

## INNOVATIONS AND CHALLENGES IN MSME SECTOR

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### ABSTRACT

*With India's vast cultural diversity, geographical expanse and entrepreneurial spirit, Micro, Small and Medium Enterprises (MSMEs) have always played a vital role in the growth of India's economy. Worldwide, MSMEs have been accepted as the engine of economic growth and for promoting equitable development. In India they play a pivotal role in the overall industrial economy of the country. Key factors contributing to the growth of MSMEs are cluster development, adaption of organizational culture and better understanding of financial aspects of the business. Formation of consortia, self support group and affiliation to the associations has started playing important role. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. The MSMEs 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. Technology improvement, skill improvement and access to capital and access to market are crucial factors. Healthy competition from global player and signing WTO's treaty opening local will drive innovation to this sector. It is time Indian MSMEs should explore global market and be competitive; Innovation will be the buzz word in the coming years. Innovation through modern Gandhian co-operation will definitely bring prosperity to India. The authors in this paper focus on the contributions made by the MSME sector to the overall development of the economy. The authors also focus on innovations in the MSME sector. The paper also focuses on the challenges and constraints in the MSME sector.*

**Keywords:** MSME, Innovation, Sustainability, Competitiveness

## Introduction

Indian MSMEs have a more positive outlook towards their growth and business prospects in contrast to most of their regional counterparts. However MSMEs in India, constitute more than 90 per cent of the total number of industrial enterprises and form the backbone of industrial development, but suffer from the problems of sub-optimal scale of operation and technological obsolescence. Indian MSMEs are facing tough competition from their global counterparts due to liberalization, change in manufacturing strategies, turbulent and uncertain market scenarios and the need to adopt certain strategies for growth. There is also an imminent need for MSMEs to innovate by thinking out-of-the-box and to develop products with unique differentiators. They also need to attract Venture Capitalists and Private Equity investors to get sufficient investments and enter markets where there are not too many players.

Innovation has always been the hallmark of Micro, Small and Medium Enterprises. Studies conducted by the US Department of Commerce, revealed that since World War II, 50% of all innovations and 95% of radical innovations, have come from new and smaller firms. The innovation process is seen as a cycle involving trial and error, where problems, at some stage of development lead to the need for re-evaluation of the earlier stage of the innovation process.

Although Indian MSMEs realize the importance of technological innovation, most of the Indian MSMEs still believe in importing technology, rather than developing it in-house or through/in association with, National Research and Development (R&D) centers. Indian MSMEs,

over the years, have largely ignored R&D requirements and have not embarked on new product development or technological up-gradation at the requisite pace. This is despite the fact, that India has the third largest pool of technologically trained manpower.

The growth rate for MSMEs has always been higher than the rate of growth of the industrial sector as a whole. To maintain the same momentum and to be competitive, they will increasingly need to learn and imbibe the process of innovation, in their day to day working.

## Objective of the study

- o To find out the contributions made by the MSME sector to the overall development of the economy.
- o To find the innovative schemes in the MSME sector.
- o To find the challenges and constraints in the MSME sector.

## Key highlights of the MSME Sector

- o MSMEs account for about 45% of India's manufacturing output.
- o MSMEs account for about 40% of India's total exports.
- o The sector is projected to employ about 73 mn people in more than 31 mn units spread across the country.
- o MSMEs manufacture more than 6,000 products ranging from traditional to high tech items.
- o For FY11, total production coming from MSME sector was projected at ` 10,957.6 bn, an increase of more than 11% over the previous year.

**Innovative Schemes in the MSME Sector**  
Driving innovation is a key challenge in MSME sector since most of them lack in having in-house R&D, designers and support from skilled professionals.

Entrepreneurship development and training is one of the key elements for the promotion of micro, small and medium enterprises. Some of the innovative schemes used in the MSME sector are:

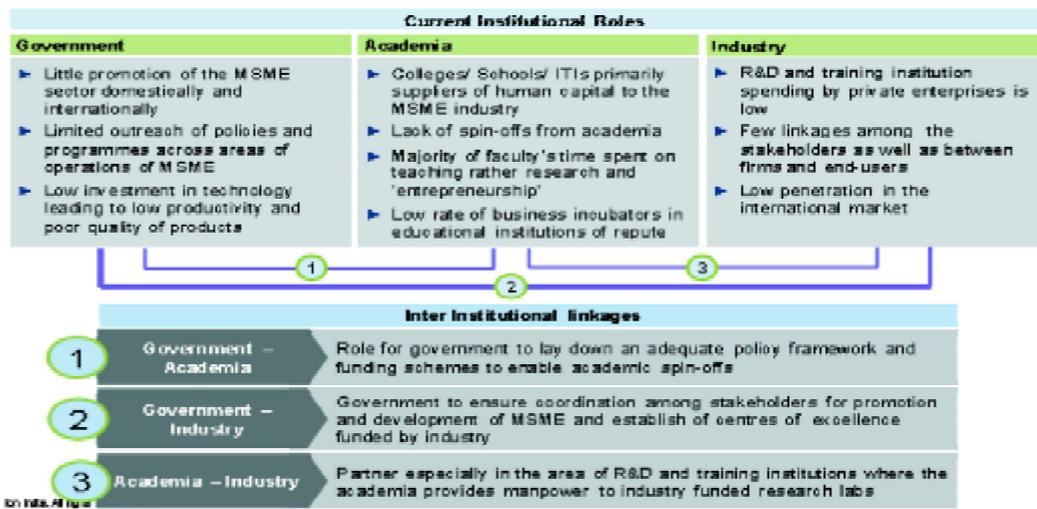
- o Marketing Assistance Scheme
- o International Cooperation Scheme
- o Design clinic Scheme

Key Challenges faced by the MSME Sector

- o Lack of availability of adequate and timely credit
- o High cost of credit
- o Collateral requirements
- o Limited access to equity capital

- o Procurement of raw material at a competitive cost
- o Problems of storage, designing, packaging and product display
- o Lack of access to global markets
- o Inadequate infrastructure facilities, including power, water, roads
- o Low technology levels and lack of access to modern technology
- o Lack of skilled manpower for manufacturing, services, marketing, etc
- o Multiplicity of labour laws and complicated procedures associated with compliance of such laws

### Key Constraints in the MSME Sector in India



A deeper analysis of the building blocks to creating and sustaining competitive advantage lead us to key constraints faced by the sector which reflect the key success factors. These are:

#### 1. Access to finance

The present domestic market conditions do not provide enough opportunities for the MSME sector for raising low cost funds. To

improve the flow of credit there is a need to provide low cost finance to the MSME sector, which has limited working capital and is dependent exclusively on finance from public sector banks. The cost of credit in the Indian MSME sector is higher than its international peers. A transparent credit rating system, simplification/ reduction in documentation for accessing finance, providing interest rate subvention to the MSME sector must be taken into consideration in order to maintain the growth of the MSME sector.

#### **2. Access to markets**

To withstand the onslaught of competition from large enterprises within and outside, MSMEs need to respond promptly to the evolving marketing needs and innovations. The sector needs to be provided better market access facilities in order to sustain and further enhance its contribution towards output, employment generation and exports. A published research has highlighted that a huge opportunity exists for SMBs to reach their desired financial goals by optimizing their web presence and capabilities. It additionally pointed out that since the majority of India's MSMEs, especially the small businesses, generate a large proportion of their revenue from the local market; they still rely on traditional media like telephone directories and newspapers to reach their customer base.

#### **3. Infrastructural bottlenecks**

Lack of proper infrastructural facilities can cause serious damages to an enterprise's

value chain process, like production, consumption and distribution of the products, Besides, lack of finance, inadequate marketing facilities, technological obsolescence, etc that are being already faced by MSMEs. There is a need for common infrastructure projects for MSMEs. MSMEs, through coming together and sharing the costs of infrastructure, which are otherwise prohibitive for individual MSMEs, could benefit from economies of scale, synergy and collective bargaining by collaborating with each other particularly on aspects of common infrastructure, common facilities, raw material procurement, marketing & transportation of finished goods, testing laboratory, common tooling/ machining, Research & Development etc.

#### **4. Access to people**

Human Resource is one of the most essential growth indicators for organizations today. Large firms who are targeting high growth rates scour the market for talent and MSMEs can never outplay large companies in terms of salary. The other challenge faced by MSMEs is to preserve the horizontal structure that was prevalent when they were young. As the organization grows, the cohesiveness present at the start slowly starts to fade away. MSMEs will need to ensure that they undertake effective HR planning and ensure that the plan supports a growth aspiration, be geared to increasing the firm's flexibility and responsiveness and help the company develop its change management

capabilities. However, there are certain challenges faced by MSMEs in achieving the above mentioned HR plan objectives. The key issues would be talent attraction, talent retention and competency & skill development.

#### 5. Technology and environment

The competitiveness of any economy depends on how efficiently all the resources in the process of production are utilized and how efficiently these are marketed, hence the entire chain of production has to be efficient. This means that the process of production has to be cost efficient and meets quality needs of the consumers. This improvement can come through the use of latest technology. Though India has a vast pool of technical talent with a well developed intellectual infrastructure, the country still scores low in the matter of developing and adapting new technologies in the MSME sector. The MSME sector today needs an effective information system to support and deliver information to different users. Such information systems will be used to provide effective interface between users and computer technology and will also provide information for managers on the day-to-day operations of the enterprises

#### Conclusion

Design driven strategic planning will help MSMEs in future to compete globally. Incoming flood of container loads of goods & "importing" mind set will convert to export oriented genuine global products &

services which are performing better than their expectations and will be affordable and available locally. The results suggest that perhaps the government should play a facilitator role and improve access to finance by encouraging more banks and other financial institutions to enter the local market, instead of becoming an active player itself. The results also suggest the core competence of the government in certain roles, example creating a facilitating environment such as improved connectivity by roads, railways and airways, improved availability of electricity and water supply. Design plays a strategic role in overall economy and will bring bright future in the coming years.

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