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CAN INDIAN MSMEs SUSTAIN IN THE GLOBALISED WORLD?



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ABSTRACT:

Prof. Gunnar Myrdal has rightly described the relationship of industrialization and economic development where he observes that, "the manufacturing industry represents, in a sense, a higher stage of production in advanced countries. The development of manufacturing has been associated with these countries spectacular economic progress and rise in levels of living." Industrialization is an effective means for solving the problems of economic and social progress in developing countries of the world. Entrepreneurship is

indispensible to accelerate the industrial growth. The MSMEs are an effective means for the development of entrepreneurship. This sector is a only solution to the problems of poverty, inequalities, unemployment, over population in modern world. MSMEs have been accepted as engine of growth for promoting equitable development .The MSMEs also have the vital role in dispersal of industries and generation of employment opportunities. The distribution of MSMEs all over India is not equal because of unavailability of raw material, unawareness or lack of entrepreneurial skill development, and lack of support of financial and technical assistance from concerning local authorities at district or state and central level, lack of modern technology, no research and innovations, complex labor laws are the main problems of the MSMEs. Migration of rural youths can be stopped. The present research article attempted to find out the problems and difficulties involved in overall development of MSMEs. Researcher tried to establish the positive relationship between MSMEs & economic growth with special reference to Indian Economy.

KEYWORDS

Economic Growth, MSMEs, employment, credit facilities, investments, distributions, etc.,

INTRODUCTION

"The true India is to be found not in its few cities, but in its seven hundred thousand villages. If the villages perish, India will perish too."

Mahatma Gandhi

Today's world economy correctly called as a "Knowledge-Based Economy" with knowledge being the most important resource and learning being the most important process. A knowledge economy is not about accumulating information, but using knowledge to improve performance. It is, therefore essential not only for developed but also developing countries including India to foster innovation, especially at the firm level, since firms, not countries, are the ones that have to compete internationally. Industrialization is an effective means for solving the problems of economic and social progress in developing countries of the world. MSMEs are considered as the engine for growth of an economy. It is the important source of goods and services at affordable prices as well as contributes significantly in job creation. The MSMEs are an effective means for the development of entrepreneurship. This sector is an only solution to the problems of poverty, inequalities, unemployment, over population in modern world. The present research article attempted to find out the problems and difficulties involved in overall development of MSMEs. Researcher tried to establish the positive relationship between MSMEs & economic growth with special reference to Indian Economy.

Key Concepts: Economic Growth, MSMEs, Employment, Credit facilities, Investments, Distributions, Developing countries.

OBJECTIVE OF THE STUDY:

- To analyse the present status of MSME'S in India
- To understand the problems and solutions related to MSME'S.
- To evaluate critically the contributions made by the MSMEs to bring the balanced growth of the Indian Economy.
- To focus the prospectus of MSME'S in the development of Indian economy.

Scope of the study:

The scope of the present study has been confined to the contributions made by the MSMEs to the Indian economy during the era of planning particularly in the post reform period.

Research Methodology:

The data for the present study have been collected from various secondary sources especially from the annual report published by Ministry of Micro, Small and Medium Enterprises for various years.

Hypothesis:

- MSMEs contribute lofty share in the total National Income.
- The growth of MSMEs will help the country to redress the problem of unemployment particularly the

over populated country like India.

- The MSMEs may help the country to earn handsome amount of foreign exchange reserves.
- The MSMEs can contribute to bring a balanced regional development.

