Abstract

*SMEs all over the world play a strong role in national development. This is attributed to the massive employment it provides to the citizenry of the country where it exists. The financing of these "goose" which have been laying so many golden eggs has come under scrutiny by academics and practitioners. Finance for micro, small, and medium-sized enterprises (MSMEs) has been a concern for all stakeholders including entrepreneurs, financial institutions, and government organizations. The key objective of the study was to identify various challenges faced by MSMEs in sourcing of finance during different stages of their life cycle. The objective of this study was to investigate the role of financial institutions on the growth of small and medium enterprises and to give recommendations based on the problems. Despite the tremendous increase in number of SMEs, little research exists that examines role of financial institutions; banks and microfinance institutions; on the growth of small and medium enterprises in developing countries, especially India.*

**Keywords:** MFIs, Micro, Small, Medium, Enterprises, Financing, Growth, Institutions

## Introduction

Micro, small, and medium-sized enterprises (MSMEs) have gained increased attention in India in recent times, considering their strategic importance to the economy and the country. MSMEs play an important role in generating employment-48.8 million MSMEs in the country provide employment to 111.4 million

people. MSMEs in the manufacturing sector alone produce more than 6,000 products and contribute 7.7% of the GDP of the country. Similarly, MSMEs in the services sector contribute 27.4% of the country's GDP.

Microfinance is a source of financial services for entrepreneurs and small businesses that do not have easy access to banking and related services. The main objective of microfinance is to assist the poor to overcome the poverty and thus help in economic development. Microfinance is not only giving micro credit but it includes wide range of services like insurance, savings, remittance and also non-financial services like training, counselling etc. Micro-Enterprises sector has been recognized as an important pillar of economic growth all over the world. The sector is characterized by low investment requirement and operational flexibility. Micro-Enterprises play a very important role in the development of country because of its innovative entrepreneurial spirit. In many developing economies including India, Small and medium enterprises (SMEs) plays a crucial role in employment creation and income generation. What are the key factors influencing Micro-Enterprise to become small than medium enterprise and hence large enterprises? It is Microfinance. Microfinance is an important tool to promote business development. Researches shows that in Bangladesh more than 15 million families are benefited from small loans and other financial products such as micro-savings and micro-insurance and about 40% of the overall reduction of rural poverty in recent

## Role of MSMEs in India's Development

years has been due to microfinance provided to Micro-Enterprises.

Small Industries Development Bank of India (SIDBI) set up on 2nd April 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for co-ordination of functions of institutions engaged in similar activities.

The MSME sector, the focused business domain for SIDBI, has been an important pillar of the Indian Economy, contributing up to 33% in the country's Gross Value Added (GVA) as per FY 2014-15, with 51 million enterprises providing employment to over 117 million Indians. Over the years, SIDBI has been working towards the sustainable development of MSME sector, pioneering efforts that have manifested in creation of economic wealth, its distribution for an egalitarian society while preserving the ecological wealth of the country. These include the innovative Credit Plus model, where credit is supplemented with advisory and mentoring facilities to MSMEs. Some of SIDBI's other revolutionary initiatives include the MFI-led Microfinance movement in India that has nurtured and strengthened more than 100 MFIs and facilitated creation of SFBs, introducing a culture of energy efficient and sustainable finance for the MSME sector, introducing Venture Capital, Risk Capital, Reverse Factoring and other innovative facilities that have been later adopted by various public and private players in the country.

The Micro, Small and Medium Enterprise sector is crucial to India's economy. There are 29.8 million enterprises in various industries, employing 69 million people. The sector includes 2.2 million women-led enterprises (7.4 percent) and 15.4 million rural enterprises (51.8 percent). In all, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent of exports. Although 94 percent of MSMEs are unregistered, the contribution of the sector to India's GDP has been growing consistently at 11.5 percent a year, which is higher than the overall GDP growth of 8 percent. Poor infrastructure and

inadequate market linkages are key factors that have constrained growth of the sector. The lack of adequate and timely access to finance has been the biggest challenge. The financing needs of the sector depend on the size of operation, industry, customer segment, and stage of development. Financial institutions have limited their exposure to the sector due to a higher risk perception and limited access of MSMEs to immovable collateral.

### Literature Review and Framework

A number of studies have been conducted on microfinance and SMEs in China. China Microfinance Industry Assessment Report provided by the China Association of Microfinance gives the definition of microfinance in China, and examines the impacts of microfinance development at macro, meso, and micro levels, spanning over agricultural industry, financial markets, and social vulnerable groups such as women and farmers (He, Du, Bai, and Li, 2009). Many studies then have focused on each level specifically. Li (2006) concludes that microfinance has offered an effective finance method for the construction of new socialist rural regions and has won the support of agriculture and farmers. Dyar, Harduar, Koenig, and Reyes (2006) together examine the impact of microfinance on gender inequality in China and have discovered that there are many benefits to providing microfinance to women, despite lack of conclusive evidence on significantly reducing gender inequality. Microfinance allows women to enjoy greater economic power, better living quality, and stronger social and political empowerment. Park, Ren, and Wang, (2004) assess the potential role of microfinance for financial reform in China and suggest that China's financial reforms have yet to create an institutional space in which microfinance can operate, thrive, and expand. Therefore, expansion of microfinance will almost definitely have to await substantial further progress in creating a well-developed commercial, financial system. In the meantime, however, microfinance programs are competing with China's official financial institutions and levying pressure on the practice and reform of the rigid state-owned financial institutions.

## Role of MSMEs in India's Development

As we can see, little research has found the connection between microfinance and the profitability of SMEs. We have seen the research conducted in Africa that aims to find the impact of microfinance on entrepreneurial development in Nigeria. However, countries in Africa are less developed. The impact of microfinance is not significant. The main contribution of this paper is to focus on China - the most fast-developing country - by using a primitively-designed survey and by collecting two waves of panel data in 2010-2011 to study the relationship between the profitability and the microfinance of small and medium enterprises. The paper shows that microfinance plays a crucial role in the revenue and profit growth of SMEs. The paper also reveals that the SMEs with higher financial risk and lower level of productivity are more likely the firms seek to microfinance. Furthermore, the paper finds that firm characteristics including product innovation efforts and managerial and entrepreneurial attitudes are the keys that determine the likelihood of receiving the micro -financing.

### Microfinance institutions in India

Microfinance organisation is not new to the financial market in India. Due to the overwhelming poverty in India, government gave special attention to the development of rural credit. Taking All India Rural Credit Survey report (1950) into account, it reconstructed the cooperative structure which included the partnership of state in cooperatives, establishment of Regional Rural Banks (RRB) and National Bank for Agriculture and Rural Development (NABARD). In India, Non-Government Organisations (NGOs) played a pivotal role in the development of micro financial service. Furthermore, microfinance industry in India has witnessed a fast-paced growth in last two decades. In 2009, the total number of microfinance institutions in India was around 150 (Tripathi, 2014).

### Definition of microfinance institutions in India

Microfinance Services Regulation Bill of India, defines microfinance services as financial assistance to be provided to an eligible individual directly or by a group mechanism for:

An amount of maximum fifty thousand in aggregate per person for small and cottage enterprises, agricultural and allied activities (consumption purposes of the person is also included) or A maximum amount of one lakh fifty thousand in aggregate per person for the purpose of housing or Such like the above amounts may be prescribed to a person for other purposes also.

The bill, in addition, explains microfinance institutions as the organization of individuals which includes the following if the establishment of the organization concentrates on the purpose of increasing microfinance services:

- i. Registration of society under Societies Registration Act (1860).
- ii. A creation of trust under Indian Trust Act (1880) or registered public trust under state enforced governing trust.
- iii. A society registered under the Multi State Cooperative Societies Act (2002) which can be a cooperative society or a mutual benefit corporative etc (Singh, 2016).

