Micro, Small and Medium Enterprises (MSMEs) in Delhi: Problems and Prospects

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Abstract: Micro, Small and Medium Enterprises (MSMEs) are key to accelerate the pace of economic and social development. They play a significant role in the economic growth of the country owing to their contribution to production, employment and exports. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. Delhi has emerged as one of the biggest centers of MSMEs in the country. Over the years Delhi has evolved the role of a facilitator in the development of the industries in the NCT. This paper focuses on the problems and prospects of MSMEs in Delhi. Though this sector has been struggling with various problems in the field of finance, technology, infrastructure, marketing, labor etc still it has the potential to play a significant role in the emergence of the Indian economy. A survey has been conducted to study the problems of entrepreneurs of Delhi and consequently some measures have been suggested for better and effective environment for MSMEs.

Keywords: MSMEs, Problems, Prospects, Measures

INTRODUCTION:

In India, Micro, Small and Medium Enterprises (MSMEs) are very large in numbers, diverse in type of business and are spread all over the country. This sector has come up as a dynamic and strong sector of the Indian economy. The labor intensity of this sector is much higher than that of the large enterprises. It plays important role in providing employment opportunities at comparatively lower capital cost than large industries and helps in industrialization of rural & backward areas as well, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. Overall, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent of exports [3]. While most of the sector is unorganized. There are approximately 36 million Micro, Small and Medium Enterprise sector enterprises across various industries, employing 80.5 million people [1].

The National Capital Territory of Delhi has emerged as one of the biggest centers of MSMEs in the country. It has recorded a rapid growth in production, exports and employment. This Sector has a proven vast potential to play a leading role in the overall development of the national economy. The government of Delhi has evolved over the years the role of a facilitator in the development of the industries in the NCT of Delhi [7]. The mission is to promote, encourage and develop environment friendly MSMEs in Delhi. In Delhi there are 0.55 million MSMEs employing about 2 million people [1]. Today, this sector produces a variety of products, from simple consumer goods to high-precision, sophisticated finished products. It has emerged as a major supplier of mass consumption goods as well as a producer of electronic and electrical equipment. An impetus to the sector is likely to have a multiplier impact on economic growth.

PRESENT DEFINITION OF MSME: -

As per MSMED Act- 2006, Micro, small and medium enterprises are defined based on their investment in plant and machinery for manufacturing enterprises and on equipment for enterprises providing or rendering services [14]. The present ceilings on investment for enterprises to be classified MSMEs are as follows:

(i) 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 are defined in terms of investment in Plant & Machinery.

(ii) Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment [4].

Table-1- Investment Ceilings for Micro, Small and Medium Enterprises

<table>
<thead>
<tr>
<th>Classification</th>
<th>Manufacturing Enterprises*</th>
<th>Service Enterprises**</th>
</tr>
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<tbody>
<tr>
<td>Micro</td>
<td>Rs. 2.5 million / Rs. 25 lakh</td>
<td>Rs. 1 million / Rs. 10 lakh</td>
</tr>
<tr>
<td>Small</td>
<td>Rs.50 million / Rs. 5 crore</td>
<td>Rs. 20 million / Rs 2 crore</td>
</tr>
<tr>
<td>Medium</td>
<td>Rs 100 million / Rs 10 crore</td>
<td>Rs. 50 million / Rs 5 crore</td>
</tr>
</tbody>
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* Investment limit in Plant & Machinery ** Investment limit in equipment

Objectives:
- To analyze the problems of MSMEs in Delhi.
- To examine the prospects of MSMEs in the development.
- To suggest the measures for better and conducive environment for MSMEs.

Methodology: The technique used for data collection is one on one interview of select owners of MSMEs in Delhi. The data is collected through structured questionnaire from 100 entrepreneurs. Individual responses obtained are compiled, processed and analyzed to arrive at the opinions on various issues. In addition to primary data the secondary data has been collected from industry reports, articles published in journals and dailies, books and websites.