Micro, Small and Medium Enterprises (MSME):

MSME Sector consists of any enterprise, whether proprietorship, Hindu undivided family, association of persons, cooperative society, partnership or undertaking or any other legal entity, by whatever name called, engaged in production of goods pertaining to any industry specified in the first schedule of Industry Development & Regulation Act, 1951 and other enterprises engaged in production and rendering services, subject to limiting factor of investment in plant and machinery and equipments respectively as noted below:

Classification of Manufacturing Enterprises

Classification	Manufacturing Enterprises	Service Enterprises
Micro	Rs. 2.5 million / Rs. 25 lakh	Rs. 1 million / Rs. 10 lakh
Small	Rs. 50 million / Rs. 5 crore	Rs. 20 million / Rs. 2 crore
Medium	Rs. 100 million / Rs. 10 crore	Rs. 50 million / Rs. 5 crore

I. For manufacturing sector, an enterprise is classified as:

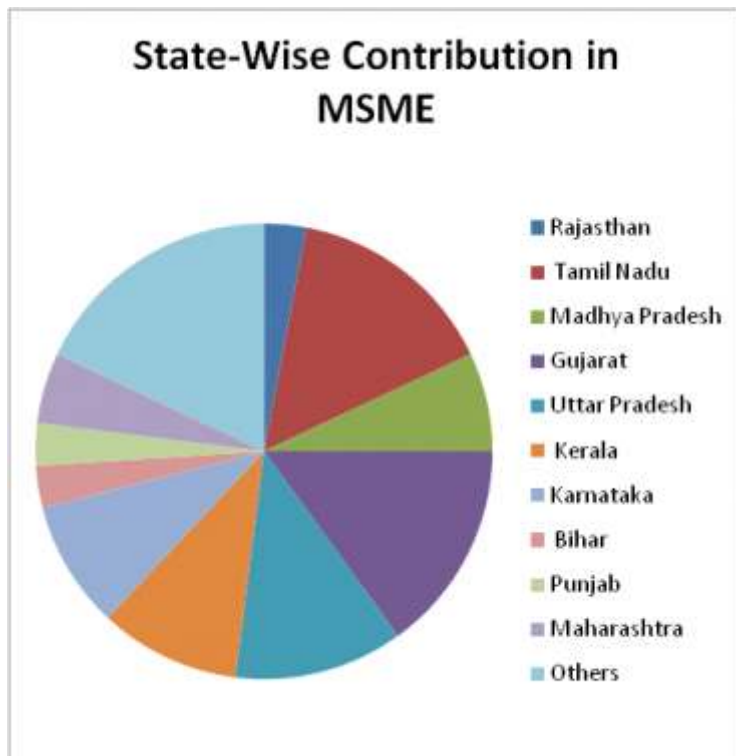
- Micro enterprise, if investment in plant and machinery does not exceed twenty five lakh rupees;
- Small enterprise, if investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees; or
- Medium enterprise, if investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;

II. In case, enterprise is engaged in providing or rendering of services, it is classified as:

- Micro enterprise, if investment in equipment does not exceed ten lakh rupees;
- Small enterprise, if investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or
- Medium enterprise, if investment in equipment is more than two crore rupees but does not exceed five crore rupees.

State-Wise Contribution in MSME

Rajasthan	3%
Tamil Nadu	15%
Madhya Pradesh	7%
Gujarat	15%
Uttar Pradesh	12%
Kerala	10%
Karnataka	9%
Bihar	3%
Punjab	3%
Maharashtra	5%
Others	18%



SOURCE: Government of India, MSME Annual Report of 2012-13

The leading industries with their respective shares as well as state-wise contribution in MSME are as depicted above. The major contribution comes from Apparel & Food Products and Beverages followed by Fabricated Metal Products and Repair and maintenance of household goods. Gujarat (15%) and Tamil Nadu (15%) are major states in which MSMEs are operating and MSMEs are to be found in the states like Punjab, Bihar and Rajasthan (3%).

Trends in Growth of MSME Sector:

The Micro, Small and Medium enterprises (MSMEs) play a fundamental role in the overall industrial economy of India. MSMEs constitute more than 80% of the total number of industrial enterprises and support industrial development. MSMEs contribute nearly 45% to manufacturing and about 40% to the Indian export sector. Their contribution to the Indian GDP is 8% and the sector has registered growth rate of 10.8%. Indian MSMEs have moved up from the manufacture of traditional goods including leather, gems and jewelry, agricultural goods to much more value addition in the manufacturing sector to its entry in the value added services as well.

