



OUR HERITAGE

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Small and Medium Enterprises - Opportunities and challenges

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Abstract:

Small businesses are an integral part of the industrial system. They play a critical role in economic development. The ability of small firms to grow depends largely on the economic condition of the country where they operate. SMEs plays a crucial responsibility in boosting the financial expansion in every countries especially in meeting up with the challenges and demand of the current world's wide business environment. The study confirms that the significant growth of SMEs which push the Gross Domestic Product (GDP), employment and exports in Indian economy.

Economic liberalization has become almost a global movement. Liberalization and globalization of country economy have brought in their wake serious challenges for the Indian industry, especially the SME. A time has come when industry has to upgrade itself to face global players in domestic market, not to talk of the competitors abroad. The biggest challenge before Small Scale Industry (SSI) is not only to survive but also to grow and compete on a sustainable basis. This paper analyzes the performance of Small Scale Industry in India and focus on policy changes which have opened new opportunities for this sector. Technology development and strengthening of financial infrastructure is needed to boost SSI and thus growth target can be achieved.

KEYWORDS: *Small and Medium-Size Enterprises (SMEs), Liberalization, Globalization.*

Introduction

The small scale industrial sector is the second largest which uses human resources after the agricultural sector in our country. It covers a wide spectrum of industries categorized under small, tiny and cottage segments. Migrating people from agriculture to industry and further to services should be the strategy for a sustainable growth and development of nation. Given the great potential of small and medium sized enterprises to bring about social and economic development. Small and medium sized enterprises in both developing and developed countries plays important roles in the process of industrialization and economic growth. The strategic importance of SMEs has been identified as the following:

- They are responsible for growing employment at a faster rate than larger organizations
- They increase the competitive intensity of the market and reduce the monopolistic positions of large organizations
- They encourage the development of entrepreneurial skills and innovation.



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Starting in the late 70s and early 80s SMEs started to become more innovative and were flexible in terms of reducing costs. Due to the increases in education levels, business skills and reduction in job security, entrepreneurial activities increase worldwide. Most of the foreign countries are realizing the fact that SMEs contribute a major portion of the country's GDP and economic activity and they hold an important place and get the similar effects. One of the most important roles of SMEs in this context includes poverty alleviation through job creation.

The SME sector itself can be classified into micro enterprises, small enterprises and medium enterprises. However, SMEs have their significant effect on the income distribution, tax revenue, and employment, efficient utilization of resources and stability of family income.

Literature Review

Bala Subrahmanya (2004) he suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

Dixit and Pandey (2011) applied co integration analysis to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private). Their study revealed the positive causality between SMEs output and India's GDP.

Singh et al. (2012) analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

Venkatesh and Muthiah (2012) found that the role of small & medium enterprises (SMEs) in the industrial sector is growing rapidly and they have become a thrust area for future growth. They emphasized that nurturing SME sector is essential for the economic well-being of the nation. The above literature highlights the various aspects viz. performance, growth & problems of SMEs in Indian economy and induces for continuous research in this field.

Methodology

The study is based upon secondary information collected from various annual reports of MSME and SSI, different issues of economic survey published by government of India, books and journals.

Objective of the Study

- 1) To examine the challenges before the SME of India.
- 2) To know the advantages of small business over large companies.



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- 3) To study the concession and Reliefs given by government.

Advantages of Small Business over Larger Companies

- 4) “When life hands you lemons, make lemonade”. The same philosophy can be applied creatively by small business owners to take advantage of the financial conditions and possible slow down in their businesses. Sometimes it pays to be small. Owner might not realize it, but small business has several advantages over larger companies during a downturn. Like
 - Flexibility: Big companies move slowly, small business can adapt to new trends and market developments more quickly. Its often easier for small for small firms to alter their business strategy and even change direction. Smaller scale enables to quickly review and revamp business plan and adapt to changes in market conditions including exploiting new sales channels.
 - Financial Control: It’s usually less problematic for small businesses to reduce outgoings and cut costs. Even something as basic as switching off lights and machinery to reduce energy bills is more easily managed in a small organization. But it’s easier, too, to move to smaller premises and even to operate with a more flexible workforce.
 - Rapid response: the chances are owners are closer to customers than the managing Director of a big company. Businessmen can gauge their mood more swiftly and find out what they really want. This enables to make quick, accurate decisions about the measures required to retain customers.
 - Access to support there is great deal of government support, the new small Business Finance Scheme. Bigger firms don’t have such transparent, easily accessible and even handed support.

By making the most of these strengths they can increase chances of surviving the year ahead.

Challenges before Small Scale Industries

The small and medium scale enterprises are suffered with many severe problems, which are mainly depending on the level of economic and social development of the country.

