

# Initiatives for the Development Entrepreneurship in MSMEs

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**Abstract:** *Micro, Small and Medium Enterprises play a very important role in economic development and growth of a country. The present study is based on entrepreneurship development in the Micro, Small and Medium Enterprise (MSME) sector in India. In the beginning an overview of this sector will be presented which will highlight the significance of this sector. There has been major policy changes aimed to consolidate and develop this sector as adopted by the government. The MSME Development Act of 2006 is perhaps the most crucial of these recent policy changes. Some key legal and regulatory interventions that promote the MSME sector will be discussed.*

**Key Words:** *Enterprises, entrepreneurship, rural, urban, MSME,*

## 1. INTRODUCTION:

The liberalisation, in the beginning brought fear of death but later resulted in an explosion of new entrepreneurial interest in the country which later on supported by policy initiatives. The implementation of new economic policy in the country has been promoting entrepreneurship because it has assumed a more significant role in the economic development of India. (Sahay, A and Rai, S. K. 2004) Entrepreneurship is strongly linked to micro, small and medium sized enterprises (MSMEs), which are the main developing force of the developed market economies (Stefanovic et al. 2011). ). Micro, Small and Medium enterprises have more and more become recognized as an important factor in determining the dynamics of an economy. The health of this sector is very important for the overall economic strength of an economy. The MSME sector has often been termed as the ‘engine of growth’ for developing economies (Ravi, S. 2009). The small enterprise sector has continued to contribute greatly in creating jobs in large scale and helped reduce inter-regional and rural-urban disparities in growth (Das, K. 2008).

Micro, small and medium enterprises (MSMEs) can be defined in a number of ways, varying from country to country. In Indian context, micro, small and medium enterprises as per the **MSME Development Act, 2006** are defined on the basis of their investment in plant and machinery (for manufacturing enterprise) and on equipments for enterprises providing or rendering services.

According to the Micro, Small and Medium Enterprises (MSMEs) Development Act 2006, the classification of these enterprises are as:

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Less than Rs. 25 lakh	Less than Rs. 10 lakh
Small	Rs. 25 lakh to Rs. 5 crore	Rs. 10 lakh to Rs. 2 crore
Medium	Rs. 5crore to Rs. 10 crore	Rs. 2 crore to Rs. 5 crore

\* Investment limit in Plant & Machinery

\*\* Investment limit in equipments

In case of manufacturing sector the micro enterprises is that where the investment level is up to 25 lakh. A small enterprises is that in which the investment is more than 25 lakh and does not exceed 5 crore. The concept of Medium enterprise has not been recognized until 2006, the first time the Medium sector has been explained and the investment level for it is Rs. 5 to Rs. 10 crore for manufacturing and Rs. 2 to Rs. 5 crore is for service enterprises. In case of service providing enterprises, the investment level in the micro sector does not exceed 10 lakh, for small enterprises it is between 10 lakh to 2 crore. The investment level for medium sector is 2crore to5 crore.

The contribution of micro, small and medium enterprises (MSMEs) sector to manufacturing output, employment and exports of the country is very significant. The MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country. It is the second largest employer of human resources after agriculture in India. The contribution of this sector in employment was 732.17 lakh persons in 311.52 lakh units in 2010-11. In the same year the sector had a production and fixed investment of 1095758 crore and 773487 crore respectively. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6000 products ranging from traditional to high-tech items. Further this sector can be bifurcated into registered and unregistered sector. The size of registered sector is too small as compared to unregistered sector. In percentage terms this sector comprises 5.02% of the total MSME sector and 94.08% represents the unregistered sector. There are 15.64 lakhs units in registered sector and 295.88 lakhs units in unregistered sector.

Table: 2 Distributions of Registered Enterprises by Sector in Rural and Urban Areas

	Micro (In Lakh)	Small (In Lakh)	Medium (In Lakh)	Total (In Lakh)
Rural	6.87	0.19	0.01	7.07
Urban	7.98	0.57	0.02	8.57
All	14.85	0.76	0.03	15.64

**Source:** Annual Report, 2011-12. Ministry of Micro, Small and Medium Enterprises, [www.msme.gov.in](http://www.msme.gov.in)

In the registered sector the number of micro enterprises is maximum. It counts 14.8486 lakhs enterprises and represents 94.94 %. Similarly small and medium enterprises represent 0.7647 lakhs and 0.0265 lakhs with the 4.89 % and 0.17 % respectively. This sector is mainly comprised of small entrepreneurs, starts their enterprise with an investment up to 25 lakh in case of manufacturing and up to 10 lakhs in case of services. The 45 % of the enterprises in the registered sector i.e 7.07 lakhs are located in rural areas and the rest of the 8.57 lakes i.e. 55 % are located in urban areas.

Table:3 The distribution of Micro, Small and Medium Enterprises according to the nature of business activity(Registered sector)

Nature of activity	Number of enterprises (in lakh)	% Share
Manufacturing	10.50	67.10
Services	2.62	16.78
Repair and Maintenance	2.52	16.13
All	15.64	100

As we can infer from the table that registered MSME sector is clearly dominated by the manufacturing sector. The 67.10% of the enterprises in this sector are engaged in manufacturing, whereas 32.90 % of the enterprises are engaged in the services activities. The service sector also includes repairing and maintenance.

In a developing country like India, the entrepreneurship development is still lacking. Despite of the governmental efforts and initiatives, entrepreneurship is still lacking. Even though the government has been providing many opportunities to the individuals to become entrepreneurs, their number is still lacking as compared to the entrepreneurs in other countries. It may be true that the government policies have been benefiting entrepreneurs. Thus in the present study a brief of government policies has presented which in turn have been promoting entrepreneurship in MSMEs.

## 2. LITERATURE REVIEW:

Entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risk in terms of equity, time and career commitment or provide value for some product and services (Hisrich et al., 2008). It is a creative activity that involves innovation of products and techniques by keeping in mind the market and it is dynamic in nature because it keeps changing with the changing external environment. It is purposed to earn profits or bring a difference to the market in the long term (Kaplan, 2007). Moreover, it is a process by which societies, regions, organisations or individuals identify and pursue business opportunities to create wealth and raise their economic standard (George and Zahra, 2002). Entrepreneurship is a process of vision, change, and creation. It requires an application of resources towards the creation and implementation of new ideas and creative solutions (Kuratiko & Hodgetts 2004). In the librised business environment, the role of entrepreneurship extends beyond increasing income and profit, now is impacting the structure of the society and business. Entrepreneurship not only leads to development but also enhances the standard of living of the entrepreneur as well as the nation. (Sahay, A and Rai, S. K. 2004). Entrepreneurship has been playing a very important role in the economic development (Roman S. 2001) and acts as an engine of growth and wheel that pedal the vehicle of economic development (Josiane, C. 1998). It has been recognized because of its contribution in the area of job creation, revenue generation, poverty alleviation and wealth creation (Wennekers, S. and Thurik, R. 1999 and). In other words, entrepreneurship makes development possible and enhances the standard of living not only of the entrepreneur but also of the nation (Smallbone, D. and Welter, F. 2006). Entrepreneurship is strongly linked to micro, small and medium sized enterprises (MSMEs), which are the main developing forces of the developed economies (Stefanovic et al. 2011). Micro, Small and Medium enterprises have more and more become recognized as an important factor in determining the dynamics of an economy. The health of this sector is very important for the overall economic strength of an economy.

