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Changing Shape of Micro, Small and Medium Enterprises

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Abstract: MSMEs play an important role in economic and social development of the country like India. Over the years, the MSMEs has progressed from the manufacturing of simple goods to the manufacturing of goods like microwave, medical equipments etc. and the liberalization lead to the expose of goods to international market. MSMEs are having lots of opportunities if they are utilized properly MSME sector will grow at large pace in near future to come. Despite its contribution in the strengthening of country's economy there are several issues and challenges which are being faced by MSMEs like lack of finance, credit, infrastructure, skilled manpower etc. FDI and adoption of ERP System has given a new hope to this sector.

Key Words: MSME, Micro, Small and Medium Enterprises, FDI in MSME, ERP System in MSME

1. INTRODUCTION

Micro Small and Medium Enterprise (MSME) sector have gain importance in the recent years and become the backbone of the Indian economy. MSME contributes to the socio economic development of the country directly or indirectly. MSME consists of 90% of total industries, generated employment up to 70Million and with that more than 6000 products are being manufactured. It also contributes in manufacturing output up to 45 % and up to 40% in exports. 95% of Micro, Small and Medium Enterprise units are informal in nature. MSME contribution to India's GDP has been growing consistently at 11% per annum which is higher than overall GDP growth of 7-8%. It has not only contributed to the employment, manufacturing but also to the industrialization of rural and backward areas. MSME helps in reducing regional imbalances, equitable distribution of the income and wealth.

Classification of Small and Medium Enterprise: According to Micro, Small and Medium Enterprises Act 2006, we can divide the enterprises into two categories

- a) Manufacturing Enterprises
- b) Service Enterprises

	(Ceiling on investment in Plant & Machinery)	(Ceiling on investment in Machinery)
Micro	Up to Rs. 25lakh	Up to Rs. 10lakh
Small	Above Rs 25lakh and up to Rs. 5crore	Above Rs. 10lakh and up to Rs. 2crore
Medium	Above Rs. 5crore and up to Rs. 10crore	Above Rs. 2crore and up to Rs. 5crore

Other Features of MSME Act 2006 are as follows:

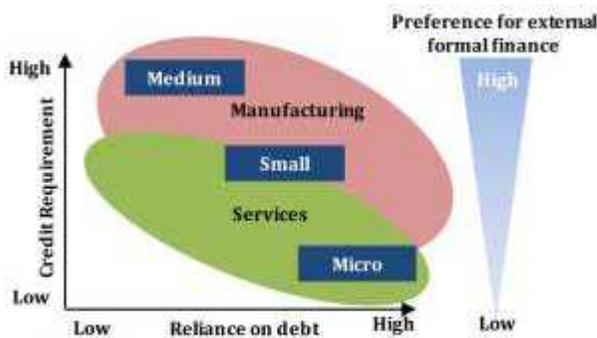
- ✓ For MSME promotion, development and competitive enhancement specific funds are being established.
- ✓ The schemes related to MSME are being notified to the people.
- ✓ In MSME products and services of Government procurement is being preferred.
- ✓ For dealing with the problem of delaying in payments of MSME a new and improved system is being introduced.
- ✓ The process of closing the business has been simplified by the government for all enterprises.

	Manufacturing Enterprise	Service Enterprise
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2. NEED OF FINANCE IN MSME

The need of the finance in MSME is different for different industries as it depends upon the size of the operation, customer segmentation and on development stage. According to the graph given below the smaller the entity, greater dependence on the debt as a primary source of the finance.



Source: IFC-Intellectap Analysis

According to the survey conducted by the Confederation of Indian Industry about 63% of total MSMEs use debt for full filling their financing needs in long term where as in case of short term almost 78% of total MSMEs use debt for financing needs and rest 22% on equity. MSMEs rely on debt because of the following reasons:

- Lack of options to explore equity financing
- Lower cost of debt

2.1 MSMEs Sources of Financing at every Stage of Development

Seed Stage	MSME can get finance from Founder and associates (Informal Equity). If they need more and available MSME can get from Financial Institutions/ Bank/Equity.
Start-up Stage	MSME can get from Informal Equity and if needed more and available can get from bank or by leasing equipment.
Expansion Stage	MSME can get finance from Equity (Original Source). Leasing and Factoring are additional source of finance at this stage.