- High interest rate: Even the institution meant for SME sector like NSIC are charging higher rate of interest than commercial banks. Compared to international rate the rate of interest in India is very high.
- Lack of power: Electricity is also one of the inputs whose tariff is having wide disparity among the states and shows the same phenomena when compared with foreign countries, which ultimately escalates the end product cost. Now the quality of power is very poor and unreliable.



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- Finance: The credit flow to the small scale industry has not been satisfactory right from the beginning. Notwithstanding the priority sector lending directives from the RBI, the SME sector suffered from getting the required capital. This has multiplied several fold after liberalization and globalization.
- Globalization but no co-ordination: Even though we have already entered into globalization, there is no uniformity in taxation, implementation of laws, distribution of raw material, availability of infrastructure etc. southern states are more affected.
- Poor technology and lack of management skill: To face competition from overseas markets, SME sector needs to upgrade its technology and management skill it cannot compete with its competitors in the globalize market.
- High cost of raw material: In order to survive the challenges of globalization quality products are to be produced at international standards at competitive costs. But the cost of raw materials is high in India compared to other countries. When there is no restriction for the import of finished products, the raw material should also be available at international prices without restrictions.

Major initiatives taken by the Government

- 1) Implementation of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006
- 2) A “Package for Promotion of Micro and Small Enterprises” was announced in February 2007. This includes measures addressing concerns of credit, fiscal support, cluster-based development, infrastructure, technology, and marketing. Capacity building of MSME Associations and support to women entrepreneurs are the other important features of this package.
- 3) To make the Credit Guarantee Scheme more attractive, the following modifications have been made:
 - a) Enhancing eligible loan limit from Rs. 25 lakh to Rs. 50 lakh;
 - b) Raising the extent of guarantee cover from 75 per cent to 80 per cent for
 - i) Micro enterprises for loans up to Rs. 5 lakh,
 - ii) MSEs operated or owned by women and
 - iii) all loans in the North-East Region;
 - c) Reducing one-time guarantee fee from 1.5 per cent to 0.75 per cent for all loans in the North-East Region.



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Concessions and Reliefs by the Central Government

Central Government facilitates the decentralization of economic power by encouraging prospective entrepreneurs to take up industrial ventures and assist in the dispersal of industries over the country. They facilitated the transformation of a traditional technology, which characterized by low skill, low productivity and low wages into a modern technology, which is

Characterized by improved skills, high productivity, rising wages and a higher standard of living. Some of the important measures of assistance available for the entrepreneurs in the industrial sector are:

- Technical Assistance through industrial extension service, Assistance for obtaining raw materials, Supply of machinery on hire-purchase basis.
- Marketing assistance, Assistance to small entrepreneurs, Technology assistance.

In addition to the above, the central government is operating three major schemes namely central investment subsidy scheme, transport subsidy scheme and central assistance scheme for infrastructure development in no-industry districts.

Conclusions

Globalization creates an impression of bringing together the people from different concerns of the world. But in reality it widens the gap between the more powerful countries and the less development countries and the rich and the poor within the country. We can say that Small and Medium Enterprises (SMEs) have emerged as an engine of growth in Indian economy. They have emerged as a dynamic component of the economy by virtue of their significant contribution to GDP, industrial production and exports. To face the competition in the long run, the SME sector needs to improve its productivity and quality, reduce costs (given the higher qualities) and innovate.

Government should play a vital role by giving them favorable environment and creating favorable policies which lead to success of entrepreneurship i.e. easiness to get business permit, funding scheme from government. Now the world environment is rapidly changing due to technological change so businesses and manufacturers should be more innovative and creative in delivering product and service. Entrepreneurs should adapt new technology system in their business. Government should start training program at free of cost especially for small entrepreneurs. It is necessary for the enhancement of small entrepreneur's skill. By taking careful decisions, one can overcome the negative shades of the bottleneck



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competition and can expect better future for small and medium scale enterprises.

In nutshell SMEs plays vital role in creation of employment opportunities & wealth of nation. Balance regional development will be possible only after the sufficient growth of small scale units in the rural backward and no industry districts and states in India.

Mobilization of resources in the form of capital purchases of raw material, sales and marketing of SSI products will require continuous and plant efforts from concerned financial and Government authorities. There should be co-ordination in different agencies such as District Industry Sector (DIS), Small Industry Development of Bank of India (SIDBI), Western Maharashtra Development Corporation (WMDC), Maharashtra Industries Development Corporation (MIDC), Marketing Information Training Consulting (MITCON), and State Industrial & Investment Corporation of Maharashtra (SICOM) Maharashtra Agro Industries Development Corporation (MAIDC) etc.

For providing seed capital and the required resources for the smooth functioning of SSI units Single Window concept must be implemented at every district level. Local resources, skilled and unskilled labour force along with sufficient infrastructure and incentives are necessary for the growth of SMEs. Stable Government policies and proper training is necessary for the development of entrepreneurship in SMEs. Scientific principle methods and techniques of management must be introduced and effectively implemented to have proper role of SMEs in future economic development.

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