### Self Help Group (SHG)

Self Help Group is a type of formal or informal group consisting of small entrepreneurs with similar kind of socio-economic backgrounds. Such individuals temporarily come together and generate a common fund to meet the emergency needs of their business. These groups are generally non-profit organizations. The group assumes the responsibility of debt recovery. The advantage of this micro-lending system is that there is no need for collateral. Interest rates are also generally low and fixed especially for women (Chowdhury, 2013; Business Standard, 2017). In addition various tie-ups of banks with SHGs have been implemented for the hope of better financial inclusion in rural areas (Jayadev & Rao, 2012).

One of the most important ones is NABARD SHG linkage program where many self-help groups can borrow credit from bank once they successfully present a track record of regular repayments of their borrowers. It has been very successful especially in

Andhra Pradesh, Tamil Nadu, Kerala and Karnataka and during the year of 2005-06. These states received approximately 60% of SGH linkage credit (Taruna and Yadav, 2016).

**Flow of Finance to the MSME Sector**

This study shows that of the overall finance demand of INR 32.5 trillion (\$650 billion), 78 percent, or INR 25.5 trillion (\$510 billion) is either self-financed or from informal sources. Formal sources cater to only 22 percent or INR 7 trillion (\$140 billion) of the total

MSME debt financing. Within the formal financial sector, banks account for nearly 85 percent of debt supply to the MSME sector, with Scheduled Commercial Banks comprising INR 5.9 Trillion (USD 118 Billion). Non-Banking Finance Companies and smaller banks such as Regional Rural Banks (RRBs), Urban Cooperative Banks (UCBs) and government financial institutions (including State Financial Corporation and State Industrial Development Corporations) constitute the rest of the formal MSME debt flow.

**MSME Finance Demand Flowchart**

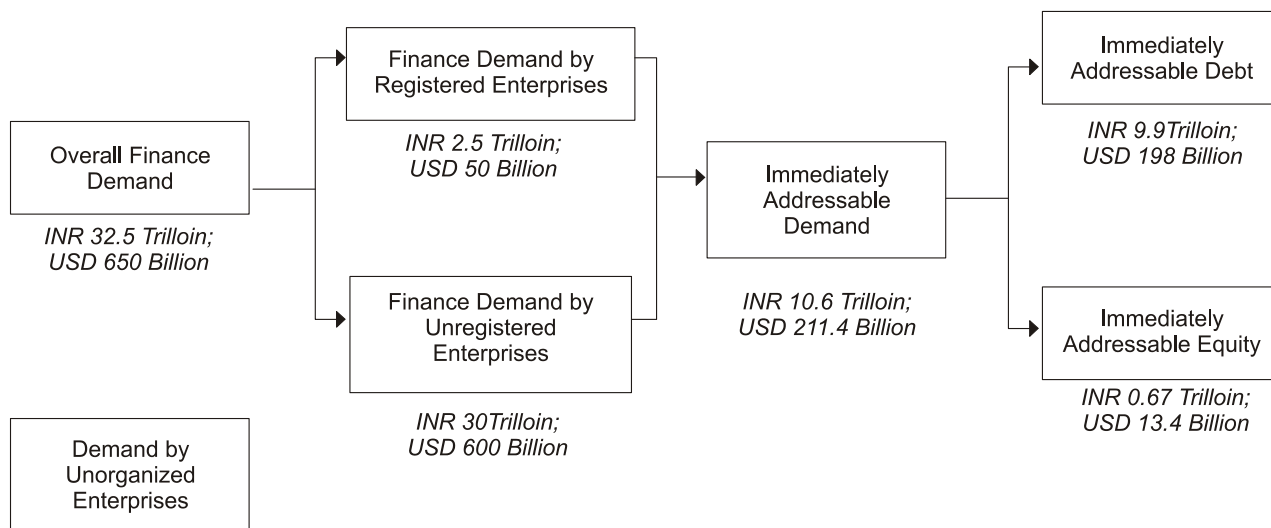


Figure 1 MSME Finance Demand Flowchart

Within the informal financial sector non-institutional sources include family, friends, and family business, while institutional sources comprise moneylenders and chit funds. MSME Finance Gap in the Sector Despite the increase in financing to MSMEs in recent years, there is still a considerable institutional finance gap of

INR 20.9 trillion (\$418 billion). After exclusions in the debt demand (62 percent of the overall demand) and the equity demand (from MSMEs that are structured as proprietorship or partnership), there is still a demand-supply gap of INR 3.57 trillion (\$ 71.4 billion), which formal financial institutions can viably finance in the near term.

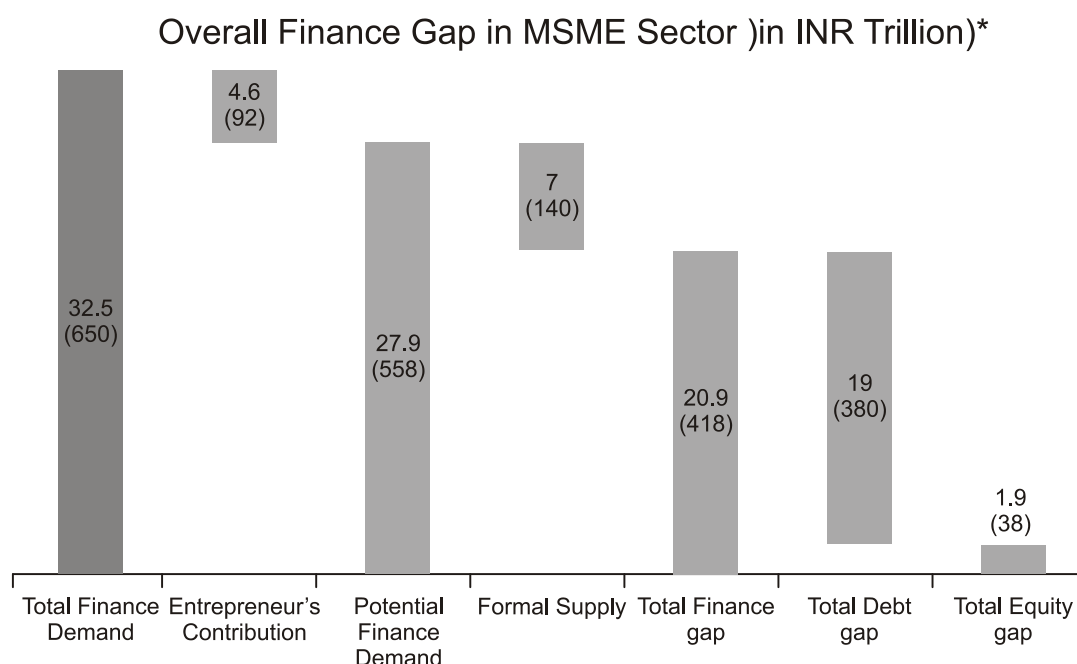


Figure 2 Overall Finance Gap in MSME Sector

This is the demand-supply gap for approximately 11.3 million enterprises. While a large number of these already receive some form of formal finance, they are significantly underserved with only 40-70 percent of their demand currently being met. With appropriate policy interventions and support to the MSME sector, a considerable part of the currently excluded demand can be made financially viable for the formal financial sector. Of the viable and addressable demand-supply gap, the debt gap is INR 2.93 trillion (\$58.6 billion) and the equity gap is INR 0.64 trillion (\$12.8 billion). The micro, small, and medium enterprise segments respectively account for INR 2.25 trillion (\$45 billion), INR 0.5 trillion (\$10 billion) and INR 0.18 trillion (\$3.6 billion), of the debt gap that is viable and can be addressed by financial institutions in the near term. Micro and small enterprises together account for 97 percent of the viable debt gap and can be addressed by financial institutions in the near term. Available data and primary interviews indicate that medium enterprises in India are relatively well financed. The equity gap in the sector is a combined result of

demand-side challenges such as the legal structures of enterprises, as well as supply-side gaps, such as a lack of investment funds focused on MSMEs. The equity requirements for the MSME sector are concentrated in the growth-stage enterprises (~70 percent).