2.2 While starting MSME, the budget for the following will be required:

- ✓ Sales Budget
- ✓ Production Budget
- ✓ Manpower Budget (how much manpower needed and their cost)
- ✓ Variable Cost Budget (sales and production function)
- ✓ Selling and Distribution Budget
- ✓ Capital Expenditure Budget
- ✓ Cash Flow Budget
- ✓ Profitability Budget

3. SNAPSHOT OF BUDGET 2013-14 FOR MSME SECTOR

- ✓ After intimating investors, Start-ups and MSMEs can list themselves on SME exchange without public offer.
- ✓ If MSME grows and become larger enterprise then it is being exempted from tax for the three years after its growth.
- ✓ The re- investing capacity has been increased from INR 5000crore to INR10,000crore of SIDBI for Ministry of Small and Medium Enterprise.
- ✓ In FY 2013-14, 5crore people will be given training under National Skill Development Corporation.
- ✓ INR 2400crore has been introduced to upgrade scheme in textile sector to modernize powerloom sector.
- ✓ In a year 10lakh youths can be trained with skills to increase employment and productivity for training youths the government has allocated INR 100crore.

4. ISSUES AND CHALLENGES RELATED TO MSME SECTOR

MSMEs social contribution to the country is more significant and important than its economic contribution. MSME sector within itself helps the small companies to grow and become medium and large enterprises. Therefore it has become necessary that MSME sector of our country should get attention and get support of the public for village, cottage and micro level

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enterprises. MSMEs face so many issues and challenges due to which they are not able to utilize their full potential. Some of the major issues and challenges related to MSME sector are as follows:

- I. **Financing**
MSME do not get the finance and credit timely or when they need at low cost. The cost at which the finance and credit is available that is high because bank has perception that investment in this sector involves high risk and high transaction cost is involved in loan approval. Non availability of timely and cheaper finance and credit, considered to be the primary reason for the under-utilization of the manufacturing capabilities of MSMEs.
- II. **Equity**
In MSME sector the flow of equity is very low or considered to be negligible where as overall flow of equity has increased in the recent years. If equity capital is not there then there will be a serious problem for development of the knowledge- based industries.
- III. **Infrastructure**
The private sector does not participate in the MSME sector as the proper infrastructure is not available or if available that is not of desirable level. If we want that in this sector private sector also participate or contribute then it is necessary that infrastructure should be improved on priority basis.
- IV. **Taxes and Regulation**
There are so many agencies which are regulating the MSMEs. They do so much inspection which leads to a larger impact on the operations of MSME than larger units.
- V. **Marketing**
Due to revolution or changes in the Information technology sector the MSME sector is protected by the shelter. To be in the market or to sustain the market they have to join hands with the companies of other countries to create a global commodity chain.
- VI. **Technology**
As the time is changing there is change in the technology, new equipments, machines are coming which involves high cost. If MSMEs

do not use the latest technologies then they will be behind in the race of competitiveness.

- VII. **Lack of Competitiveness**
Mostly, the MSMEs are located in the Industrial Estates set up many decades ago are functioning with urban areas or in unorganized manner in rural areas. To be competitive with the MNCs the MSMEs should have proper infrastructure (power, roads, water etc.), technology and skilled manpower.
- VIII. **Lack of Support**
The present mechanism available in India for MSME is archaic and does not focus on revival. In India the failure of business impacts individual creativity and development in the country. The government of India has started so many policies which favors business environment, which leads to business enterprises facing temporary disruptions to continue while others to close down speedily, with an appropriately structured social security base, is essential for the promotions of MSMEs.

In order to solve the above issues and challenges faced by MSME sector in India the government of India has introduced some of the new innovative instruments of Finance. The initiative taken by the government as follows:

- a) **Credit Guarantee Fund Trust for Small Industries**
To implement the guarantee scheme the government of India has started initiative with the SIDBI and set up a credit Guarantee Fund Trust for Small Industries,
- b) **Risk Sharing Facility**
The government has extended guarantee on loans above Rs. 2.5Million. Under a World Bank led project on financing and development of MSMEs, a possibility of introducing a risk sharing facility of the MSME sector is being examined, wherein risk in leading the banks to MSMEs could be shared on pari passu basis between the originating banks and the interested entity.
- c) **Venture Capital Funding**
As many countries have liberalized their rules regarding the venture capital, India has also liberalized their rules regarding venture capital. SIDBI with the

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help of other institutions are promoting venture capital funding in India.

d) Regulations

For MSME sector, government has provided overarching legislations in the form of Micro Small and Medium Enterprise Development (MSMED) Act, 2006 which regulate the issues concerning with labor, environment, urban and various taxation laws (both state and central). A friendlier environment will be created with the understanding of concerns, from all perspectives about regulation, labor and MSME.

