

## **MSMEs IN ECONOMIC DEVELOPMENT - A CASE STUDY OF SHIMOGGA AREA**

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### **ABSTRACT**

*Micro Small and Medium Enterprises (MSME) form the backbone of the Indian manufacturing sector and have become engine of economic growth in India. This paper closely analyses the growth and development of the Indian small scale sector from opening of the economy in last few years. Another part looks into the present scenario of MSMEs and the problems they phases like lending, marketing, license issues in detail. The Micro, Small and Medium Enterprises Act, 2006 is intended to boost the sector. The provisions of the Act are examined closely. The final part in this paper provides some future policy framework for the sustainability of the sector and analysis the facts on MSMEs.*

**Keywords:** MSMEs, India, Small and Medium Enterprises, The Micro, Small and Medium Enterprises Act, 2006

### **INTRODUCTION**

Micro Small Medium Enterprise (MSMEs) constitute over 90% of total enterprises in most of the economies and 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 and recession.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes

#### **Manufacturing Enterprises**

The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation Act, 1951). The Manufacturing Enterprise is defined in terms of investment in Plant & Machinery.

**Service Enterprises**

The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

| <b>MANUFACTURING SECTOR</b> |   |
|-----------------------------|---|
| <b>Enterprises</b>          | <b>Investment in Plant &amp; Machinery</b>                              |
| Micro Enterprises           | Does not exceed twenty five lakh rupees                                 |
| Small Enterprises           | More than twenty five lakh rupees but does not exceed five crore rupees |
| Medium Enterprises          | More than five crore rupees but does not exceed ten crore rupees        |

| <b>SERVICE SECTOR</b> |  |
|-----------------------|--|
| <b>Enterprises</b>    | <b>Investment in Equipment</b>                                   |
| Micro Enterprises     | Does not exceed ten lakh rupees                                  |
| Small Enterprises     | More than ten lakh rupees but does not exceed two crore rupees   |
| Medium Enterprises    | More than two crore rupees but does not exceed five crore rupees |

As per the quick estimates of 4th All-India Census of MSMEs, for reference year 2006-07 the number of enterprises is estimated to be about 26 million and these provide employment to an estimated 60 million persons. Of the 26 million MSMEs, only 1.5 million are in the registered segment while the remaining 24.5 million (94%) are in the unregistered segment. The state-wise distribution of MSMEs show that more than 55% of these enterprises are in 6 States, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka. Further, about 7% of MSMEs are owned by women and more than 94% of the MSMEs are proprietorships or partnerships.

MSMEs contribute 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of our exports. The labour and capital ratio in MSMEs and the overall growth in the MSMEs are much higher than in the

larger industries. The non-homogenous structure in terms of range of produce/service as well as size of industry adds to its dynamism. Thus, MSMEs are important for the national objectives of growth with equity and inclusion.

The MSME sector has slowly come into the limelight, with increased focus from government and other government institutions, corporate bodies and banks. It is viewed as one of the greatest agents of growth. Policy based changes, investments into the sector; globalization and India's robust economic growth have opened up several latent business opportunities for this sector.

The sector itself has also started taking itself seriously. Initiatives from within the sector to lobby for favorable policies and increasing credit flow are credible. The sector has also realized the need for technological and modernization initiatives. However with economic liberalization and changes in the trade policy, MSMEs have now started facing increased competition from foreign companies. There is a huge market out there where many other countries such as China, Korea, Thailand etc are well established. As global competitiveness

becomes intensive, MSMEs are transitioning to a new business environment with emergence of global supply chains. MSMEs form an integral part of almost every value chain and there is a symbiotic relationship between the large corporations and their relatively smaller sized suppliers. However in a liberalized world, the relationships between the suppliers and buyers are undergoing dynamic changes with dissolution of existing relationships and formation of new trade linkages that transcend the barriers of nationality and boundaries.

Even the domestic market is no more an insulated zone in a controlled economy; the competitive pressures of a free market economy are catching up in India. The domestic market has been flooded with many low cost, reasonable quality, bulk produced products giving tough competition to MSMEs. With the opening up of the economy, the MSMEs have to catch up with global standards of excellence in order to remain competitive and profitable. MSMEs are increasingly having to adapt to new standards in technology, quality and pricing to be able to survive in the marketplace.

To gain the competitive edge, enhance efficiency and manage communication, this sector is very seriously looking for ICT enablement. Small scale industries as of now because of their organization and structure face limited needs for ICT but the medium scale has started restructuring themselves to accommodate these changes. Possibility of international trade has forced many to build an online presence as well as building e-mail facilities. E-Commerce and enterprise management solutions are also been looked at by many.