**Gap by Geography & Type of Enterprise**

An overview of the MSMEs spread across the country indicates that although the Low-Income States [12] (LIS) have 32.6 percent of India's total MSMEs, the viable debt gap is disproportionately high at INR 1.93 trillion (\$38.6 billion) or ~66 percent of the country's total. On the other hand, only ~3 percent MSMEs are based in the North-Eastern States, accounting for a viable debt gap of INR 0.09 trillion (\$1.8 billion). The rest of India accounts for the remaining ~65 percent of MSMEs, with a viable and addressable debt-supply gap of INR 0.9 trillion (\$18.2 billion) or ~31 percent. Across India, there are significantly more service sector enterprises than manufacturing units (~71 percent versus a 29 percent split respectively).

However, manufacturing enterprises are more capital-intensive with longer working capital cycles, and consequently have higher working capital requirements. Therefore, nearly 60 percent of the demand for finance arises from the manufacturing sector.

The share of the debt gap in the manufacturing sector is also considerably higher at 73 percent of the total gap.

**Enabling Environment for Growth of Finance in the MSME Sector**

The three main pillars of the enabling environment analysed in the study are: (a) legal and regulatory framework (b) government support (c) financial infrastructure support. MSMEs function in a highly competitive environment and require an enabling environment to sustain growth. Well-rounded fiscal support, a strong policy framework, and incentives promoting innovation by financial institutions can significantly increase the penetration of formal financial services to the MSME sector.

**Schematic of Key Elements of the Enabling Environment**

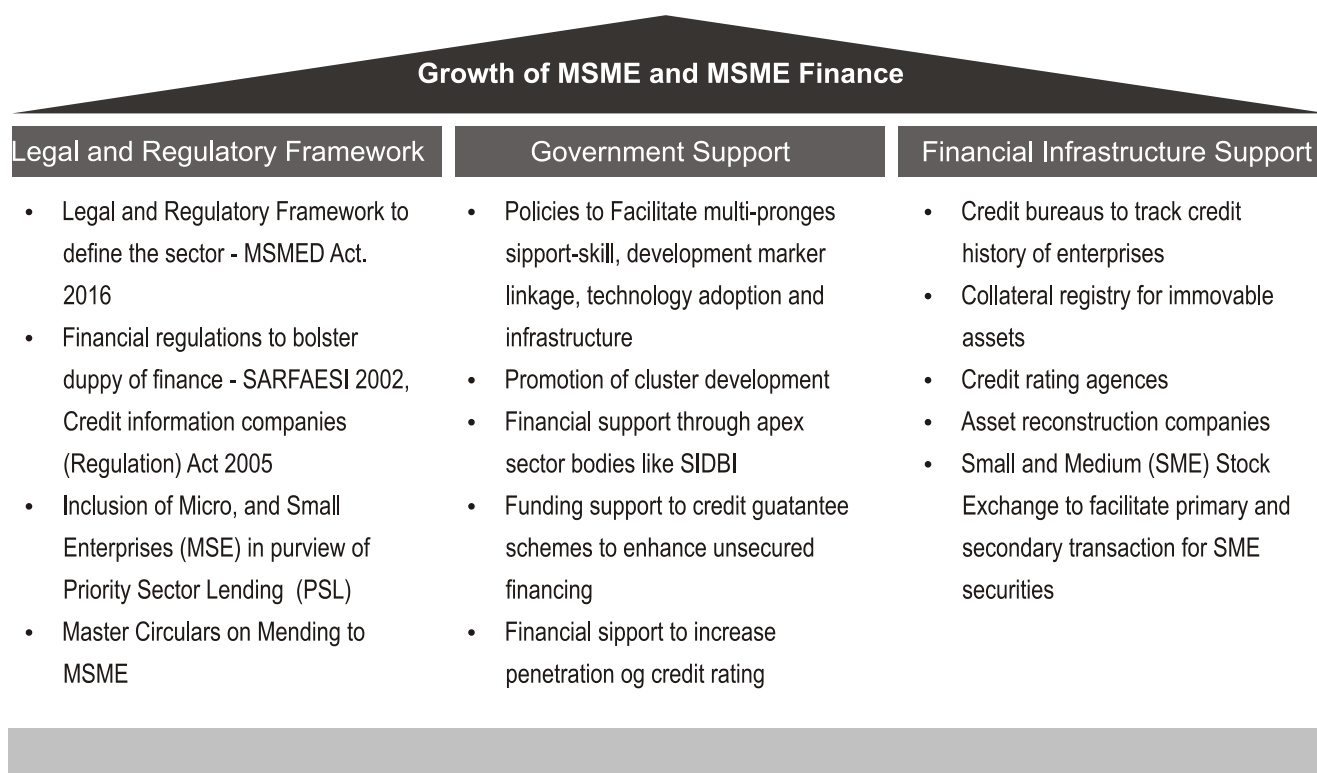


Figure 3 Schematic of Key Elements of the Enabling Environment

## Role of MSMEs in India's Development

### Conclusion

Small businesses in India need access to funding for their businesses to flourish on a sustainable basis. Although, small businesses promote the development of an economy, it has not been given adequate recognition that corresponds with intensity of its contribution. It is noteworthy to state that both financial and non-financial services provided by microfinance banks and institutions have greatly assisted small businesses in India and have enhanced the distribution of business skills and the sharing of innovative ideas. The implication of this study is that, micro-financing significantly promotes businesses by reducing the resource gap for small businesses. Micro-financing has a huge potential for increasing the performance of small businesses through the frequent contributions in micro-financing and provision of non-financial services.

An attempt has been made in this study to understand the role of Microfinance on the growth and development of Micro-Enterprises. The paper assessed Micro-Enterprises owners who have received credits from Micro Finance Institutions. It is observed that 57.6% of respondents are satisfied or very satisfied with the products offered by Microfinance Institutions. The findings also revealed that most of the respondents in this study reported that their business had expanded and their income and physical assets had increased significantly as a result of having taken microfinance loans. Findings showed that Microfinance lead to increase of business sales, business profits and business physical assets. Except increased of capital structure has no direct relation to microfinance access. All these, were observed to be statistically significant. Statistically, there seems enough evidence to prove that Micro-Enterprises that received loan from Microfinance Institutions succeeded than those that did not receive.

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# Digital Transformation in India: Driving MSMEs Growth

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## Abstract

India possibly is in the arena of its biggest experiment, test in digitalization. Digitalization of most of the Indian commercial enterprise is majorly pushed by the hastily advancing digitization of customers. This certainly has caused accelerated facts traffic and increased establishment of the order of new tech based totally startups to take advantage of the increasingly available possibilities. Approximately 8% of GDP is contributed by the Micro, Small and Medium organizations (MSME) sector. It also provides a pivotal function in the overall improvement of financial system by means of using nearly eight million human beings, thus contributing about 45% of the entire manufacturing output and also 40% of exports of the country. However, in a swiftly digitalizing economy, these industries generally fail to hold a pace. Almost at a compounded annual growth price (CAGR) of 18% online consumers in India are developing and could also reach 220 million by the year 2020. Unfortunately, out of 51 million SMEs in India, much less than 5-6% have an internal presence. India now has embarked on a brand new monetary increase model that which is well aligned with international technological and developmental trends. Constructing around hundred smart cities, rejuvenation transformation of around 500 existing mid-sized towns that which have a populace of around 1,00,000 digitizing India and also making India an International production hub are number of pillars on which new increase models rests. Digitalization improves performances of SME's and also helps in reducing financial obstacles by providing alternative financing options to SME. Alternative finance has seen

increasing access and also has resulted in the significant rise in SME's operating performance, productivity and profitability. A thrilling aspect of increase in projects is the synergy among them and also their sturdy linkages with manufacturing and carrier sectors. Those are large developing sectors and MSME's are dominant stakeholders within the associated ecosystems.