PROBLEMS OF MSMEs

Financing: -
Finance has been one of the major hurdles of the entrepreneurs who are persons of small means and require short term, medium term and long term finances to meet their business obligations. Small units, as is well known, are not exclusively and not even mainly dependent on Government assistance. These small units are not in a position to offer the guarantee required by the banking sector. Even when small loans can be raised from Government agencies, the procedure is so cumbersome that most of the entrepreneurs, who are either illiterate or semiliterate, hesitate to make use of these facilities. This fact is supported by the Moga study conducted under the supervision of Mr. V.S. Mahajan. The finding of the study is that almost all the 300 and odd small units engaged in the production of agricultural implements were started with the entrepreneurs’ own funds and with funds borrowed from relatives and friends, and that the nationalized banking sector and State Financial Corporations have contributed precious little. If only the bureaucracy were helpful, a major problem of the small industrialist would be solved.

Outdated Technology: -
The problem of technology is the case of all industries. To affect economy and efficiency in production, the use of latest techniques and improved tools is highly essential. The growth of MSMEs in India has not been very satisfactory despite the various provisions for its promotion in the Industrial Policy of the country. In general MSMEs lack in accessing technology due to many reasons, it is one of the major handicaps of this sector, which alone can ensure quality, and high rate of productivity [13]. The small industrialist, therefore, should keep himself abreast of developments in technology, so as to survive in the market, improving the quality of his products, lowering the cost of production. Unless he updates the technology, he may soon find himself squeezed out of business. It is even advisable for the small entrepreneur to give a lead in research and development, which may not always be very expensive [2].

Marketing: -
Marketing is one of the important problems for small-scale industries. The many problems which they face in marketing their products are lack of standardization, ignorance of manufacturers about the export market and the method and procedure of export, poor designing, poor quality, lack of advertising at national and international level, poor bargaining power, absence of marketing research, competition etc. Because of weak financial base, a small industrialist cannot afford to spend as heavily as a large unit does on marketing his products.

Quality of the Product: -
It is essential for the firms that quality products be produced at reasonable prices. A reasonable price is one, which is welcomed by general consuming community, and the firm is able to sell out its products without much difficulty. So concentration should be on the production of high quality products rather than producing large quantity of inferior products. The inferior quality of goods produced in MSMEs is due to certain reasons like non-availability of good quality of raw materials at reasonable rates, lesser capital outlay, easy selling of goods in market, inappropriate use of modern technology [9].

Tough Competition:-
In new era of production, MSMEs face tough competition from the large domestic firms and multinationals firms, who are equipped with financial strength, managerial ability, skilled workers, improved technology, marketing skills, better product quality and wide range of products. Moreover frequent cases of merger and acquisition have made it difficult for the small firms to maintain their existence.

Delayed Payments: -
One of the most difficult problems of the small industrialist today is recoveries from sales. They face serious financial difficulty in as much as a large number of the total MSMEs catering to large industries face the problem of late payments of their bills by the latter. This is as per the report by RBI committee [10]. The financial assistance availed of by the small unit with great difficulty from a bank is taken advantage of by its customers, who do not pay their dues in time. The bank may, if at all, extend further assistance; but this assistance, after all, is not limitless.

Accommodation/Infrastructure: -
The provision of adequate factory accommodation had been one of the most important problems limiting the
development of modern MSMEs. In this connection the problem of the entrepreneurs is twofold; firstly, they hesitate to lock up a large proportion of their capital in the construction of factory building and secondly, they face difficulty in the acquisition of land at suitable place. Banks and other financial institutions have not shed their traditional attachment to liquidity and safety of resources. The choice of location, and getting water and power connections, also call for a great deal of effort on his part. It is not easy to decide on location, for the choice involves consideration of the availability of labour and the proximity of markets. Once the location chosen, one has to go ahead to select and purchase a plot of land and construct a shed or to take it on rent or on ownership basis. The MSMEs producing beverages, tobacco products, medicines etc face the problem of inadequate water supply. As per the study conducted by Keshab Das and Sebastian Morris (2001), out of 1063 surveyed firms, 716 firms (more than sixty-seven percent) confessed that they have serious infrastructural problems [8].

Scarcity of Raw Materials:

The non-availability of raw materials in sufficient quantities has been one of the main problems of small-scale industries. Because of their smallness and weak financial position, MSMEs have to utilize the services of middlemen to get raw material on credit. Such an arrangement, however, results in higher costs and in particularly disadvantageous when raw material are imported, for the profit margins of middlemen are rather high [6]. Their meager resources induce small industrialists to use cheap and inferior materials, which naturally affect the quality of their finished products. Moreover, the irregular supply of certain raw materials adversely affects their production programmes.