## **METHODOLOGY**

### **OBJECTIVES OF THE STUDY**

- To understand the role of Micro, Small and Medium scale industries in the economic development of Shimogga district.
- To know the capital structural of the Micro, Small and Medium scale industrial units.
- To examine the employment, and output in Micro, Small and Medium scale industrial units.
- To suggest the policy measures for the exponential growth of Micro, Small and Medium scale industries.

### **NEED AND SCOPE OF THE STUDY**

The current study is mainly concerned to the Micro Small and Medium Scale Industries in Economic Development – A Case Study of Shimogga District. To know the current position of the small and medium scale enterprise in Shimogga and what are all the problems is there in the MSMEs in Shimogga. To find out the how MSMEs role in economic development of the country. The study is restricted to only in the area of Shimogga.

## **REVIEW OF LITERATURE**

Sudan, F. K. (2005) 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 labor force and offer exciting career opportunities.

Saxena.H.M. (2002) has studied the factors underlying the growth of marketing system as a result historic economic reforms and is linked to the growth of human civilization, specifically to the economic development population growth and inactive for urbanization. The study emphasized on understanding the behavior of the market participants the behavior of market participants due to market dynamics and concluded with a suggestion as to how the development of markets and their efficiency could be strategized.

J.M.Keynes(1936) identifies the forces that influences formulation of employment policy during industrialization. He propounds the theory of entrepreneurship that will offer the quantum of employment that can be created to maximize the output and profitability he further, stresses that the productivity of labors determinant factor of the level of employment.

### **STATEMENT OF THE PROBLEM**

Despite its strategic importance in any industrialization strategy, the opportunities that the Indian landscape presents and its immense potential for employment generation the MSME sector confronts several challenges. They face problems at every stage of their operation, whether it is buying of raw materials, manufacture of products, marketing of goods or raising of finance. Some of the challenges Indian MSMEs face have been discussed below:

- High cost of credit
- Limited access to equity capital
- Problems in supply to government departments and agencies
- Procurement of raw materials at a competitive cost
- Low technology levels and lack of access to modern technology
- Lack of skilled manpower for manufacturing, services, marketing, etc

### **RESEARCH METHODOLOGY**

In this study the researcher has took the micro, small and medium scale enterprises because so many members already done their research on only medium scale enterprises. So researcher will use the descriptive and analytical research methodology to better understand the nature of problem and uses interviews with MSMEs industries which are located in Shimogga city only.

#### **Sampling Size**

In Indian geographical area has very large number of population. It is very difficult to cover the all people of the country. So the survey shall include 50 respondent units from the geographical area of Shimogga, Karnataka.

#### **Instrument Technique**

In this research the questionnaire is the most important instrument for data collection. Most of all questions shall be the close ended in the questions which will be administered to respondents.

**ANALYSIS AND INTERPRETATION OF THE DATA****Ownership Pattern of The Unit**

| Si no | Ownership pattern   | Response |
|-------|---------------------|----------|
| 1.    | Sole proprietorship | 24       |
| 2.    | Private limited     | 45       |
| 3.    | Partnership firm    | 27       |
| 4.    | Public              | 4        |
| 5.    | Others              | 0        |
| 6.    | Total               | 100      |

**Source:** Primary Data

This table reveals that study area of Shimogga has most of private firms are participating by this we can see the organizations having the private owners. Partnership firm and sole proprietorship firm showing little bit equal participation. But the study area of Shimogga public organization is very less to other type organizations, so Shimogga area organizations having ownership pattern most of all is private limited.

The Table Showing Registered Organization Respondents

| Si no | Organization registered | Response |
|-------|-------------------------|----------|
| 1.    | YES                     | 100      |
| 2.    | NO                      | 0        |
| 3.    | Total                   | 100      |

**Source:** Primary Data

We can see that every organization has got the registration by the above data. The study area Shimogga District has various types of industries in that all industries has got registration which we have took to survey.

The table showing role your of organization is playing in economic development of Shimogga District

| Si no | Role of organization in economic development          | Yes | No |
|-------|---|-----|----|
| 1.    | Creating employment opportunity                       | 93  | 7  |
| 2.    | Enhancing standard of living of people                | 31  | 69 |
| 3.    | Contributing to development of social infrastructure  | 40  | 60 |
| 4.    | Social responsibilities for providing for common good | 24  | 76 |
| 5.    | Others Please Specify:                                | 9   | 91 |

**Source:** Primary Data

Above table reveals that in total Shimogga MSMEs playing role in economic development activity. That is first they are playing to create employment opportunity for unemployed educated people, the second role contributing to social development infrastructure. Enhancing standard of living of people and social responsibilities for providing for common good role is playing in economic development of Shimogga. So MSMEs provide better help to Shimogga people to develop their economic condition.