**Keywords:** Digital India program, digitalization, rejuvenation, alternative finance, digital infrastructure and MSMEs

## Introduction

Today MSMEs account for more than 80% of the full quantity of industrial enterprises and also bring over 8000 products. These inputs account for 45% of full production output and 40% of exports from India. Furthermore MSME quarter affords employment to over 117 million people in the country. Adding to this, the government of India has recounted that MSMEs force the growth of Indian economic system and this acknowledgement has certainly come in the form of regulations directed towards reaching their complete potential. Policies and rules are vital in figuring out the nature and course of any financial activity, consequently as the arena observes the worldwide MSME day, we try to look at some of the recent policies and campaigns of central government and also the way they affect MSME sector in India. To reinforce production output the formidable 'Make in India' campaign is government of India's flagship challenge which really does not ignore MSME arena. The campaign came with a number of policy tasks and

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investments to address major challenge which MSMEs face. Make in India smooth loan fund released by using Small Industries Development Bank of India (SIDBI) in 2015 which gives loans inside the nature of quasi-fairness and time period loans on softer phrases to fulfill the specified debt fairness ratio for the establishment and boom of MSMEs. Government's scheme of fund for regeneration of traditional industries (SFURTI) scheme which was launched in 2005 focuses mainly on the cluster technique, organizing conventional industries and artisans. These individuals are supported to beautify marketability of their merchandise with design interventions, advanced packaging and infrastructure beneath this scheme. 800 clusters have been proposed in twelfth five year plan after 71 clusters have been evolved inside first phase with an outlay of Rs. 149.44 crores. National Manufacturing Policy has eased regulatory norms as well. Most of the special blessings to SMEs, especially extremely good ones include a tax pass through for challenge capital price range with a focus on SME's in production region, liberalization of Reserve financial institution of India (RBI) and Insurance regulatory and development authority (IRDA) hints for investments by banks and coverage corporations in SMEs. The Entrepreneurship Development Institute (EDI) in 2014-15, made 2, 60,888 youth task-ready through 9,142 programs. Talent mails organized in the same year provided jobs to 9,000 youths in the MSME sector. With increasing penetration of internet-enabled clever phones and a populace that appears up to a generation for solutions to problems massive and small, the MSME region may want to emerge as an outstanding beneficiary. Numerous technology solution companies that have started with a lift from the 'virtual India movement are trying to forge B2B relationships with MSMEs through virtual transactions. Generation systems have also discovered methods to connect MSMEs with shoppers, providers, monetary establishments and other enabling companies. Digital India, although not directly that specialize in MSMEs, has been instrumental in enhancing the commercial enterprise environment - from the ease of filling up

paperwork to getting access to finance and markets.

### Major objectives of the study

Major objectives of the study pertaining to the present topic are as follows:

- i. To study the concept of Digital India
- ii. To understand the impact of Digital India
- iii. To overview the role of MSME sector in the Indian Economy
- iv. To identify the MSME trends to shape Digital India

### Overview of Digital India

In aiding growth of India's virtual economy with affordability, accessibility, fine content material and online content digital content performs an important function. Off late India has started experiencing this digital transformation. To experience the whole impact of this variation using digital technology is on the rise in India; nevertheless there exists an extensive 'Digital divide' between cities and rural India which desires to be bridged urgently.

### Digital Program Initiatives

With the intention and goal of remodeling the country into a digitally empowered society and knowledge ecosystem. Digital India could certainly ensure that government offerings are available to citizens electronically. It might additionally convey in public accountability through mandated shipping of major presidency services, electronic equipments, E-Pramaan a unique identity based truly operable interoperable and incorporated government packages and data foundation. The digital India program was released in the year 2015 since then it is facing multiple challenges in successful implementation due to lack of clarity in policies and other such infrastructure bottlenecks.



Figure 1 Overview of Digital India Program

**Digital Infrastructure**

Today information and communication technology (ICT) sector certainly forms a critical part of digital infrastructure that which is required to make sure availability of telecom, broadband, computer systems and other such software program across the country. ICT has developed a primary infrastructure in the process of growth and affordability. India's ICT readiness has remained low, ranking 131 in ICT improvement index in 2015. Digital India application goals to boom the possible reach of virtual

infrastructure through an intensive broadband and cellular community with a view to allowing digital delivery of presidency offerings to citizens. An improvement of a robust virtual telecom infrastructure spine is critical. Government in this regard has taken numerous initiatives to improve virtual infrastructure and also additionally deal with software and protection infrastructure as all the three elements are very much required in tandem to make sure that digital India becomes a success.

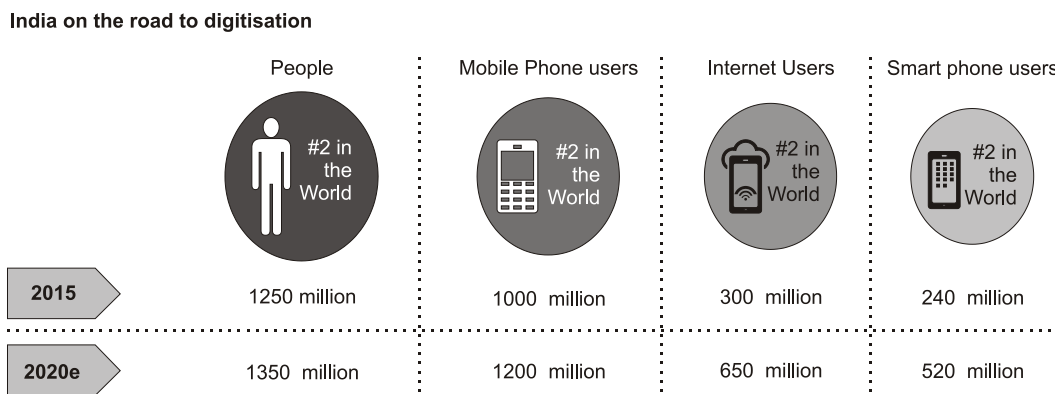


Figure 2 India's Road to Digitalization

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### Key Projects of Digital India Program

Some of the ambitious and key projects of Digital India Program are as follows:

- i. MyGov.in: This has been applied as a major platform for citizen engagement in governance initiatives through 'speak', 'do' and 'disseminate' approach. Also the mobile app for MyGov would deliver these features to customers on a mobile smartphone.
- ii. Digital Locker system: One of the major objectives of this system is to decrease the use of physical files and also enabling sharing of e-files across various agencies. The sharing of e-files may be finished through registered repositories thereby making sure the authenticity of the files online.
- iii. Online registration system (ORS): Under the hospital utility there has been vital services inclusive of on-line registration, a fee of expenses and appointment, on-line diagnostic reviews, ensuring availability of blood online and many others.
- iv. Bharat Net: It is initiated by government of India has undertaken a high-speed digital highway to attach all 2.5 lakh gram panchayats of the country. This will be world's biggest rural broadband connectivity project using optical fiber which is due to be completed by 2019.
- v. Broadband Highways: To supply essential services electronically and also improve the way residents and government transact with each other, it's far imperative to have ubiquitous connectivity. Government also realizes this need as contemplated by using 'broadband highways' as one of the major pillars of Digital India. At the same time as connectivity is one of the major criterion, allowing and supplying technology to facilitate delivery of services to citizens from others.
- vi. Next Generation Network (NGN): BSNL introduced to update a 30 year old exchange, which is an IP based technology to manipulate all types of major services like voice based, statistics, multimedia/video and other different sorts of packet switched

communication related services. BSNL has undertaken big scale deployment of Wi-Fi hotspots throughout the country. Consumers can latch on to the BSNL wireless network through their mobile devices.

### Digital India Progress

Some of the major progress of Digital India Progress till date is as follows:

- i. More than 12,000 rural office branches had been connected digitally and payment banking will be a fact for them.
- ii. Government has made plans and efforts to make 'digital village' throughout the country, linking schemes with technology like LED lighting, solar energy, various skill development centres and other such e-services (like e-education and e-health).
- iii. In 2017, Digital transactions related to e-governance initiatives within the country have almost increased, owing to Digital India program. As per government website e-transaction aggregations and analysis layer (eTaal) 6.95 billion transactions in 2015 and 7.67 billion transactions in 2016 respectively.
- iv. Revolutionary policies and competitive awareness on 'Make in India' has played a large function in the regeneration of the electronics manufacturing sector.

