

## ROLE OF MSMEs IN ECONOMIC DEVELOPMENT

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### ABSTRACT

*Micro, Small and Medium Enterprises (MSMEs) play very significant role in almost all countries of the world irrespective of their development stage. 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. They also play a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. The MSME sector contributes significantly to the country's manufacturing output, employment and exports and is credited with generating the highest employment growth as well as accounting for a major share of industrial production and exports. It complements large industries as ancillary units and contributes enormously to the socioeconomic development of the country. This article attempted at highlighting the significance SMEs in economic development of India.*

### INTRODUCTION

The MSMEs form the backbone of the Indian manufacturing sector and have become engines of economic growth in India. It is estimated that the MSMEs account for almost 90 per cent of the industrial units in India and 40 per cent of value addition in the manufacturing sector. It is increasingly recognised that the MSMEs play a crucial role in employment creation and income generation in the Asian Region. The MSMEs can be easily established since their requirements in terms of capital; technology, management and even utilities are not as demanding as it is in the case of large enterprises. Their development is closely associated with more equitable distribution of

income and thus important as regards poverty alleviation. At the same time, the MSMEs serve as a training ground for emerging entrepreneurs in some of the Asian region. The full potential of the MSMEs has yet to be tapped as there are a number of constraints hampering its development.

In India, state and private enterprises co-exist. The Small and Medium Enterprises sector and business are left completely to private enterprises. Of late, development of the MSMEs has become extremely important to achieve all round development in the country. Consequently, many MSME opportunities are emerging out in fields like electric goods and applications, medicine, engineering, agriculture, communication, atomic-energy, telecommunications, food technology, packing and the like. These opportunities have been increasing rapidly. A robust and vibrant MSMEs can derive benefits from the new opportunities in both public and private modes. In recent years both government and private agencies have initiated strategies and programmes for developing the MSMEs skills among people. The MSMEs produced a wide range of industrial products such as food products, beverage, tobacco and tobacco products, cotton textiles, wool, silk, synthetic products, jute, hemp & jute products, wood and wood products, furniture and fixtures, paper and paper products, printing publishing and allied industries, machinery, machines, apparatus, appliances and electrical machinery. MSMEs also have a large number of service industries.

### MSMEs IN INDIA

The Govt. of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act 2006, in terms of which the definition of micro, small and medium enterprises is as under:

- a) Enterprises engaged in the manufacturing or production, processing or preservation of goods as specified below:
  1. A micro is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakhs
  2. A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakhs but does not exceed Rs. 5 crores.
  3. A medium Enterprise is an enterprise where the investment in plant & machinery is more than Rs. 5 crores but does not exceed Rs. 10 crores.
- b) Enterprises engaged in providing or rendering of services (original cost excluding land & building, furniture, fittings and other items) not directly related to the services rendered or as may be notified under the MSMED Act, 2006 are specified below:

1. A micro enterprise is an Enterprise where the investment in equipment does not exceed Rs. 10 lakhs.
2. A small enterprise is an enterprise where the investment in equipment is more than Rs. 10 lakhs but does not exceed Rs. 2 crores.
3. A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crores but does not exceed Rs. 5 crores.

### Objectives of the study

The followings are the objectives of the study

1. To understand the aims of MSMEs in india.
2. To know the strength and weakness of MSMEs.
3. To understand the role of MSMEs in economic development.

### Aims of MSMEs:

MSMEs met with the expectations of the Government in much broader way. They achieved the following objectives:

1. High contribution to domestic production.
2. Significant export earning.
3. Low investment requirements.
4. Operational flexibility.
5. Mobility.
6. Low imports.
7. Development of appropriate indigeneous technology.
8. Import substitution
9. Contribution towards defense production.
10. Technology oriented industries.
11. Competitiveness in domestic and export markets.

### STRENGTH AND WEAKNESSES OF SMEs

Major strength of Small Medium Enterprises observed are flexibility, owner management, inexpensive labor, less overhead and favorable capital- output ratio.