The table showing scale of operation organizations

| Si no | scale of operation | Response |
|-------|--------------------|----------|
| 1.    | Micro Level        | 24       |
| 2.    | Small scale        | 34       |
| 3.    | Medium scale       | 42       |
| 4.    | Total              | 100      |

**Source:** Primary Data

The scale of operation of organizations are more important, by verifying the above data the Shimogga having no of medium scale industries is high compare to other two types. The small scale industries is also playing their role in Shimogga in neutral but the micro level organizations role is very less compare to other two types in Shimogga industrialization. The medium scale organizations playing very important role in Shimogga area.

This table showing the level of investment from organizations capital structure

| Si no | level of investment by organizations capital structure | Response |
|-------|--|----------|
| 1.    | Up to 500000   | 21       |
| 2.    | 500000-2000000   | 10       |
| 3.    | 2000000-3000000  | 15       |
| 4.    | 3000000-4000000  | 12       |
| 5.    | 20000000 and above                                     | 42       |
| 6.    | Total  | 100      |

**Source:** Primary Data

The above table reveals that of investment pattern is most of all comes under the above 4000000 investment. By this we can know most of organizations are medium scale organizations. Up to 500000 investment organizations is also there that is micro level organizations is very less according to my survey. The investment 5000000-4000000 organizations are there that is small scale organizations.

The table is showing nature of manpower carry within organization (educational background)

| Si no | manpower carry with your organization | Response |
|-------|---------------------------------------|----------|
| 1.    | Post Graduates                        | 12       |
| 2.    | UG Graduates                          | 8        |
| 3.    | Pre University education              | 20       |
| 4.    | Up to SSLC                            | 23       |
| 5.    | Uneducated/ below SSLC                | 20       |
| 6.    | ITI/Dip                               | 17       |
| 7.    | Total                                 | 100      |

**Source:** Primary Data

According survey this table reveals Shimogga area MSMEs having variety of the manpower they are using to complete their organizations work. Most of all MSMEs using up to SSLC

people, PUC and Uneducated/ below SSLC people equally they carry. The PG people and UG people carry is very less compare to other. The technical people necessity is more that is Diploma and ITI people.

The table is showing nature of customers cater to

| Si no | Nature of customer   | YES | NO |
|-------|--|-----|----|
| 1.    | Local Customers  | 76  | 24 |
| 2.    | Domestic Customers   | 67  | 33 |
| 3.    | National Customers   | 50  | 50 |
| 4.    | International markets too                                      | 16  | 84 |
| 5.    | Consortiums and conglomerate agreements with the organizations | 2   | 98 |

**Source:** Primary Data

The above table that in Shimogga MSMEs having variety of customers that is local customer, Domestic, National Customers, International, consortiums and conglomerate agreements with the organizations by this activity they are having the relationship with other state and also the country. They are giving first preference to local customer then domestic customer and other type of customer having.

The table showing the financial patterns (investors) in your organization

| Si no | financial patterns                  | YES | NO |
|-------|-------------------------------------|-----|----|
| 1.    | Equity                              | 16  | 84 |
| 2.    | Promoters funds                     | 10  | 90 |
| 3.    | Cooperatives and indigenous bankers | 8   | 92 |
| 4.    | Government agencies                 | 84  | 16 |
| 5.    | Others Please Specify               | 12  | 88 |

**Source:** Primary Data

The above table that financial pattern of MSMEs of Shimogga area first is government agencies. By government agencies they taking financial help to run their business then next is equity source help they are taking. They less depending upon taking financial help by promoters fund and co-operative and indigenous bankers. And they also are depending upon various other private financial institutions.

How are the financial resources utilized from different sources

| Si no | financial resources utilized from different sources | YES | NO |
|-------|---|-----|----|
| 1.    | Business expansion                                  | 73  | 27 |
| 2.    | Long term capital requirement                       | 16  | 84 |
| 3.    | Working capital requirement                         | 71  | 29 |
| 4.    | Research and development                            | 14  | 86 |

**Source:** Primary Data

By verify this table the MSMEs taking financial help by various resources and they are spending that money most of all organizations for business expansion. The second is



working capital requirements and they less using that money to long term capital requirement research and development. By this we can know most of all organizations need various financial institutions help to expansion there business and day to day activities.

The below table is showing any problem of competition within the organization

| Si no | Problem of competition | Response |
|-------|------------------------|----------|
| 1.    | YES                    | 86       |
| 2.    | NO                     | 14       |
| 3.    | Total                  | 100      |

**Source:** Primary Data

Above table reveals that the all organizations except few companies have the competition problem. By this we can tell they are facing lots of problem by competition.