### Envisaged Impact of Digital India

#### Economic Impact

The Digital India plan ought to raise GDP up to \$1 trillion by way of 2025. It is able to play a key position in the Macro-financial factors which include GDP growth, employment, technology, exertions productivity, and growth in the quantity of corporations and sales leakages for the government. As per the sector financial institution report, a 10% boom in mobile and broadband penetration increases the according to capita GDP by using 0.81% and 1.38% respectively inside the developing international locations. India is the second largest telecom market

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in the world with 915 million Wi-Fi subscribers and world's third biggest net marketplace with almost 259 million broadband customers. There is still a big financial possibility in India because the teledensity in rural India is only 45% where greater than 65% of the population lives. Future increase of telecommunication enterprise in phrases of the quantity of subscribers is anticipated to return from rural regions as urban regions more than 160% are saturated with a teledensity.

### Social Impact

Social sectors include education, healthcare, and banking are not able to reach out to the citizens due to obstructions and barriers together with an intermediary, illiteracy, lack of expertise, poverty, lack of funds, records and investments. These demanding situations have brought about an imbalanced increase in the rural and urban areas with marked variations in the economic and social status of the people in these areas. Modern ICT makes it less difficult for people to get right of entry to services and sources. The penetration of mobile devices can be quite useful as a complementary channel for public service delivery aside from the advent of totally new services which may have a substantial effect on the life of the customers and cause social modernization. India's poor literacy rate is due to unavailability of bodily infrastructure in rural and urban areas. This is in which many education services can play a significant role by means of achieving remote masses. In India, the digital literacy is just 6.5% and the internet penetration is 20.83 out of a 100 population. The digital India challenge could be useful in imparting real-time education and partly address the assignment of lacks of teachers in the education system through clever and virtual classrooms. Education to farmers, fishermen can be furnished through mobile devices. The excessive speed network can offer the good enough infrastructure for online education platforms which includes Massive Open Online Courses (MOOCs). Mobile and net banking can improve the economic inclusion in the country and can create a win-win situation for all events in the value-chain by

way of growing an interoperable environment and revenue sharing enterprise models. Telecom operators get additional sales streams whilst the banks can reach new consumer groups incurring lowest possible costs. Digital platforms can assist farmers in know-how (crop desire, seed variety), context (climate, plant protection, cultivation pleasant practices) and market information related to market prices, demand for market and logistics.

### Environmental Impact:

The primary changes within the technology area will not only introduce modifications to the economic system, however will even make a contribution to the environmental modifications. The next generation technologies will assist in decreasing the carbon footprint by using reducing fuel consumption, waste management, greener workplaces and thus leading to a greener ecosystem. The ICT sector facilitates inefficient management and usage of scarce and non-renewable resources. Cloud computing technology minimizes carbon emissions by enhancing mobility and versatility. The power consumption can be decreased from 201.8 terawatt hours (TWh) in 2010 to 139.8 TWh in 2020 by way of better adoption of cloud data centers causing a 28% reduction in carbon footprint since 2010.

### Growth of Online MSMEs

India's Small and Medium-sized Enterprises (SMEs) sector is among the most powerful within the Asia Pacific region. The expected 51 million SMEs in India constitutes the country's biggest sector after agriculture. The SME sector has emerged as a dynamic sector in which greater than 6,000 products, contributes about to GDP, 45% to the whole production output and 40% of the exports from the country. The SME sector has the capability to spread commercial increase across the country and might evolve as a primary accomplice in the system of inclusive growth. One of the key drivers for the growth of the SME enterprise is digital transformation. Take as an example, the impact that accelerated digital literacy and higher digital infrastructure had at the SME

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sector in India. While greater SMEs are able to take their business online and thereby reach out to a bigger customer base, the scope of operations will extend and in addition development will be increased. The initiatives from the government of India, such as digital India will provide further impetus to the digitization of the SME sector in India. Foremost generation companies have also been visible supporting the reason of SMEs, by growing tools, mainly applied to enhance the business efficiency and productivity of these companies. As an instance, Google India released a new initiative known as Google advantage, designed mainly to assist SMEs leverage the rising Internet user base and also launched every other new product, 'Google My Business' to assist Indian Small Business succeed online. The objective is to assist Small business to create and replace their business facts on Google search, Maps and Google+ from one place, at no cost, in both Hindi and English. Further, Microsoft has released its cloud adoption programme for Small enterprise in India underneath the Cloud Solution Providers (CSP) model. Infosys and GE recently combined developing new Internet of Things solutions a better way to help producers and different industrial firms to improve asset performance and construct greater shrewd linkages among layout, manufacturing and subject testing. These are a few examples of ongoing engagement with Small Business in India. SMEs find out a number of advantages, including a boom in sales; lower advertising and distribution spend and growth in income margins which can accrue from digitization. The improved geographic reach and accessibility, and advanced control of information storage functions also serve to force innovation, enhance customer revel in and facilitate effective hiring through the digital medium. The growing range of SME entrants in the enterprise every year spawns a persevering with need for talent a good way to swell the huge phase of the population that this sector already employs. For example, at Babajob, there are over 230,000 SMEs which have posted jobs within the past year. Blue collar employees, along with drivers, maids, safety guards, delivery boys, etc., are recruited without hassles because specific necessities are staying

online, saving time, effort and price. SMEs that select digital hiring systems will stand to advantage in an extraordinarily aggressive and dynamic enterprise environment because lean and contoured workforces will outline the critical side that differentiates the leading players.

### Cashless SMEs in Digital India

The Indian Small and Medium Enterprise (SME) sector holds approximately 8% share in the country's GDP, with a 45% contribution to India's production GDP and 40% to exports from India. This makes a critical contribution to India's economic boom. Due to the fact lengthy, the Indian SME proprietors have been undertaking their business the conventional way, be it their core business enterprise operations, advertising or excessive dependency on cash. Whether it's far about making bills for their vendors, suppliers or receiving payments from their clients, cash has been the favored mode of transactions. Organizations should strive for improvement and perfection at every stage of increase. Technology and innovation play a main position in making sure this for SMEs. Companies that use generation to manage to transport ahead, and people who don't remain stagnant and fade out sooner or later. In the closing 5-7 years, numerous steps have been taken to allow a cashless economy. The advent of the Aadhaar device is one such initiative in the course of digital India. Examine directly to recognize methods in which Indian SMEs can move cashless.

### Net banking/Account transfers

Also known as account transfers which is a handy option for SMEs to obtain bills. It does include three services for customers to make payments- National electronic funds transfer (NEFT), Real time gross settlement (RTGS) and immediate payment service (IMPS). It is considered as a transaction fee, ranging from Rs 5 to Rs 55 for availing the services. While for RTGS there is a minimal amount of Rs 2 lakhs, there is no minimal restriction of other two services offered.

### Aadhaar Payment App

In order to use this app all the SMEs require an author related bank account and also an android smartphone

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with web connectivity, biometric reader and also Aadhaar payment app to get immediately credited into bank account which can be done by using POS terminals. Additionally service provider isn't charged any merchant discount rate (MDR) for use of this kind of payment method. Besides there is also no requirement for customers to have a web connection to make a few, by using this app trader can accept payments.

### E-Wallets

E-wallets are generally utilized by consumers to make payments for various products and services. Business owners can use e-wallets to simply accept bills for their merchandise, various services to make bills to their companies or suppliers. As a less expensive and quicker payment technique e-wallet transactions can do away with liquidity issues of both clients and business proprietors. Mobiwik, Freecharge, Paytm are some of the very famous e-wallet services in India.