Presently MSME sector in India contributes to 45% of industrial output, 40% of Indian exports and employs 60 million people creating 1.3 million jobs each year. The sector is worth \$5 billion and is growing at 8%. More than 8000 products are produced by 13 million MSME units (According to the ministry of MSME). The enterprises are expected to grow 20% year on year with 90% of the industrial units presently belonging to the sector.

This growth can be attributed the fact that these units need comparatively lower investment and some of them are also backed by local and foreign funding. Review of the list of items reserved for exclusive manufacture in the MSME sector is a continuous process and it has been brought down from 842 in 1991 to 21 in 2008, according to Press Information Bureau, Government of India.

According to the press release of 2010 by the government, the government has already announced a 'Policy Package for stepping up credit to Micro, Small and Medium Enterprises (MSMEs)' which will facilitate public sector bank to fix their own targets for funding of MSMEs in order to achieve a minimum of 20% year on year growth in credit to the MSME sector.

The present scenario of MSMEs in India, however give a constant hope for the future as they have become capable enough to acquire companies from outside India. Today, local manufacturers and suppliers are turning into global auto manufacturers and builders. Government is also supporting these industries by loosening their policies and providing them with various subsidies and special economic zones to set up their units. The perception of banks and other financial institutions towards MSMEs has also changed during the last few years. Increasing competition in private lending has pressurized the banks to give loans to their prime customers who are small time manufacturers and producers. Micro financing has become a huge success.

In India many financial institutions are getting into this business owing to its popularity. The major advantage for owners of MSMEs in the market is that they sell products at low cost and provide credit opportunities to buyers; moreover, they make personal contacts with the buyers who become their loyal customers owing to this flexible buying option. In this regard many initiatives are also taken by the Government to promote marketing by small and medium enterprises.

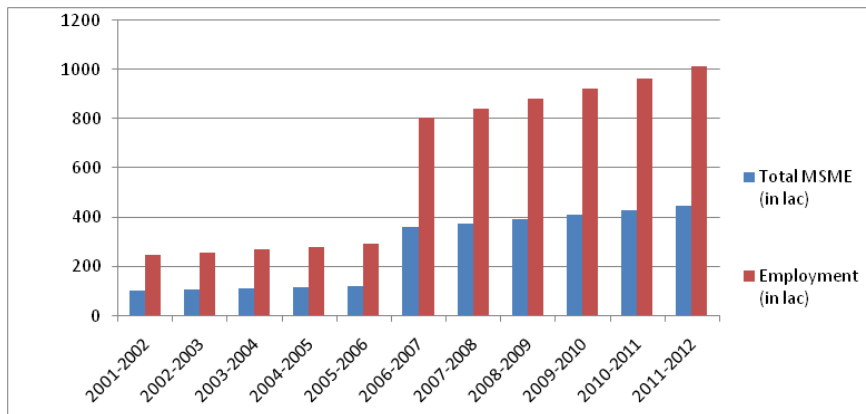
Different Trends:

Year	Total MSME (in lac)	Employment (in lac)	Fixed Investment (in crores)	Production (in Crores)
2001-2002	105.21	249.33	154349	282270
2002-2003	109.49	260.21	162317	314850
2003-2004	113.95	271.42	170219	364547
2004-2005	118.59	282.57	178699	429796
2005-2006	123.42	294.91	188113	497842
2006-2007	361.07	805.23	868583	1351383
2007-2008	377.37	842.23	917437	1435179
2008-2009	393.70	881.14	971407	1524234
2009-2010	410.82	922.19	1029331	1619355
2010-2011	428.77	965.69	1094893	1721553
2011-2012	447.73	1012.59	1176939	1834332
CAGR	15.58%	15.04%	22.53%	20.58%