Inefficient Labour:

Owing to the illiteracy, ignorance and the out of date methods of the workers, there is inefficient human factor. The entrepreneurial abilities of the promoters of cottage and MSMEs are handicapped by the lack of technical knowhow on the areas of production, finance, accounting and marketing management. Handling labour, which is a major contributor to industrial production, is one of the most difficult tasks of the industrialist because of the human element involved in it. One has to keep abreast of the maze of labour laws, keep changing from time to time. Labour today is fully aware of its rights. It has, therefore, to be handled with patience and understanding. It is very important, therefore, to evolve a code of conduct for trade unionists to protect the interests of labour as well as of employers; this will add to the general prosperity and wellbeing of both.

Faulty Planning:

One of the major problems is faulty planning and inadequate appraisal of projects. No proper viability studies, technical or economic, are carried out before units are sponsored. Even when detailed project reports are prepared, inexperienced entrepreneurs may “build” sickness into their units from the conception stage itself. They may opt for an improper location, employ inadequately experienced consultants, choose improper technology, under-estimate the fixed and operational costs involved in the manufacture of their products, and embark on a project without a proper market survey.

Development of Designs:

Design is of basic importance in any production. It is the design, which gives identity to the object. The consumers are always in search of new designs and therefore, it becomes essential that development of designs given due weight by the entrepreneurs in any scheme for the development of small scale and cottage industries. The government has set up schools of designs to evolve new designs to cater the needs of small scale producers for meeting the diverse and varied tastes of the consumers. However, the school of designs needs to have better liaison with the marketing organization.

POTENTIALS IN MSMES

Equality in Distribution of Income:

Large-scale industries give rise to the problem of inequality of income as the income concentrates in the hand of industrialists. In case of MSMEs there remains lesser amount with the owner after paying wages to workers, interest on capital and rent of land. So income is more equitably distributed.

Mobilization of Savings:

These industries can be started with small capital even on cooperative basis. It can be proprietorship or partnership. Persons desirous of establishing these industries save their income and also mobilize savings from other members of the society [11]. These industries provide an incentive to the weaker section of the society to form these industries with their small savings.

Employment with lower degree of Skill:

MSMEs are labor intensive and have great employment generation potential. They have simple technology and do not require high degree of technical skill. These industries can be operated even by persons of ordinary skill, leading to significant contribution in employment generation and expanding industrial network in rural areas. The employment can increase to manifolds, if this sector gets support in terms of infusion of technology, capital and innovative marketing techniques etc.

Individual Tastes and Personalized Services:

Small firms are quick in studying changes in tastes and fashions of consumers and in adjusting the production process and production accordingly. By doing that they satisfy the consumers on one side and on other side, it is also necessary for their survival.

Flow of foreign investment and technology:
Recently many foreign companies have tied up with Indian MSMEs and helped them to use better technology, product design, labor and managerial skill. This collaboration between the Indian and foreign companies can help small firms to develop technology base through research & development activities and sort out the problem of finance to the large extent [12].

**Export contribution:**
Some Indian products like gems and jewellery, carpets, handicrafts, readymade garments, woolen garments and knitwear, leather products have excellent demand in the foreign market. These products can generate good foreign currency useful for the development. As per the results of fourth MSME census this sector has registered an export earning of Rs 202017 crores [5].