### Point of Sale Machines (POS)

All customers intending to use this service need a debit or credit card to swipe on the machine and also PIN code for the card. POS machines cost around 3000 Rs and can also be included with a bank of choice. Major examples of banks like SBI do set up POS machines at commercial enterprise stores that which avail their merchant acquiring offerings.

### Conclusion

In increasing and improving social and economic circumstances of human beings a digitally connected India can certainly help serve the purpose through development of non-agricultural economic activities besides from supplying gate entry to education, health and other financial services. It is also very much crucial that IT alone cannot result in standard development of the nation. Overall growth as well as development can be realized through supporting and improving various elements including primary infrastructure facilities, literacy levels, overall enterprise surroundings, certain regulatory surroundings and so forth. Besides Digital India should have a huge scale impact on residents across the country as digital divide

wishes to be generally addressed through remaining mile connectivity in farflung rural areas of the country. Also the Central governments, State governments and other Local governmental bodies has to create awareness among citizens on the various use of digitalization which can result in achieving the aim of Digital India i.e., empower citizens to knowledge economy and also engage citizen-government in an effective and efficient manner with automation.

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# Human Resource Management Practices in MSMEs- An Analysis of Hubli Region

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## Abstract

*Today, the functions, procedures and practices of the Human Resource management are very essential for the growth of Micro, Small and Medium Enterprises. Understanding and following human resource practices and policies is the best strategy for the growth of the MSME. MSME' hire 40% of the country's workforce(Economic Times June 2013) and they pay less attention towards human resource management. The important strategy of HR is to hire the best talents or resources to the company to achieve its goals. If the company invests money in HR then the company can get more profits when the resources are used efficiently and effectively as it increases the production process of goods and services. As the technology and skills are developing very fast, so the important job of HR is to fill the skill gap. Most of the skills today will be outdated tomorrow. It is the job of HR to improve the skill set of an employee through training and development programs. Choosing right and best kind of HR strategies is very important for the success and the growth of the MSMEs. The objective of this research paper is to study the role of the HR in recruitment, skill development and creating an atmosphere for everyone in the MSMEs to contribute for the development of MSME. The research methodology involves structured questionnaires administered to HR managers in these selected MSMEs in the Hubli region with an objective of ascertaining the recruitment process, Skill Development needs and role of empowered atmosphere for overall contribution of the organization. There are around 436 MSMEs in Hubli, and selected 30 samples would be considered for this study.*

**Key words:** MSMEs, HR practices, recruitment, skill development

## Introduction

Micro, Small and Medium Enterprises (MSMEs) plays an important role especially in developing countries like India. Over the last few decades MSMEs in India have emerged as developing sector in the Indian economy. MSMEs in India contribute to nearly 8% to the GDP, 45% of the manufacturing output and 40% of the exports (Economic Times June 2013) . They are the largest provider of employment in India after agriculture and also contribute tremendously to the industrialization in rural and backward regions there by ensuring the regional balance, assuring the proper wealth and income distribution. MSMEs have occupied an important place due to its contribution in national income, exports and innovation. MSMEs complement the large enterprises by acting as a ancillary units and helps in socio economic development of the nation. They produce a large variety of products that meet the demands from local and global markets. In countries like India where we have highest population, MSME creates employment opportunities. Because of more employment opportunities, HRM (Human Resource Management) plays an crucial role at MSME. The main and major Purpose of HRM is to make proper utilization of available human resources, and desire to have skilled workers which help the firm to compete with its competitors.

MSMEs in India consists of first generation entrepreneurs who have limited training and knowledge on resource planning, capital management as well as labour management.

MSMEs majorly focus on the day to day operations and running the business and HR practices are not given enough time as they are perceived to be not so important function for running the business until and

unless the business is making profits. Competitiveness of MSMEs can be enhanced through better HR practices of recruitment, selection, training and compensation along with other function of production, finance, logistics and marketing.

**Table 1 Definition of Micro, Small and Medium Enterprises**

Nature of the Enterprise	Micro	Small	Medium
Manufacturing	Investment in fixed assets less than 25 Lakhs	Investment in fixed assets more than 25 Lakh and less than 5 Crore	Investment in fixed assets more than 5 Crore and less than 10 Crore
Service	Investment in fixed assets less than 10 Lakh	Investment in fixed assets more than 10 Lakh and less than 2 Crore	Investment in fixed assets more than 2 Crore and less than 5 Crore.

(Source: MSMEs Annual Report 2017-18)

**Products offered by MSMEs**

MSMEs produce a large variety and various types of goods ranging from chemicals to machinery parts. In every product a number of variants to cater to different customers are also produced. MSMEs consists of food products, chemicals, metal industries, plastic & Rubber products, electric and machinery parts.

State wise distribution of MSMEs shows that Karnataka has about 38.34 Lakhs of MSMEs which contributes to 6% of the overall MSMEs in the country. 70.84 people Lakh are employed in MSMEs in Karnataka.

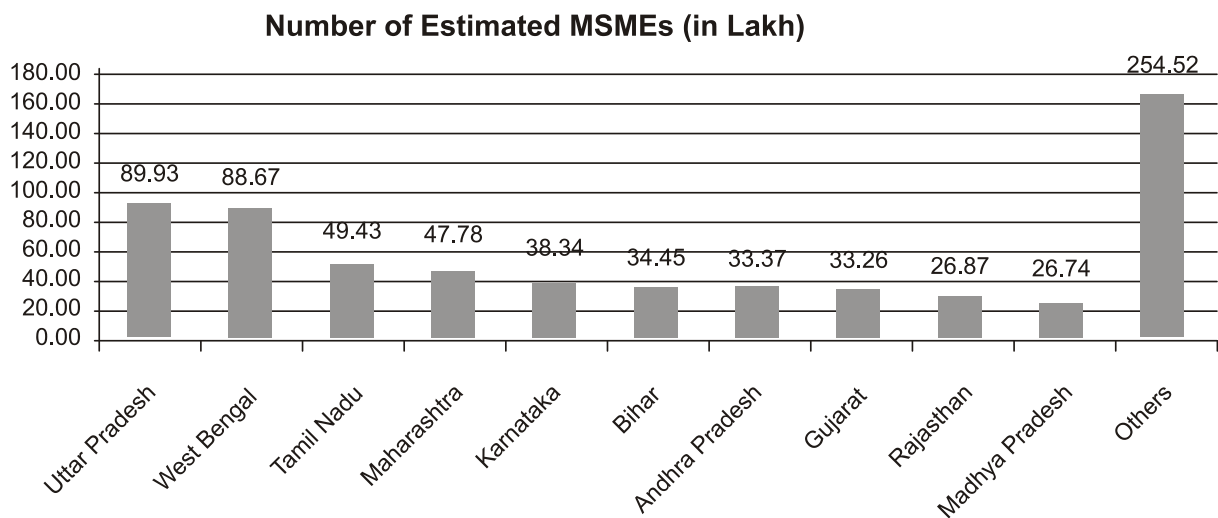


Figure 1 Number of Estimated MSMEs in India

### HR in MSME

Managing Human Resource in MSMEs poses a greater and unique challenge which is mainly in terms of attracting and retaining the employees. SME face the basic problem of getting the right person for the right job while the larger organization deal with the retaining and developing the right people. Since SMEs have smaller workforce more specialized HR activities are infrequently carried out (Cook, 1999) also there are no HR policies which are framed in these SMEs which leads to improper management of human resource.

### Literature Review

Majority of the research carried out in MSMEs regarding HRM issues is conceptual with focus on many and diverse HRM topics ranging from recruitment, selection, compensation, training and development, hygienic working conditions, loyalty & attrition.

1. **Madan (2012):** The recruitment challenges faced by the MSMEs can be overcome by implementing approaches like Leveraging multiple candidate resources, Recruitment through social media and Creating job portal and online advertising the recruitment. Creating healthy working environment is another challenge faced by the MSMEs and it can be overcome by motivating employees which can reduce the absenteeism. Highlighting the opportunities of personal growth, job growth by the organization. Introducing grievance handling procedures can reduce the organizational conflicts. Knowledge management is the major challenge facing by MSMEs. The main purpose of HRM is to fill skill gap is by positive entrepreneurial support and leadership form owners. Enforcement of labor training and development of leadership quality is essential.
2. **New Indian Express (2013):** Role of human resource management in MSME in India mentioned that "The role of human resources in enhancing firm efficiency and effectiveness is well established".
3. **K. Sucharitha (2018)** made a study of 520 workers of MSMEs in Tamil Nadu and found that there are

were little HRM practices which are followed. Many of these workers were willing to switch due to non-availability of medical facilities, poor working conditions, insufficient pay and absence of welfare measures.

4. **Upasana A Agarwal (2015)** attempted to explore the HR practices in Indian MSMEs and studied 8 MSME to examine the existing human resource practices across area of HR Value chain. The research methodology involved administering a self-structured and in depth qualitative research was carried out. The findings were the high attrition was the main reason for not investing in the training needs.
5. **Ashu Katyal (2015)** focused on the major problems related to HR practices and suggestion to overcome them. The paper address issues in recruitment, retention, empowerment, job security, motivation, employee engagement, training and development, compensation and work force diversity.
6. **Bohlander G .W (2009)** highlighted the role of institutions, government policy makers to focus on providing support to the SMEs on facilities like recruitment process outsourcing which can help SMEs to get the right candidate from right source at less cost. Getting the talented candidates and retaining them in the SMEs is a matter of great concern for many, government should consider making work experience in SMEs as an additional achievement for considering to offer jobs in private or public sector and preference should be given to such experienced candidates.

### Main Objectives of the Study

The main objectives of study are:

- i. To enumerate the role of the HR in recruitment process.
- ii. To investigate the skill development requirement in MSME.
- iii. To enumerate the role of HR practices that facilitate to the contribution of MSME development.

## Role of MSMEs in India's Development

### Research Methodology

The various components of HRM practices and organizations performance were identified through literature review and interaction with the HR experts in the industry. Based on the interactions and review of literature the research methodology was framed to involve a structured questionnaire which was administered to HR managers in the selected MSMEs in the Hubli region. The questionnaires were framed to ascertain the recruitment process followed in the MSMEs, identification of Skill Development needs along with planned process of skill development and role of HR to empower the organization internally for overall contribution of the organization. There are around 436 MSMEs in Hubli, and selected 30 samples were considered for this study.

### Findings and Interpretation

**Recruitment :** The major problem of MSMEs in HR practices are attracting the right talent, motivating employees and retaining important employees as these MSMEs lack resources to advertise the positions, pay salaries and train the employees as larger organizations do. Generally HR practices are considered to be costlier to carry out in MSMEs. 70% of the MSMEs have no formal HR department or an exclusive person to carry out HR activities.

In today economy, growth of any organization is dependent on the talented employees' organization. Talent crunch is most common in MSMEs which impacts its growth and existence. MSMEs are not only struggling to fill in the talent gap but also find it difficult to find skilled workers. Even if they find the quality and skilled workers the next challenge would be retaining them in the organization. Research shows that this impact is due to the owners' overemphasis on personal belief and attitudes.

### Recruitment in MSMEs

- i. HR should decide the skills, knowledge and experience that the business needs to fill a job role.
- ii. Make a job description and also a person specification that describes the skills and experience required for the role.

- iii. Job description should encourage every prospect without any discrimination whatsoever in terms of gender, origin, religion or belief.
- iv. Word of mouth recruitment process to be avoided, rather consider advertising for the requirement welcoming all the applications unbiased.

### Retention

The most important challenge for HR in MSME is to retain their talented and skilled employees due to lack of competent salary. At the time of crisis the retaining the skilled employees would be a major challenge for the HR.

HR can follow these strategies to retain their skilled employees:

- i. By offering a competitive salary to satisfy the expectations of the employees.
- ii. Motivating the employees by giving incentives and rewards.
- iii. Keeping the communication open between management and employees.
- iv. Developing employees in the organization and assigning them responsibilities.
- v. Retention and exit interviews to understand the gap between employees' expectation and MSMEs offers.

### Job Security

Job security is the important factor for employees in any organization. To reduce the attrition MSMEs should work towards providing job security for its employees. The role of HR to provide a sense of security towards their job for the employees in MSMEs could be as follows:

- i. Create an environment in which employees willing contribute to the growth of the organization.
- ii. Make work more exciting.
- iii. HR to record all the important achievements of its employees and work which they did willingly.
- iv. Provide opportunity to learn and succeed.

## Role of MSMEs in India's Development

### Empowerment

Providing an empowered environment to the employees in MSMEs make the employees contribute positively in the decisions made and execute the plans as desired to achieve the results. Empowered employees take ownership of the tasks assigned to them and try to more efficient and productive in their job. Empowering employees means to provide certain decision making authority to its employees to perform the job in the best possible way. Also empowered employees decisions should be supported and encouraged to perform better.

### Employee Engagement

MSMEs face crisis during intense competition, scares resources and demanding customers. The MSMEs need to have employees emotionally engaged and passionate for contributing to the organization. These employees play a vital role in bringing innovation and diversity to the organization by recommending the organization to other capable prospect employees.

Research shows that only 8% of the industries have a formal HR person taking care of HR administration and employee relations. In 91% of the industries, there is no empowerment to this function. All HR/Employee relations policies are owner-driven.

### Workforce Diversity

In this globalized era, the more interaction among people from diverse cultures, beliefs, and backgrounds is required. People are now part of a worldwide economy with competition coming from nearly every continent (Byrne, 2011). Cultural diversity training programs must also be set for all the employees and managers or supervisors concerned. This training will help them be aware of the different cultures and beliefs for a diverse workforce existing in company. In a like manner, a seminar or workshop on team building should be frequently conducted and implemented for cohesiveness and unity amidst the diversity of the work. The HR personnel should educate his employees the benefits they will get by working with diverse work force.

### Training and Development

Training appears to be largely limited to product sales and service training. There is no evidence of any technical or behavioural training that can help augment the skill level of employees in various functions. As the data shows:

- i. Only 32 % companies offer both on the Job training & Off the job training which is very much required for technical jobs
- ii. 74% of companies are not having development program which gives employees an opportunity for developing knowledge, skills and attitude for the job as well as for company.

### Performance Management

The MSMEs generally have a practice of appraising its employees annually. However, the format appears to be different for various divisions. In the various interactions had so far, no evidence of such a concerted performance strategy has been found. Only 47% of companies are having formal performance management system.

### Compensation and Benefits

The company has a practice of following timely payments and provides various employee benefits. However, the manner in which payroll is administered for its permanent and temporary employees is not very clear. In most interactions, the policy of granting incentives across various divisions appears to be quite arbitrary leading to employee dissatisfaction. The linkage between performance and incentive appears to be clear for some divisions but the way in which the incentive scheme/program is administered is not transparent. Majority of Companies (66%) are not following manpower planning which is very much helpful in keeping company lean and thin.

### Conclusion

Human Resource is one of the most important growth indicators for any organizations today. There is a lack of formalization in the management of HR issues in MSMEs. This is in contrast to multinational companies

## Role of MSMEs in India's Development

operating in India who have adopted structured and formalized HR systems. As the studies shows that very few MSMEs have formal HR dept. and in new small business units owners only handle the HR practices. The skill training should consists of some procedure to provide basic HR functional training to owners so that initially they can handle HR Functions and understand the importance of HR in their organizations. Later on after small units become profit oriented units, they can have formal HR dept. to run each HR function systematically. Second option for MSMEs is to outsource their HR functions to some outside agency or authority, which can be taken over after the establishment has become a self-sustaining and a profitable unit. So the business owners or HR managers should ensure good HR practices in their organizations to remain competitive.