SOURCE: Government of India, MSME Annual Report of 2012-13

On the basis of the above table we can draw the following observations

1. Contribution of MSMEs in Generating Employment Opportunities:

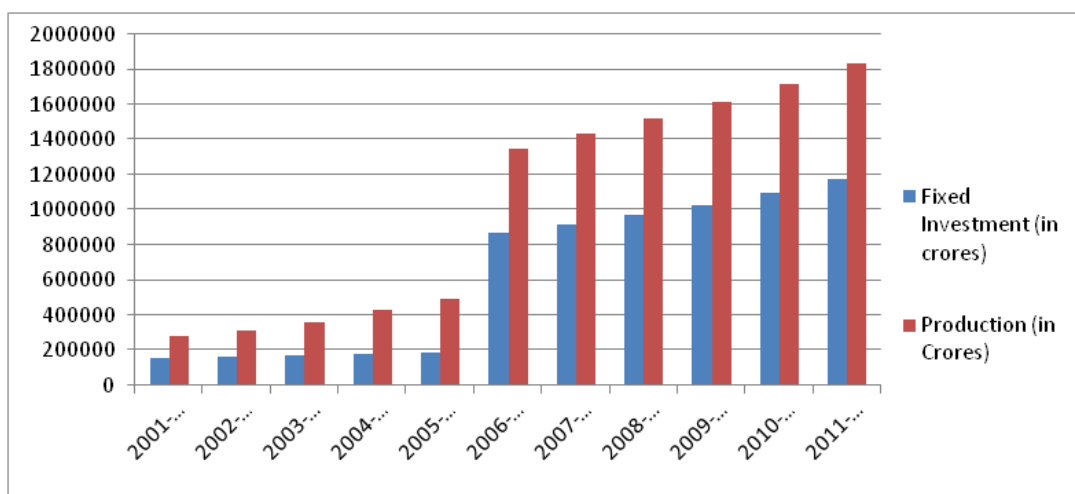


SOURCE: Government of India, MSME Annual Report of 2012-13

Employment opportunities are one among the important variables of economic growth of a country. Now a day, the Arab world is facing the problems created by its unemployed unrest people. No economy can economically sustain unless and until it provide lively-hood to its local people. Traditionally the MSMEs are labour intensive and alleviating unemployment problems to a great extent. Indian MSME sector is the second largest employment generator next to agricultural sector. It employs about 101 million people and creates 4 million employment opportunities a year.

The number of MSMEs has been increasing steadily. In 2001-02 there were only 105.21 lakh units, but it increased multi folded by 2011- 2012 and reached to 447.73 units which shows CGAR by 15.58%. This change might be the result of conducive policy environment during the liberalization era. As MSMEs, generally are labour intensive, employment generation always follows the increase in the number of units. It seems to be a boon to rural people as MSMEs do not demand highly skilled employees and semi skilled and even unskilled people can be employed in such units. The total volume of employment was 249.33 lakh in 2001-02 and reached to 1012.59 lakh in 2011-12 which shows CGAR by 15.4%. The above plotted graph clearly shows that increase in number of units of MSMEs always followed by an increase in the employment generation.

2. Contribution of Investment and Production:



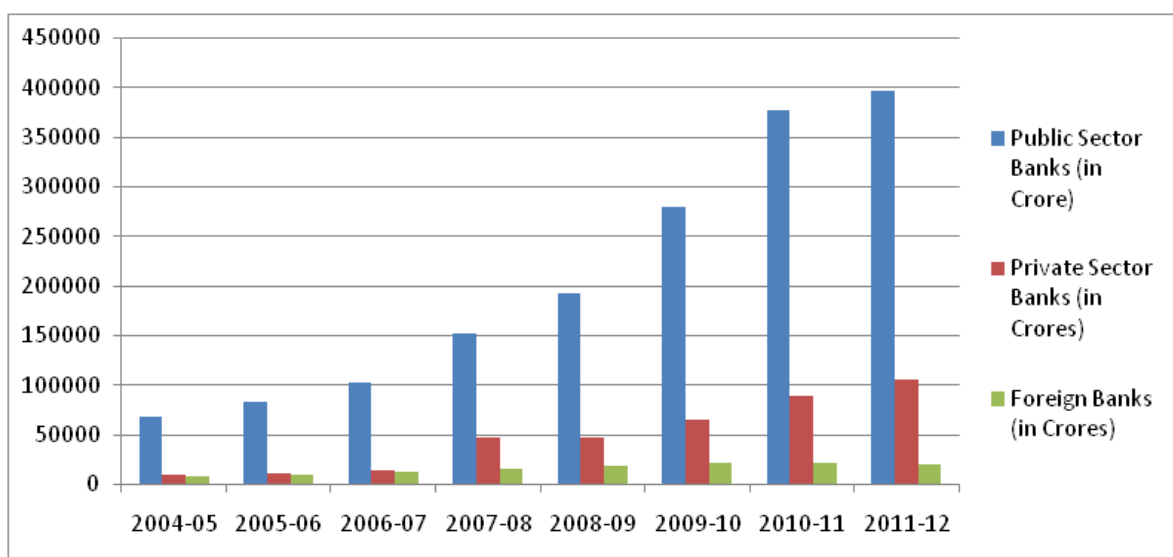
SOURCE: Government of India, MSME Annual Report of 2012-13

The total production of MSME sector is showing increasing trend. We can read it from the graph given above. The graph depicts that investment in Fixed investments in the MSME sector was only Rs. 154349 crores during the year 2001-02 and this increased to 1176939 crores in 2011-12 which shows CAGR of 22.53%. During the year 2011-12 total production by the MSMEs reached to Rs.1834332 crores which it was only Rs.282270 crores in the year 2001-02, and shows CGAR by 20.58% re-iterating the substantial contribution of the MSMEs to the Indian economy.

3.Trends of Bank Credit Deployment by MSMEs

Year	Public Sector Banks (In Crore)	Private Sector Banks (In Crore)	Foreign Banks (In Crore)
2004-05	67800	8592	6907
2005-06	82434	10421	8430
2006-07	102550	13136	11637
2007-08	151137	46912	15489
2008-09	191408	46656	18063
2009-10	278398	64534	21069
2010-11	376625	87857	21461
2011-12	395976	105085	19839
CAGR	28.67	43.00	16.27

SOURCE: Government of India, MSME Annual Report of 2012-13



SOURCE: Government of India, MSME Annual Report of 2012-13

On the basis of the above graph and table it is crystal clear that the contribution of bank credit by public sector said to be lofty in comparison to private sector and foreign banks. During the year 2004-05 the total credit given by public sector banks was Rs. 67800 crores which increase to Rs. 3,95,976 crores during the year 2011-12 with a CAGR 28.67%, During the same period private sector banks contribution was Rs. 8592 crores which rose to Rs. 105085 crores with a CAGR of 43%. And the bank credit by foreign banks was Rs. 6907 crores during the year which rose to Rs. 19839 crores with a CAGR by 16.27%.

4. Contribution of MSME to GDP:

MSME sector is a major contributor to nation's GDP. MSME sector constitutes an inevitable portion of GDP and hence it needs attention of the policy makers. The statistics show that the contribution of MSME to GDP is ever increasing. The percentage share of MSMEs in the nation's GDP over the years. It has managed to increase from 5.8 percent 2004-05 to 8.72 percent in 2008-09.

5. Contribution of MSMEs in Exports:-

When we talk about country's export, it is noticeable that MSME contribute 40 percent of the total export. The current account deficits (CAD) have been subjected to hot debate during the third and fourth quarter of 2012 -13 financial years. The alarming decline in the CAD can be, to a great extent, arrested by promoting the MSME sector though CAD is influenced by many other variables like economic turndown. The data show that the MSME always showing an increasing trend in the contribution to the total export of the country. It has an increase from Rs. 71244 crores in 2001-02 to Rs. 202017 crores in 2007-08.