5. FDI (FOREIGN DIRECT INVESTMENT) IN MSME SECTOR

Micro, Small and Medium Enterprises collectively account for the half of the country's annual industrial output, exports and employment. Under MSMED Government of India launched so many schemes which helps in growth of the sector and globally it will attract investments and on this 100% FDI (Foreign Direct Investment) inflows from 24% will be the golden spoon for the MSME sector.

FDI will strengthen the MSMEs capabilities to meet the procurement criteria. The new policies like the Public Procurement from MSMEs and the Defense Offset Policy will open new opportunities for MSMEs. To properly utilize these opportunities the MSMEs need to improve their production capacity and standards of quality. FDI in MSMEs will bring Management Expertise and new technologies which will automatically will lead to boom in MSME sector and employment opportunities will be generated.

As FDI will affect the MSME sector positively it can also impact this sector negatively. There is a fear that global players could leverage their financial and technological strengthens to put domestic players out of business. FDI Inflows can also increase the capital intensity of small businesses, leading to contraction of employment opportunities.

6. ERP IN MSME SECTOR

ERP (Enterprise Resource Planning) is an IT solution which helps in wide integration of businesses by providing faster and accurate information for decision making. ERP is considered as the cost of running the business and get connected to the other businesses. ERP has already entered into the manufacturing business (MRP II), (Davenport, 2000).

6.1 ERP and MSME

Every year, so many MSMEs start but out of those nearly 50% of total MSMEs exist in the first 3 years of business itself and only 40% survive beyond 10 years. The MSMEs do not think about the future they only think how to survive in present. When the MSMEs face problem then only they think about its solution. Generally, MSMEs do not do long term planning and moreover, they keep the track record of changes in the scenario of the market. Only those MSMEs are able to survive which are able to handle the risk and quickly respond to the changing environment.

6.2 Why MSMEs should go for ERP?

- Due to globalization and liberalization the MSMEs are working with international companies. These companies want the good system which can lead to tighter integration in the supply chain and production and delivery of products timely.
- Due to completion from peers the MSMEs have to adopt the same or better ERP system which their competitors are using to gain competitive advantage and to respond quickly to the changing market scenario than their competitors.
- ERP gives the new dimension to the business because it provides disciplined way of doing the business.
- With the right ERP System the MSMEs will be able to enhance their efficiency and productivity.
- Areas of Application of ERP System
 - SCM-Supply Chain Management
 - CRM-Customer Relationship Management
 - BI-Business Intelligence
 - PLC-Product Life Cycle
 - Product Data Management
 - Inventory and Warehouse Management

6.3 Issues and Challenges

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ERP has become the important tool for the success of any business but there are some issues and challenges that are related to ERP system when ERP is being implemented in the MSME sector. Some of the issues and challenges are as follows:

- 1) Less Awareness: The people related to MSME Sector know less about the ERP System. What exactly it is? How it is helpful?
- 2) Perception: MSMEs think that ERP system is meant for the large organizations as it involves high cost of acquisition, maintenance, and implementation. MSME think ERP system as a complex system. Moreover, MSMEs think they do not need ERP system.
- 3) Failure: MSMEs are afraid that if ERP system will not work properly, then there will be loss of money and delay in production and delivery.
- 4) Change Management: The main reason behind the failure of ERP system in many of the organizations is the people are not ready to accept the change or they do not want to change. The system is being put on the place but people do not change.
- 5) Limited Resource: MSMEs do not have their own good IT-Team due to which they have to rely on others (outsiders) which leads to adding on cost to the organization.

7. FUTURE OF MSMEs IN INDIA

The future of MSMEs in India is great in coming years. The GDP in MSME sector has shown the growth rate of 13% and by the year 2020 it is expected to reach to Rs. 205 trillion (US \$4.5trillion) Gross Domestic Savings are expected to reach to Rs. 72trillion by 2020 and due to increase in savings there will be growth in Domestic Consumption Expenditure. With in years to come there will be reduction in the population of deprived category from 133million households to 100 million households during this period. The consumption of products by middle class people and higher middle class from MSMEs are expected to reach to 60% by 2020.

8. CONCLUSION

In Indian Economy MSMEs contribute as a very important segment. MSMEs help in production system, employment generation, GDP, export, rural industrialization etc. MSMEs also promote and support innovation, creativity and flexibility

with the help of which MSMEs can face the dynamic environment of business. For the growth of MSMEs the government of India has liberalized the policies regarding MSMEs, policies have been made friendlier. The government is trying to improve infrastructure (road, water, power etc.), availability of finance and credit at lower and reasonable rates. MSMEs are also trying to adopt ERP System to be globally competitive. As MSMEs are contributing in economic development of the country, so it should be considered at equal recognition with the agriculture.

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