



Role MSME Act 2006 in Promoting SSIs in Malappuram: An empirical study of Manjeri Municipality, Kerala, India

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Abstract

Micro, Small and Medium Enterprises sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, 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 socioeconomic development of the country. In the development of Indian economy and Industrial sector small industry sector have a major role to play. Small scale industries comprise 50% of Indian manufactured export, 45% of India's industrial employment and also small scale industrial units have great role in increasing GDP.

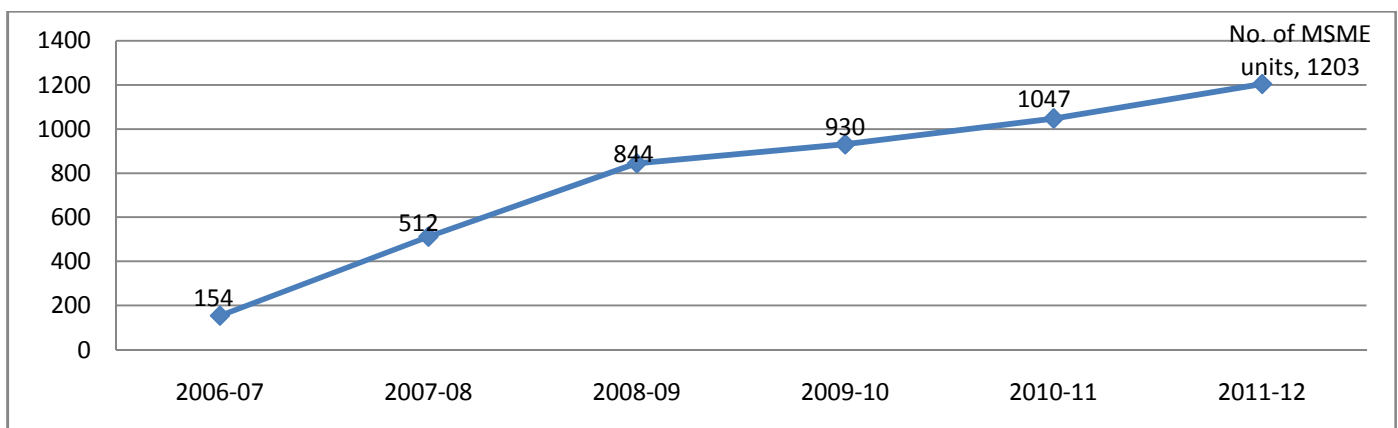
Keywords: Small scale industries, MSME Act 2006, Rural development, Industrialization.

Introduction

Micro, small and medium enterprises have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. The MSMEs 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.

MSME Sector in India: Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, 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 socioeconomic development of the country¹.



Source: Compiled from Malappuram DIC annual report 2011-12

Figure-1
Growth SSI units in Malappuram District (2006-2012)

As per 4th Census of MSME Sector, this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country.

Importance of Study: In the development of Indian economy and Industrial sector small industry sector have a major role to play. Small scale industries comprise 50% of Indian manufactured export, 45% of India's industrial employment and also small scale industrial units have great role in increasing GDP. However the small scale units have faced so many problems and sickness in several areas like finance, manufacturing, marketing and etc... So these problems are badly affecting Indian economy. These are various schemes run by the Indian government to boost the Small scale industry units in the country to help them become more innovative, efficient, and competitive, the enactment of the Micro Small and Medium enterprises development act 2006 was a landmark initiative taken by government of India to enable the small scale industries units competitive strength address the issues and challenges and reap the benefits of global market².

This paper is an attempt to understand impact of this MSME act 2006 in Small Scale industry units and identify in which extend this act solve the problem of Small Scale industries and what are the major unsolved problems existing after MSME act 2006. This study also an attempt to find out and recommend measures that would help in reducing the major problems in Small scale industry units.

Objectives of the paper: The paper is prepared on the basis of the following objectives; i. to make an overview of the MSME Act 2006, ii. to examine the awareness level among the people about the MSME Act, iii. to examine the impact of MSME Act 2006 on SSIs units in the study area, iv. to suggest pragmatic measures for the enhanced performance of the Act.

Methodology

The paper is prepared on the basis of both primary and secondary data. Sampling survey is conducted among the 15 small scale industrial units of the Manjery Municipality with the help of structured questionnaire. Convenience sampling is adopted for selection of small scale industrial units. Secondary data is collected from journals, reports of district industrial centre etc. For the purpose of analysis simple statistical tools like percentages, averages are used

An Overview of SSI: A common image of an entrepreneur is as a founder of a new business enterprise that achieves large scale success. Anita Roddick's Body shop, Bill Gates Microsoft and Sam Walton's Wal-Mart are the few examples of these types' entrepreneurs. But entrepreneurs also operate on a smaller scale. Small scale businesses are playing an important role in the industrial economy of the world³. These are particularly

important in developing economies. Small scale industries are predominant even in developed countries such as USA, JAPAN and etc... of the 25 million business in USA today, approximately 24.75 million (99%) can be considered small.

Small scale industrial units are those which operate with a modest investment in fixed capital, relatively small-scale work force and which produce a relatively small volume of output of goods/services. They differ from large-scale industries with respect to size of capital, employment, production and management, flow of input and output and so on⁴. The labor intensive nature, low fixed investment, spread in larger area and smaller volume of output all make these units best fit for developing nations especially labor is abundantly available.

Objectives of Small Scale Industries: Small scale industrial units are designed to resolve various developmental requirements of the developing nations. It aims in creating more employment opportunities with lowest fixed investment and to reduce regional disparities⁵. It is a deliberate policy to make our economy self reliant and export oriented. The main objectives are; i. to strengthen the rural economy, ii. to eliminate economic backwardness from rural areas, iii. to provide steady income source to the low income groups from urban and rural areas, iv. to integrate small business in both rural and urban areas with large scale business

The MSME ACT 2006: The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector. The Act seeks to facilitate the development of these enterprises as also enhance their competitiveness⁶. It provides the first-ever legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions.

Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of programmes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act⁷.

The programmes undertaken by the Ministry and its organisations seek to facilitate or provide: i. adequate flow of credit from financial institutions; ii. support for technology up gradation and modernization; iii. integrated infrastructural

facilities; iv. modern testing facilities and quality certification; v. access to modern management practices; vi. entrepreneurship development and skill up gradation through appropriate training facilities; vii. support for product development, design intervention and packaging; viii. welfare of artisans and workers; ix. assistance for better access to domestic and export markets and x. cluster-wise measures to promote capacity building and empowerment of the units and their collectives.

The enactment of the act led to the inclusion of service sector in the production activities⁸. The earlier concept of Small Scale industries (SSI) has been replaced 'Enterprises' after coming into affect of the act. It also led to the inclusion of service sector in the definition of Micro, Small, Medium enterprises in manufacturing or production activities. The earlier concept of Small Scale industries (SSI) has been replaced 'Enterprises' after coming into affect of the act.

Objectives of MSME ACT 2006: The MSME Act 2006 is enacted to attain some pre determined objectives. They are; i. to facilitate promotion and development of Micro, Small and Medium enterprises, ii. to enhance the competitiveness of Micro, Small and Medium enterprises, iii. to concentrate on the related matters of Micro, Small, and Medium enterprises, iv. to extend the scope of benefits from Small Scale Industries under taking and ancillary industries to Micro, Small Medium enterprises, v. to promote not only manufacturing sector but also service sector, vi. to Providing credit policies for ensuring timely and smooth flow of credit and liberal approach in carrying business, vii. to eliminate the problems of MSME by delayed payment, viii. to solve the problem of Small Scale Industry units at a level, ix. to implement more promotional programs to improve the performance of Small Scale units

Classification of Industries: In accordance with the provision of Micro, Small and 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) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise aredefined in terms of investment in Plant and Machinery

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

Benefits to MSME units as per the Act: Building awareness on IPRs: The objective is to create and enhance awareness about intellectual property rights (IPRs) among the units in the sector by conducting training programs/ workshop and under taking pilot studies for industries clusters. This enables them to protect their ideas and business strategies and avoid infringement of the intellectual property belonging to others.