MSMEs are, at present, operating in wide variety of sectors such as manufacturing, trade and services and there by constitute a formidable component of country's industrial production. Over the year MSMEs reached at a level on the optimum utilization of available domestic resources and produces quality products and services. The sector contributes much to the industrial growth of the country. The sector account for more than 90 of the percent Industrial units in India and it has been increasing impressively for last many years. MSMEs had an impact on various issues of the economy such as industrial progress, entrepreneurship, job creation, economic empowerment etc. MSMEs made possible an inclusive and balanced growth. Around 50% MSMEs are owned by rural people and hence increases the standard of living of people. As per the MSME Annual Report of FY 12 published by Ministry of Micro, Small and Medium Enterprises MSME contribute 45% of the total manufacturing output. MSME experiencing a significant increase in investment flows. The fixed investment in MSME is ever increasing. It is very clear that around 50 percent of total industrial production is constituted by MSME. Now the sector has been in transition from traditional products to much more hybrid product and to the value added service segment. This transition made possible by the consortium of approach of MSMEs. With the advent of the industrial clusters, MSMEs started to achieve benefit of economies of scale, specialization and innovation. These clusters enable the single units to get the benefits of both advantages of running small units as well as the benefits of economies of scale, and specialization. At present, there are more than 600 MSME industrial clusters and 7000 micro enterprise clusters in India. Some of these clusters are very large in size which account for around 80% of products of selected areas. The network benefited the sector in many ways such as enabling to get advanced technologies, to adopt better supply chain, to withstand global competition, to overcome clusters given access to better production technique and which enable the entrepreneur to introduce innovative products and services. Thus the entrepreneur could enter new segments which remain untapped. There is numerous success stories of MSMEs have been recorded in India. Many industrial zones are coming together to reap the benefits of being together. The MSMEs contributed significantly to the Indian economy. This is a direct indication of the efforts focused on this sector to integrate the workforce with technological enhancements to increase production. In order to understand the impact of MSMEs on the Indian Economy one must study the trend and pattern that has been prevalent in the preceding years.

The Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in the economic and social development of the country, often acting as a nursery of entrepreneurship. MSMEs are the

driving force behind a large number of innovations and contribute to the National growth through employment generation, investments and exports. The MSME sector contributes significantly to the country's manufacturing output, employment and exports and is credited with generating the highest employment growth as well as accounting for a major share of industrial production and export. Key highlights of the MSME Sector:

- MSMEs account for about 40% of India's manufacturing output.
- MSMEs account for about 40% of India's total exports.
- The sector employs about 101 million people in more than 44 million units spread across the country providing 70% of the employment opportunities.
- MSMEs manufacture more than 8,000 products ranging from traditional to high tech items.

The reason for growth of this sector is;

- ✦ Lower capital requirement as most of the units are labour intensive.
- ✦ Both central and state governments sponsored various training programmes for skilled and unskilled workers.
- ✦ Overall growth in the economy increases the demand for goods and services globally as well as domestically.
- ✦ Ancillary units are the backbone for the growth of big industries. Growth in demand for large manufacturing units ultimately helps to grow the MSMEs.
- ✦ Advancement in technology contributed significantly in the growth of this sector.

Challenges to MSME Sector

Despite its commendable contribution to the Nation's economy, MSME Sector does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporate, which is making the sector less competitive in the National and International Markets. MSMEs faces a number of problems - absence of adequate and timely banking finance, limited capital and knowledge, non-availability of suitable technology, low production capacity, ineffective marketing strategy, identification of new markets, constraints on modernization & expansions, non availability of highly skilled labour at affordable cost, follow up with various government agencies to resolve problems etc. Some of the major hurdles faced by the MSME Sector are mentioned below.