**Survey Analysis:**

- The survey includes 61% sole proprietorship firms, 27% partnership and 12% private company.
- As per the investigation 82% of the firms have been established after 1980.
- In regard to monthly income most of the entrepreneurs, i.e. 48% earn between Rs.50000 – Rs.100000, followed by 34% entrepreneurs in the group of 100000-200000, 12% in More than 200000. Only 6% entrepreneurs earn less than 50000.
- The qualification of entrepreneurs reveals that surprisingly most of the entrepreneurs (51%) have less than matric education, almost 1/4th (27%) are graduates, 7% have completed schooling and just 5% entrepreneurs have technical Qualification. It shows that entrepreneurs are not highly educated.
- Finance is one of the major problems faced by the entrepreneurs as result shows 52% of entrepreneurs admit to face the problems in getting finance.
- The investigation finds out that 30% producers have taken financial assistance from commercial banks, 20% from financial institutions while surprisingly half of them i.e. 50% have managed the finance themselves.
- The major problem of getting finance is a lengthy procedure as experienced by the entrepreneurs i.e. 39%. The other problems faced by them are providing guarantee i.e. 33.3% and indifferent attitude of officers i.e. 22.2% respectively.
- 3/4th of the firms (75%) sell their product themselves while 1/4th of them (25%) take help of mediators.
- Almost 1/4th of the firms (24%) advertise their products while majority of them (76%) refrain themselves from that. they are not interested in increasing their marketing.
- The survey shows that the government does not assist the entrepreneurs in selling the products as 97% of them reply of selling the products on their own whereas meager 3% take marketing assistance from the government.
- On the question of export 70% of producers admit to sell the products in local market as the products are not generally standardized and suffer from design and quality and 30% of them managed to deliver their products in the foreign markets.
- Most of the firms i.e. 81% get raw material easily while 19% have to face the problems in acquiring the raw material.
- A large no. of firms sell their products to wholesalers i.e. 48%, then to retailers i.e. 27% and consumers share being 25%.
- The nature of technology used is mostly indigenous i.e. 87% whereas imported technology utilization is 13%.
- The technology is upgraded by 81% entrepreneurs time to time and rest of them i.e. 19% rely on the same technology.
- Majority of the entrepreneurs i.e. 87% are satisfied with the existing technology while 13% show their displeasure in the utilization of the technology.
- On the issue of installation of machinery 68% firms do not face any problem whereas 33% have to depend on others for this task.
- They also do not take any help for appropriate technology.
- The survey also reveals that most of the entrepreneurs i.e. 83% haven’t attended the Entrepreneurship Development Programs (EDPs) and only 17% of them have attended the EDPs.
- Out of the entrepreneurs, who have attended the Entrepreneurship Development Programs (EDPs), 64% admit to get the benefit whereas 36% don’t find the EDPs of much use.
- The investigation reveals that 61% firms recruit only trained employees and 39% of them have no problem in recruiting the crude employees.
- In regard to providing training to the employees, findings show that 70% firms provide training to their employees as and when required while 30% don’t concentrate in this area.
- The entrepreneurs’ major problem regarding employees is turnover i.e. 72% as the wages paid to employees are not sufficient. 24% entrepreneurs complain of absenteeism and only 4% of them face other problems.
CONCLUSION AND RECOMMENDATION:

Micro, small and Medium Enterprises (MSMEs) sector is one of the most vibrant and sensitive sectors in Indian economy. The significance of Micro, small and Medium Enterprises (MSMEs) is attributable to its capacity of employment generation, use of traditional skill, use of local resources, mobilization of resources and products. Though this sector has been struggling with various problems in the field of finance, technology, infrastructure, marketing, labor etc. still it has the potential to play a significant role in the emergence of the Indian economy. At present, Indian economy is on the fulcrum of an ever rising growth curve with positive indicators such as a stable annual growth, rising foreign exchange reserves and a booming capital market. The role of this segment is very important to meet the national imperatives of financial inclusion and generation of employment across the country. The following measures have been recommended for improved and conducive environment for the MSMEs.

- Entrepreneur should be encouraged to attend the EDPs as survey reveals that most of the entrepreneurs have got benefits from these.
- The procedure of taking loan is lengthy and cumbersome; it should be made simple, transparent and less time consuming so that the producers can take the proper advantage.
- Government should come forward to assist the entrepreneurs in selling product so that they may fetch good price which is the encouragement for them.
- Entrepreneurs should be educated regarding the existing facilities/support system available and the procedure to avail those facilities to get the maximum advantage.
- Both the government and non-government organizations should take initiative in the upliftment of the technology so that the entrepreneurs should compete the international market.
- Adequate incentives should be offered to labor to control the problem of high turnover. Proper system of employees’ maintenance should be adopted to discourage the habit of absenteeism.
- Government should take concrete steps to control the prevailing corruption practices in the market especially the prices and availability of raw material.

REFERENCES: