



Volume: 2, Issue: 9, 688-691  
Sep 2015  
www.allsubjectjournal.com  
e-ISSN: 2349-4182  
p-ISSN: 2349-5979  
Impact Factor: 4.342

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## MSME's in India- An overview

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#### Abstract

Micro Small and Medium Scale Enterprises (MSME's) is one of the premier institutions for the growth and development of micro and small scale industrial unit in India. A Sustainable entrepreneurship is incomplete and inequitable without being given a standing ovation of the micro small and medium enterprises. It acts as engines of inclusive growth and development of small and medium entrepreneurs. It helps in innovation and development of the entrepreneurial foundation of the nation by supporting the enterprises through supply of the requirement and a range of components required for the productivity. In recent years manufacturing and service sector plays a vital role of any country and their economy by showing outstanding performance, in form of providing self employment and employment opportunities. Over a decade MSME's major contributories in the development of small and medium industries and entrepreneurs in particular. The present paper focuses an introductory aspect relating to MSME's in India and its organizational set-ups.

**Keywords:** *MSME's, Entrepreneurship, Employment, Growth, Development.*

#### 1. Introduction

Small scale industries are playing a vital role in providing employability, creating an opportunity and encouraging the ability of an individual in the innovative ways. It provides a basic platform to become entrepreneur. Employment and entrepreneurship needs basic requirements like infrastructure, facilities, assistance and support. The MSME's act as a incubator requires like a pre-matured baby caring in that way MSME's has taken the sole responsibility for growth and development of the new entrepreneurs. Micro and small industrial unit by providing the essential service and requirement and encourage the entrepreneurs make them stand on their own and provide the employment opportunity through the innovative skills and ideas. In the light of the above factors the Government of India is set up the exclusive institution for the growth and development of the small and micro enterprises.

#### Review of Literature

Rupali Sharma and Zia Afroz. (2014) <sup>[17]</sup>, they describe that the analysis the performance of MSMEs, opportunity through MSME's and contribution of MSME's in GDP and role of MSMEs, employment opportunity created by MSME's and contribution of MSME's entrepreneur ability and innovation also covers the classification of MSME's in India. Garg, Ishu. And Walia, Suraj. (2012) <sup>[16]</sup> confirms that the significant growth of MSMEs have been taken place over a period of time and this sector is the major donor to gross domestic product (GDP), employment and exports in Indian economy using the OLS technique. Singh *et al.* (2012) <sup>[9]</sup> analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

Subrahmanya Bala (2011) <sup>[3]</sup> has probed the impact of globalization on the exports potentials of the small enterprises. The study shows that share of SSI export in total export has increased in protection period but remain more or less stagnated during the liberalization period. However, the correlation co-efficient in liberalization period is higher than that of protection period suggesting that the relationship between the total export and SSI export has become stronger in liberalization period. This may be due to the drastic change in composition of SSI export items from traditional to non-traditional and growth in its contribution to total export through trading houses, export houses and subcontracting relation with large enterprises. Thus, the current policy of increasing competitiveness through infusion of improved technology, finance, and marketing techniques should be emphasized. Bhavani T.A. (2010) highlights the issue of quality

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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. Technological upgradation would enable the small firms to create quality employment improving remuneration, duration and skill. This structural shift may reduce the rate of employment generation in the short run but would ensure high-income employment generation in the long run. Sonia and Kansai Rajeev (2009)<sup>[2-14]</sup> studied the effects of globalization on Micro, Small and Medium Enterprises (MSMEs) during pre and post liberalization from 1973-74 to 2008-09. They used four economic parameters namely number of units, production, employment and export and interpreted study results based on Annual Average Growth Rate (AAGR) calculation. AAGR in pre liberalization period (1973-74 to 1989-90) was higher in all selected parameters than that of post liberalization period (1991-92 to 2007-08). They concluded that MSMEs failed to put up an impressive performance in post reform era. In 2009, Gyorgy Malovics, examine the structure differences of SMEs from large Companies should be considered in the relating empirical work and the social role and responsibility of SMEs can be understood in the light of Social Capital theory. Lakweetpun Suprawan 2009, examine how small to medium sized enterprise (SMEs) understood and implement CSR. They suggest that SMEs use different tool to communicate CSR-related message to different stakeholder group. This suggests that SME owners and managers should invest in the development of relationships with primary stakeholders if they wish to build a reputation for CSR. Bargal *et al.* (2009)<sup>[8]</sup> examined the causal relationship among the three variables GDP, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study found that the annual average growth rate of different parameters of SSIs have declined in the period of nineties vis-à-vis the pre-reform years. There is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.