## 3. INITIATIVES FOR THE GROWTH AND PROMOTION OF MSME SECTOR:

The Growth and development of Micro, Small and Medium Enterprises needs to be supported by a unified fiscal support and enabling policies. Similarly, improving and enhancing the policy framework and motivating

financial institutions to innovate, can increase the penetration of formal financial services to this sector. The three main pillars are:

- (i) Legal and regulatory framework
- (ii) Government support
- (iii) Financial infrastructure support

#### **(i) Legal and regulatory framework**

The significant role of MSME sector in economic growth has initiated the government to formulate several policies to facilitate the growth of the sector and encourage participation by financial institutions. One of the key measures is the enactment of MSME development Act, 2006. The main features of this act are as:

- (a) The classification and definition of the micro, small and medium enterprise segments, and promotes and coordinated the development of policies for this sector.
- (b) The setting up of policy making and monitoring bodies' i.e. the National Board for Micro, Small and Medium Enterprises and MSME advisory Committee, which facilitate coordination and inter institutional linkages among various government bodies related to this sector.
- (c) The setting up of dedicated government funds to ensure the proper running of development schemes such as scheme for capacity building, financial assistance for bar-code etc.
- (d) This Act also has provisions to address the problems of delayed payments to MSMEs by large enterprises. The buyers have to make payments to the MSMEs on mutually agreed dates, and in case where dates are not specified or mentioned, the debtors are required to pay within 45 days. In case of delayed payments i.e. buyers are liable to pay compound interest on the payment amount.

*Source: IFC MSME Report-2012*

#### **(ii) Government Support**

The government recognized the importance of MSME sector and has implemented various schemes and funding facilities for the development of the sector. The key measures are:

- (a) Skill Development: To support the growth of technology-based enterprises, the government plans to set up incubators under the support and guidance of engineering and technology institutions by 2015. The services of MSME Development Institutes and technology incubators can be increased to provide hand-holding and advisory support to enterprises. This would provide confidence to financial institutions about the viability and growth of an enterprise.
- (b) Market Linkages: The government has implemented several policies to enhance market linkages of enterprises, ensuring better management of irregular revenue cycles. For this the government has appointed National Small Industries Corporation Limited (NSIC) as the key implementation agency.
- (c) Technology Adoption: The adoption of technology in this sector is low, which impacts the sector's competitiveness. In order to encourage enterprises to invest in the technology, the government also provides Credit-Linked Capital Subsidies (CLCS) for technology investments
- (d) Cluster Development: A cluster is a location-based agglomeration of micro, small and medium enterprises that are faced with similar opportunities and challenges. Clusters tend to provide an ecosystem support. The government has identified cluster development as a key approach to strengthen this sector. The government provides support for skill development, technological improvement and access to finance for specific clusters.
- (e) Finance Availability: The financial support is provided to the sector through the Small Industries Development Bank of India (SIDBI).

#### **(iii) Financial Infrastructure Support**

The financial institutions need the support of a financial support infrastructure to provide finance to this sector. It includes credit bureau, collateral registry, platform to settle nonperforming assets and platforms to raise equity etc.

- (a) Credit Bureau: The Credit Information Bureau Limited (CIBIL) is the leading credit information company in India. It is very helpful in managing the data and it is still in the growing phase.

*Source: IFC MSME Report-2012*

- (b) Asset Reconstruction Company for SME: The India SME Asset Reconstruction Company Limited (ISARC) has been promoted by SIDBI to assist commercial banks in managing liquidation of non-performing assets. The purpose of it is to minimize the cost of managing non-performing assets.

- (c) SME Stock Exchange: To facilitate the flow of equity capital to the small and medium enterprises, the government and the Securities and Exchange Board of India (SEBI) proposed the formation of the SME Stock Exchange.

*Source: IFC MSME Report-2012*

## **4. CONCLUSION**

In this study an overview of Micro Small and Medium Enterprise Sector has been presented. To strengthen this sector government has been taking major policy initiatives. The MSME Development Act of 2006 is the most crucial of these recent policy changes. Specific government policy interventions for the growth of entrepreneurship in the MSME have been discussed. The government has been playing a facilitator and has been improving access to finance by encouraging more banks and other financial institutions to enter the local market, instead of becoming an active player itself. The core competence of the government in certain roles, example creating a facilitating environment such as improved connectivity by roads, implementation of modern technology, credit flows to this sector etc. Continued empowerment of MSMEs will enable them to attain high and sustainable growth in the long-run and support the sector in terms of employment generation. The goal of full employment can only be achieved by the promotion of entrepreneurship. Entrepreneurship is the only way to create jobs.

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