#### Flexibility:

Small and Medium Enterprises can easily absorb new innovation and adapt new method. The

cost of changing the existing system is also relatively less.

**Owner management:**

In Small and Medium Enterprises owner management is a possibility, which ensures quick decision making. This ensures speed and reduces redtapism. (Dalu & Deshmuke)

**Inexpensive labor and less over head:**

The main reason for sickness of large scale industry is its labor problem and escalating wage bill. Small and medium enterprises strength is its cheap labor and less over head.

**Favorable capital- output ratio:**

Small and medium enterprises are labor intensive. Through proper utilization of resources Small and medium enterprises can keep low level of capital investment per unit of output.

**Weaknesses:****Lack of quality consciousness:**

It is the major weakness of the small industries. Small and Medium Enterprises pay less attention to total quality programme and hence importance is less felt leading to quality problem. Study reports show that under utilization capacity leads to reduction in level of productivity in Small and Medium Enterprises sector in India .

**Lack of Financial Strength:**

The Small and Medium brand image and hence mobilizing capital through other sources is a challenge in Enterprises depend largely on banking finance. They don't have corporate image.

**Lack of Industrial Work Culture:**

Labors give more weight-age to their personal work and don't maintain regularity, discipline in reporting on time. Getting and continuing with trained workers and satisfying them is difficult. Study reports show that in India many small and medium enterprises are sick and some are closing down. The main reason is lack of quality and increasing competition. It is necessary for Small and medium enterprises to face new challenges by adopting best strategies Hence the SMEs should take immediate step to create quality awareness, and adoption of continuous improvement techniques .

**ROLE OF ECONOMIC DEVELOPMENT OF MSMEs**

The role of MSMEs in the economic and social development of the country is well established. The MSMEs sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. this sector contribute 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of the exports. MSMEs provide employment to about 600 lakh

persons through 260 lakh enterprises. the labour- to-capital ratio in MSMEs and the overall growth in the MSMEs sector are much higher than in the large industries. the geographic distribution of the MSMEs is also more even. thus, MSMEs are important for the national objective of growth with equity and inclusion. the MSMEs sector in india is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. while one end of the MSMEs spectrum contains highly innovative and high growth enterprises, more than 94 per cent of the MSMEs are unregistered, with a large number established in the informal or unorganised sector. with the liberalisation and globalisation of India's economy, the MSMEs sector is facing several challenges in the areas of technology, access to credit and equity capital, and intense competition in marketing. In recognition of the potential of the MSMEs sector for employment generation and the challenges faced by it, the Government has emphasised on its growth and development.

Small and medium enterprises are the backbone of industrial development. It is very important for both developed and developing country Small and medium enterprises always represented the model of economic development, which emphasized high contribution to domestic production, significant export earnings, low investment requirements, employment generation, effective contribution to foreign exchange earning of the nation with low import-intensive operations. The contribution of small scale industries (SSIs) has been remarkable in the industrial development of the country. It has a share of 40% in the industrial production. 35% of the total manufactured exports of the country are directly accounted for by this sector. In terms of employment generated, this sector is next only to agriculture employing approximately 14 million people. . Overall, the small industry sector has done quite well and has enabled the country to achieve considerable industrial growth and diversification. Small scale industries are less capital intensive and suit the Indian economic environment with scarce resources and large population base. In addition, it is highly and has a scope for labor intensive for building upon the traditional skill and knowledge. Small scale industries have remained high on the agenda of all political parties, intelligentsia and policy makers since independence as a legacy of Gandhian philosophy.

### **Conclusion:**

Small and Medium Enterprises (SMEs) contribute to economic development in various ways such as creating employment opportunities for rural and urban population, providing goods, enhancing exports, GDP & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole. But, there is a need to carefully nurture and

support this sector. Joint effort is needed from the Govt. and MSMEs to acquire technological effectiveness. Financial support needs to be ensured taking into consideration the growing investment demand, including the requirements of technological transformation.

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