Kansal *et al.* (2009)<sup>[14]</sup> in their study, an attempt has been made to analyze the impact of globalization on the growth of small scale industries. The comparative analysis of growth pattern of key parameters between Pre- and Post – Globalization periods reveals that the “globalization” had a negative impact on the growth of small scale sector measured in terms of number of units, production, employment and exports. It shows that globalization had a negative impact on the growth of SSI. Annual Report of MSME 2011-2012, gives the overall view of MSMEs with respect to its performance and growth in production, employment, export, number of industries, detail view of various schemes and of various departments of MSMEs. Annual Report of MSME 2012-2013, gives the overall view of MSMEs with respect to its performance and growth in production, employment, export, number of industries, detail view of various schemes and of various departments of MSMEs. Final Report of Fourth All India Census of MSME, gives a sound, accurate and comprehensive database of MSMEs for sound policy formation. Rathod, C. B. (2007)<sup>[6]</sup> described the importance of small scale industrial sector and also the contribution of Indian small scale entrepreneurs in world economy. The main objective of the study was to study the growth and pattern of the SSI sector and identify the reasons for success/ failures, to evaluate the impact of globalization on SSIs and export

opportunity, to identify the barriers and constraints that SSIs were facing to cope with globalization. UNIDO (1969)<sup>[7]</sup> in a study based on evidence from a number of developing countries indicated that small enterprises with a lower level of investment per worker tend to achieve a higher productivity of capital than do the larger, more capital intensive enterprises.

Sudan, F. K. (2005)<sup>[5]</sup> 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 labour force and offer exciting career opportunities. Bodla, B. S. (2004)<sup>[12]</sup> concluded that SSI has produced the maximum attainable output given the inputs of capital and labour and the available existing technology. It has also been observed that the SSI sector is no way less than its counterpart large scale industries in so far as the utilization of resources is concerned. Hashim, (2004)<sup>[13]</sup> has provided an insight into the strengths and weaknesses of small and medium-sized enterprises. It can also be concluded that there are certain weaknesses that prevail in SMEs and need to be removed. Hussain, V, Syed. (2004)<sup>[10]</sup> analyzed that to survive in the world market SSIs should have to lay greater emphasis on international standards with regard to quality, health and hygiene to be offered by them. Sahoo, K, Sukanta. (2004)<sup>[11]</sup> examined the contribution of SSI in the industrial sector and concluded that with the decline in agricultural employment and virtual stagnation in the organized manufacturing sector, employment in SSI sector has emerged as the only ray of hope. Tilley (2000) mentions that SMEs are not ‘little big firms’ and therefore such businesses are not always motivated by the same things as their larger counterparts. In addition to size, SMEs differ in their orientation to legal form, sector, national context, historical development and institutional structures (Spence 1999; Spence & Rutherford 2003). Whilst a common mistake in CSR studies is to compare entrepreneurial small firms with normal small firms (Spence 2007), SMEs are not always profit driven like other businesses (Goffee & Scase 1995).

### Need for the Study

By reviewing the previous studies so far done reveals that, many of the studies focused on the corporate social responsibility of MSME’s, few of the studies focused on the problems and prospects of micro, small and medium entrepreneurs, and on other areas. Therefore the present paper focus the attention on the introductory aspects, origin, growth and development of MSME’s in India in general and Karnataka state in particular, Hence the present paper titled as ‘MSME’s in India’-An Introduction.

### Objectives of the present paper

In view of the above present paper form a couple of specific objectives which are as presented below:

1. To study the origin and historical background of the MSME’s in India.
2. To Study and understand the organization set up of the MSMEs.

### Methodology of the study

To achieve the above objectives the study is based on the secondary data culled from various financial portals like

www.msme.gov.in, money-control, Google-finance, rediff.moneywiz, The Economic Times and other websites. The study is descriptive in nature and basing its workings on the data collected from the published financial statements.

**Origin and Historical background of MSME’s in India**

The evolution of the policy framework and support measures of the Government can be broadly grouped into three periods: From 1948 to 1991, 1991 to 1999 and 1999 onwards.

**1948-1991:** During this period recognition was given to the micro and small enterprises, termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skills. The Micro, Small and Medium Enterprises Development Organisation earlier known as Small Industries Development Organization (SIDO) was set up in 1954 as an apex body for sustained and organized growth of micro, small and medium enterprises. Within next two years, the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were also set up. The era provided the supportive measures that were required to care for MSME’s, in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the Priority Sector Lending Programme of commercial banks, excise exemption, reservation under the Government Purchase Programme and 15% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development. MSME – Development Institutes [earlier known as Small Industries Service Institute (SISI)] were set up all over India to train youth in skills/entrepreneurship. Tool Rooms were established with German and Danish assistance for providing technical services essential to MSEs as also for skill-training. At the State level, District Industries Centers were set up all over the country.

**1991-1999:** During this period, the new Policy for Small, Tiny and Village Enterprises laid the framework for government support in the context of liberalization, which sought to replace protection with competitiveness to infuse more vitality and growth to MSEs in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing Centers were set up for quality certification and new Tool Rooms as well as Sub-contracting Exchanges were established. The Small

Industries Development Bank of India (SIDBI) and a Technology Development and Modernization Fund were created to accelerate finance and technical services to the sector. A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs and an Industrial Infrastructure. Development (IID) scheme was launched to set mini industrial estates for small industries.

**1999 onwards:** During this period, the Ministry of MSME earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI)] came into being from 1999 to provide focused attention to the development and promotion of the sector. The new Policy Package announced in August, 2000 sought to address the persisting problems relating to credit, infrastructure, and technology and marketing more effectively. A Credit Linked Capital Subsidy Scheme was launched to encourage technology up gradation in the MSE sector and a Credit Guarantee Scheme was started to provide collateral-free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was raised to Rs.1 crore (\$0.25 million) and a Market Development Assistance Scheme for MSEs was introduced. At the same time, consultations were held with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year. In 2006, the long-awaited enactment for this sector finally became a reality with the passage of the Micro, Small and Medium Enterprises Act. In March, 2007, a third Package for the Promotion of Micro and Small Enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment, wherein to be competitive is the key of success.

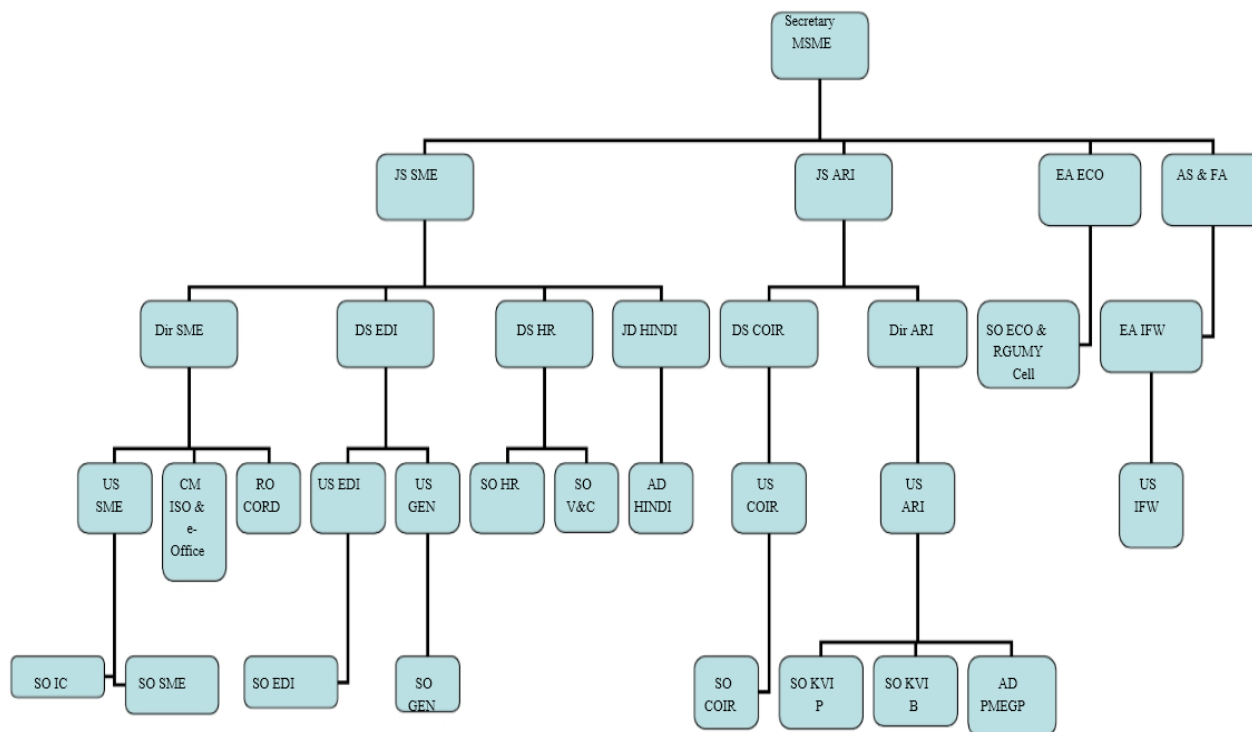
**Organisation set up of MSME’s**

MSME spread its arms all over the India in all the state and district likewise in Karnataka state also it operates the two development institutions are established in Karnataka State.

1. MSME –Development Institute, Industrial Estate, Rajajinagar, Bangalore: 560010
  - Branch. MSME -Development Institute, L-11 Yeyyadi Indl. Estate,Mangalore-57500
2. MSME -Development Institute, Industrial Estate, Gokul Road,Hubli-580030
  - Branch. MSME -Development Institute,C-1, Industrial Estate, Gulbarga - 585102

AS: Additional Secretary	FA: Financial Adviser	JS: Joint Secretary	EA: Economic Adviser	Dir: Director	DS: Deputy Secretary
JD: Joint Director	US: Under Secretary	CM: Chief Manager	AD; Assistant Director	SO: Section Officer	

**Organisation Chart of Ministry of Micro, Small and Medium Enterprises (MSME)**



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