- **Availability of Finance:** To receive timely and adequate finance at agreeable conditions is a tedious and cumbersome exercise for both established as well as budding MSMEs. According to the Indian government survey, 90% of the total micro units in India procure funds from friends, lenders and private lenders only. Credit unworthiness and transaction costs are reported as major factors that reduce access to credit.
- **Access to Competition:** The limited budgets constrain the MSMEs to create market access through marketing and promotion. Internet has in fact rendered a positive impact on Indian MSMEs as it has opened new ventures and expanded the horizons for MSMEs. Online business has created an open access to marketplaces. As a result, with an increase in the horizon of global market foreign competition has brought a cut throat competition.
- **Lack of knowledge and access to advisory service:** The Indian MSME sector, notwithstanding its prominent role in supporting economic growth as well as creating new entrepreneurship, suffers from

inadequate business advisory services to enhance their international competitiveness in the highly competitive financial markets.

- **Delayed realization of receivables:** MSMEs suffer from considerable delays in settlement of dues/payment of bills by the large-scale buyers, and this adversely affects the recycling of funds and business operations of MSME units. As a result, MSMEs are often unable to hedge their cash flows due to a low ability to predict the fund flows.

- **Lack of proper infrastructure:** This includes adequate means of transport, power and electricity, water and drainage etc. These factors help to reduce the cost of procurement and holding of resources, increases their productivity and thereby lowering the production cost for the MSMEs. The responsibility lies with government for better development of infrastructure and amenities in the states.

Associated with this high growth rates, MSMEs in India are also facing a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent and uncertain market scenario. To survive with such issues and compete with large and global enterprises, MSMEs need to adopt innovative approaches in their working. With globalization, there is an urgent need of a dynamic and self-sustaining culture of innovation and cluster based approach for the development of MSMEs.

SUGGESTIONS FOR IMPROVEMENT:

According to our study and the annual reports of MSME'S, we strongly recommend the following suggestions for the growth and development of the MSMEs in India:

- **Mutual Supply of Technologies:** A number of appropriate technologies for the MSME sector have developed in various sectors. While each MSME has its areas of strengths and weaknesses, therefore, it would be mutually valuable if already developed technologies made available to each other. A comprehensive list of all sorts of technologies should be prepared and made available accordingly to the MSMEs requiring it.

- **Constitution of a Panel of Consultants:** For the purpose of technological advancement and guidance a panel of experts and consultants should be prepared, who can help the MSMEs within the region for effectively transfer the available technologies. The constitution of panel of these consultants could be nature wise of the activities of the MSME .At the time of constitution of panel of experts, there should be inclusion of the owners of different sectors of MSME'S.

- **Determination of Technological Needs:** There should be detailed survey to assess the technical and financial needs of the MSME. So that, the proper arrangement could be made to fulfill the needs of the MSMEs.

- **Training and development, awareness programs:** There must be facility of training and orientation programs by the ministry of MSMEs for overall development of this sector. The currently running programs are not so effective and sufficient. One of the important reasons for slow intake in the utilization of schemes is the lack of knowledge about schemes and their likely benefits. The current knowledge dissemination system is limited in its outreach. There is a need to develop a better communication strategy and use of new age media tools.

- **Sufficient availability of the credit-** Our banking system does not provide sufficient amount of credit to fulfill their requirement of establishment of MSME and as well as not for the operational activities. Therefore, there must be availability of credit according to the requirement at cheaper rate.

- **Relaxation in labor laws and red tape-** There should be relaxation in complex labor laws to avoid the

inconvenience in compliance. There must be smooth running of the concern not to create a problem for them. Every effort must do to avoid the unnecessary red tape.

- Proper research and development: There should be proper research and development in respect of innovative method of production and service rendering. The innovative products will provide the cheaper products and the MSMEs will be able to cope up with the situation.