The below table showing the nature of the problem faced by organizations

| Si no | problem faced by organizations               | YES | NO |
|-------|--|-----|----|
| 1.    | Technology and innovations                   | 39  | 61 |
| 2.    | Poor customer responsiveness                 | 21  | 79 |
| 3.    | Customer loyalty                             | 12  | 88 |
| 4.    | Transportation and other logistical problems | 26  | 74 |
| 5.    | Availability of skilled manpower             | 53  | 47 |
| 6.    | Regulatory frameworks governing the industry | 17  | 83 |
| 7.    | Others please specify                        | 4   | 96 |

**Source:** Primary Data

The above table reveals that MSMEs are facing lots of problem by competition that first is availability of skilled manpower, technology and innovations problem also facing. Transportation and other logistical problems and Poor customer responsiveness problem is also but less compare to the above problem. Regulatory frameworks governing the industry is the problem by government and customer loyalty problem is also facing because competitor will attract the customer by using new technology with full fill the customer needs.

The below table showing the commonly faced problems by your industry

| Si no | problem faced by organizations              | YES | NO |
|-------|---|-----|----|
| 1.    | Problems with Employability of resources    | 82  | 18 |
| 2.    | Availability of Raw material                | 38  | 62 |
| 3.    | Government and regulations                  | 27  | 73 |
| 4.    | Water and power problem                     | 36  | 64 |
| 5.    | Lack of availability of Financial resources | 30  | 70 |
| 6.    | Marketing problem                           | 4   | 96 |
| 7.    | Transportation problem                      | 10  | 90 |
| 8.    | Technology problem                          | 14  | 86 |



According to survey conducted in Shimogga on MSMEs the most common facing Problems with Employability of resources. This is the first and foremost problem they are facing. Availability of raw material, government rule and regulations, water and power problem, lack of availability of financial resources these problems are facing by MSMEs in Shimogga area is common and marketing problem. Transportation problem, technology problem is also there but very less compare to other various problems.

The below table showing the immediate solution for the above problem

| Si no | immediate solution for the above problem       | YES | NO  |
|-------|--|-----|-----|
| 1.    | Required raw material                          | 52  | 48  |
| 2.    | Improvement and access to technology           | 24  | 76  |
| 3.    | Access to efficient information infrastructure | 18  | 82  |
| 4.    | Supply of skilled manpower                     | 66  | 34  |
| 5.    | Others please specify                          | 0   | 100 |

**Source:** Primary Data

Further the factors to be consider what are solution have to take by organization to remove their above problems is more availability of required raw material and Supply of skilled manpower because by this two factors only organization will run successfully. Improvement and access to technology and access to efficient information infrastructure is also the solution for their problem.

The table showing the important measures as per you would steer the growth of MSMEs

| Si no | Measures as per you would steer the growth of MSMEs | YES | NO |
|-------|---|-----|----|
| 1.    | Financial Assistance                                | 55  | 45 |
| 2.    | Government assistance                               | 43  | 67 |
| 3.    | Reducing tax deductions                             | 60  | 40 |
| 4.    | More availability of raw material                   | 50  | 50 |
| 5.    | Improve the technology                              | 33  | 67 |
| 6.    | Innovations   | 18  | 82 |
| 7.    | Improve the production capacity                     | 64  | 36 |
| 8.    | Fulfill employees incentives                        | 44  | 56 |

**Source:** Primary Data

The above table reveal that effective measure to growth of MSMEs by their opinion is improve the production capacity, Reducing tax deductions, Financial assistance, More availability of raw material, Fulfill employees incentives, Government assistance, Improve the technology, Innovations these are all the measures they need to growth of MSMEs but first is Improve the production capacity, Financial assistance, More availability of raw material is more important factors to develop the MSMEs.

## CONCLUSION

I have done my research in Shimogga area on MSMEs in economic development. The study area Shimogga has various MSMEs to improve the economic condition of the country. The MSMEs role is most important in Shimogga area to improve the life style of people and

these MSMEs also having social development activity. MSMEs are providing employment opportunity to unemployed people. MSMEs having the relationship with other country to sell their product by this activity Shimogga got good identity.

Now day's MSMEs are facing lots of problem because of various reasons that may be finance, employees, technology, innovation problems etc. MSMEs having the social development activity to improve the present economic condition of the Shimogga area. The role of MSMEs in economic development is first and foremost thing is providing employment opportunity to unemployed people.

The study area Shimogga is very comfortable to open more MSMEs because of this area is having required and enough raw materials to related industries and this area having comfortable marketing. According to my survey the marketing, transportation, innovation and tax problem is less compare to other industrial areas like Bangalore etc.

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