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# Guidelines for Paper Submission

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AMBER is a bi-annual double blind peer reviewed Journal from ABBS. The Journal has its objective to offer to the readers with relevant management insights and rich cream of current innovative research in the relevant areas. AMBER is a theme based journal and the relevant themes are selected and papers are invited. The theme for the forthcoming issue would be published in the immediately previous issue.

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### **Theme for the Current Issue:**

Role of MSMEs in India's Development



# Book Review

**Catalyst** - The ultimate strategies on how to win at work and in life

**Author** - Chandramouli Venkatesan

**Publisher** - Penguin Random House India 2018

Reviewed by

**M. Viswanathan**, Professor, MBA Department  
Acharya Bangalore B School

## About the Author

Chandramouli Venkatesan is an industry veteran with over 26 years of corporate experience. He has worked in some of the leading companies such as Asian Paints, Cadbury, Onida and Pidilite. He has held very senior positions in these companies and in some cases been at the helm of affairs as CEO or Managing Director. There was a three year period in his career when he did a stint as HR head for Cadbury India which further developed his understanding of what makes people successful. He is a keen golfer and sports enthusiast and believes in holding his career and personal life in balance.

## Essence of the book

Many people have the ingredients for success, but they mistakenly assume that just the presence of these will guarantee success. Unfortunately, that is not the case; it needs a catalyst which comes in the form of specific actions and efforts.

## Introduction

The theme in the introduction of the book is "Success Needs a Catalyst" where the author encourages managers to introspect their careers and identify areas that would give maximum ROI (Return on Investment) in terms of creating impact and maximum satisfaction and advises them to relentlessly pursue in that direction.

The book is divided into three parts where the author advocates self development of the individuals in the three stages.

## Part 1

The author emphasizes on real individual growth through right skill development taking into account those factors in the environment that can act as tailwinds in pushing one's career forward. In doing so, the individuals have to recognize catalysts or factors in the work and industry environments that can enhance their experience, bring in higher productivity, imbibe values, maximize learning cycles, and improve personal productivity.

## Part 2

In this part, the author warns managers about growing too fast in the first half of their careers and suffering a burnout in the second half, resulting in many health issues affecting the individuals. The author, therefore, advocates preserving some of the vital energy for the second half of one's career as he emphasizes that more significant career achievements often occur in the second half of one's career. At this stage, he advises managers to look at their bosses and mentors as catalysts in order to derive inputs for their career development. He further advocates that the reason for quitting a company should not be based on longevity of service in the company but on what this service is doing to one's career - is it developing or moving towards reaching a plateau?.

## Part 3

Here the author looks at the other general aspects of an individual's personal life and reiterates the importance of life acting as a catalyst at work which

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integrates the values, beliefs, integrity and other human characteristics that one brings daily to work. The author is of the opinion that these 'life characteristics' have a huge impact on how successful a person is at work. The next point the author advocates is 'passionate striving' along with human values to act as a catalyst for success that would have a tremendous impact on the leadership qualities of the individuals. Finally, the author concludes that all the factors that an individual recognizes in his work environment which can act as catalysts needs to be integrated together for a successful career development.

### Conclusion

In the rapidly changing business world, it is not possible to offer a single solution for career development of individual managers. This book at best, provides a foundation for newly joined managers to look for catalysts in their work environment that can aid in their career development. For experienced managers, the book gives an opportunity to review their career journeys and helps in taking appropriate decisions in their respective careers.

## CALL FOR PAPERS

### The theme of the forthcoming issue is "Digital Marketing".

Digital marketing encompasses all marketing efforts that use an electronic device or the internet. Businesses leverage digital channels such as search engines, social media, email, and their websites to connect with current and prospective customers. Digital marketing in other words, any form of marketing that exists online. Digital marketing includes content marketing, social media marketing, Email marketing, mobile marketing, marketing automation, pay by click, content marketing, affiliate marketing etc. The companies in B2B, and B2C are front runners in using digital marketing practices as part of their business. The companies are able to leverage lot of benefits in terms of cost containment, profit improvement and better visibility of their products and services. This field is growing rapidly in terms of sales and revenue. Digital marketing is the marketing of the future.

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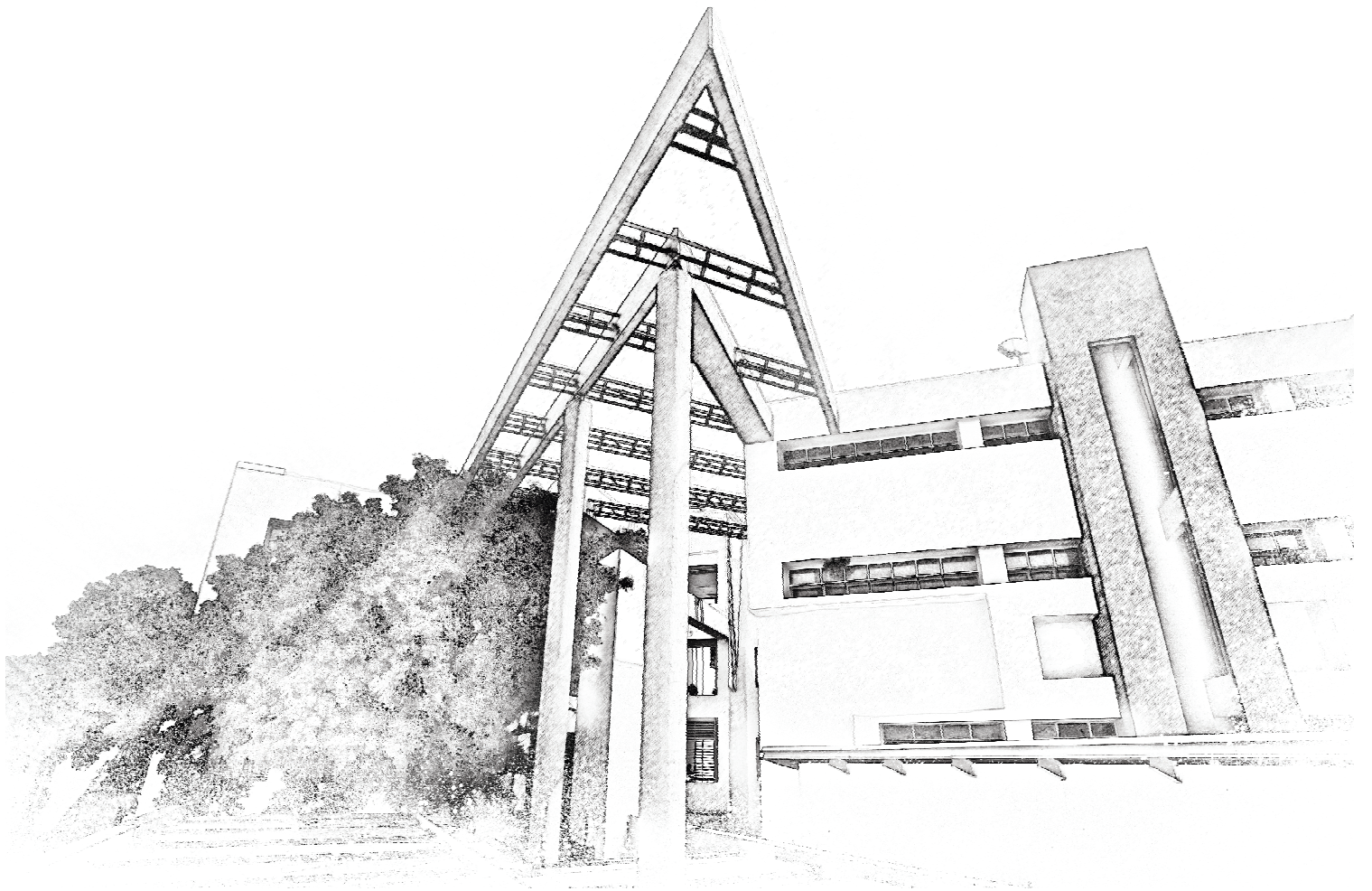
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