The MSME sector faces a lot of challenges irrespective of clocking impressive growth in the recent years. Lack of support from government departments, banks, financial institutions and corporate have been major issues of concern. Limited capital availability, lack of knowledge, infrastructure, and technology also pose threat to the development of the sector. The sector needs high end research and more penetration in rural areas.

The Indian government realizes the role played by MSMEs in the economic and social development of the country because employment potential and the overall growth in the MSME sector is much higher than in the large industries. The government has fulfilled its mission by formulating policies, designing and implementing support measures in the field of credit, technological up gradation, marketing, entrepreneurship development, etc.

This has resulted into increasing rate of innovations within the MSME sector and most of the innovations in the MSME segment have been witnessed in these areas. Nationwide entrepreneurship development with appropriate scale scope and innovation has made all the difference for Indian MSME segment. Statistics are already emerging on the increasing importance of innovation and its scale and scope among the country's firms today.

CONCLUSION:

Every industrial and business organization has to take up the responsibility to meet the challenges posed by globalization. Not only the big business, but even a small business enterprise in India has to take up the responsibility to meet the standards, qualities, technological up gradation, skills technical know-how needed in the global market. It means that even a small scale unit operating anywhere in India has to fulfill the standards set by the global giants which operate in India. This is not only in respect of a unit that produces final products but even the one which functions as ancillary or artisan. The future of MSMEs in India lies in taking full advantage of the removal of restrictions for foreign trade by the Government. These enterprises should keep on exporting and trading with other countries and penetrate the global markets. The future also holds greater technological advancements which will enable MSMEs to grow further and adopt new methodologies of manufacturing and producing. There is a need for the MSMEs to streamline its supply chain network and get into "lean production system" to reduce costs and time. Financial infrastructure needs to be broadened and more lending opportunities should be created for this sector.

Government should do periodic audit and surveys to check if the industries are functioning properly and more subsidies should be provided in order to encourage manufacturing and production in India. Our country is going to witness a more sustainable MSME sector which will contribute to a considerable extent to the GDP and exports of the country in future. There is a need to pay more attention to this sector if India wants to become more balanced and not just be called a service oriented nation. Although the future may look promising due to manufacturing flexibility, abundance of raw materials and cheap labour, there are many problems that need to be addressed as the sector is still in its incubatory stage of growth. The sector is highly fragmented and is suffering from technological obsolescence and high cost of raw materials. The sector is threatened by stiff competition from developing economy and pricing pressure posed due to locational disadvantage. The emerging

economy of India will help MSME sector to grow due to end of quota regime and increasing disposable income. Due to recent government initiatives by the Indian Government, many MSMEs are planning to go for international standards and future looks bright for the sector. The very aim of the economic growth is not fulfilled until its fruits are reached to its lower class common people. The balanced economic growth of the country will increase the standard of living of people.. As the government is trying to push the MSMEs forward with number of measures to provide better infrastructural facilities, to ensure adequate and sufficient funds, the MSMEs sector expect conducive environment in the future. The policy makers should focus on to provided possible help to the sector to utilize the potentials of the sector and to revive the sector to act as back bone of the economy and propel economic growth.

The way ahead:

There is a strong need to find ways to manage modern technology and labour market constraints, which impede the productivity of MSMEs. Policy-makers and research institutions have repeatedly pointed out to the need for extensive research on the MSME sector. What these MSMEs need today is knowledge and access to new technology, adequate financial aid, high levels of R&D and adaptability to the changing trends in their respective industries. With the increasing competition, globalization and the uncertainty due to the global downturn, MSMEs will have to continuously incorporate the latest technology into their production processes as well as in their marketing and management functions, to cut costs, gain efficiency and consistency. This will help them become successful, and contribute to the Indian economy in the long run. Overall, the small industry sector has performed well, and has enabled the country to achieve considerable industrial growth and diversification.

Let us conclude with one of the famous quote, "In the economic sphere, the program demanded thorough decentralization and managerial independence of enterprises, as well as legalization of small-scale private enterprise".

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