Bar Coding: Bar coding has emerged as an important marketing tool having wide global acceptability. In order to encourage units in the sector to adopt bar coding, a provision for re imburement of 75% of one – time registration fee is promulgated to the enterprises.

Quality Management Standards (QMS): The scheme aims at improving the quality of the product in the MSME sector and inculcating quality consciousness among units of the sector as per global standards.

Credit Guarantee Fund Scheme: The objective of making available credit to micro and small enterprises without collateral/third party guaranties the scheme is being operated through the credit guaranty fund trust for MSMEs setup jointly by the government of India and SIDBI.

Microfinance programme: Under the scheme, the government of India provides funds to SIDBI under a 'portfolio risk fund' (PRF), which is utilized for security deposit requirement of the loan amount the MFIs/NGOs.

Table-1
Classification of Industries in MSME Act 2006

Enterprises	Investment in plant and machinery
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
III.2.2. Service Sector	
Enterprises	Investment in equipments
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 core rupees
Source: Compiled from Annual Report Ministry of MSME 2013	

FDI Policy: With the promulgation of the MSMED act 2006 the restrictive 24% ceiling prescribed for equity holding by industrial undertaking, whether domestic or foreign, in the MSME has been done away with and MSME are defined solely on the basis of investment in the plant and machinery and equipment⁹. Thus, the present policy on FDI in MSME permit FDI subject only to the sectoral equity caps, entry routes and other relevant sectoral regulation.

Different Programmes for MSMEs: Entrepreneurship Development Programme: Entrepreneurship development programs are being organized regularly to nurture the talent of youth by enlightening them on various aspects of industrial activity required for setting up MSMEs. These programs are generally conducted in DICs where skill is available to motivate them towards self-employment. The course contents of such programs are designed to provide use full information on product process design, manufacturing practices involved, testing and quality control, selection and usage of appropriate machinery and equipments, project profile preparation, marketing and pricing techniques.

Management Development Programme: The objective of imparting training on management practice system is to improve the decision making capabilities of existing and potential entrepreneurs resulting in higher productivity and profitability.

Technology Up gradation Programme: In general, MSMEs lacking accessing technology due to poor consultancy support/service for technological information, non availability of skilled man power, lack of awareness among entrepreneurs about emphasis on production and production cost, lack of managerial skill and poor adoptability to change trade trends¹⁰. For technology up gradation DIC provide capital subsidy and other assistance to strengthen MSME.

Cluster Development Programme: The ministry of MSME, government of India has adopted the cluster development program for following purposes; i. to support the sustainability and growth of MSME by addressing common issues such as improvement of technology skill and quality, ii. To build capacity of MSME for common supportive action through formation SHGs, iii. To establish or upgrade infrastructural facilities in the new and existing industrial clusters of MSME, iv. to setup common facility centers

Marketing Assistance Programme: Marketing is key strategy to the success of any enterprise and it is more relevant about MSMEs. The sector is characterized by absence of strong brand presence in the market and largely unorganized marketing network unlike large enterprises¹¹. The objective of the marketing assistance programs are following; i. to enhance export from MSME units, ii. To encourage small micro export in their efforts at tapping and developing overseas markets, iii. To increase participation of representatives of small or micro manufacturing enterprises under MSME India stall at international trade fairs and exhibitions

Exhibitions for MSMEs: It is the one of the program implemented by the government of India for the promotion of MSME units. It is very help to the MSMEs to expand the reach of their market. The government of India conducted this program through DICs.

Award Scheme for MSMEs: The government of India has given awards for best MSME unit in every year through DICs. The main aim of this scheme is encouraging MSME unit situated in India.

Analysis of Data: In this section the impact of MSME Act is analysed with the help of survey conducted in the Manjeri Municipality. The impact of the act is evaluated on the basis the following parameters: i. Availability of Finance and Financial assistance. ii. Managerial and Technical support from DIC iii. Level of awareness among the units about MSME programmes, iv. Extension of Market and profitability of the industry v. Problems faced by SSIs in the study area. For evaluating the availability of finance and financial assistance the respondents are asked about the availability of loan for their units, the availability subsidy, and availability of credit guarantee loans.

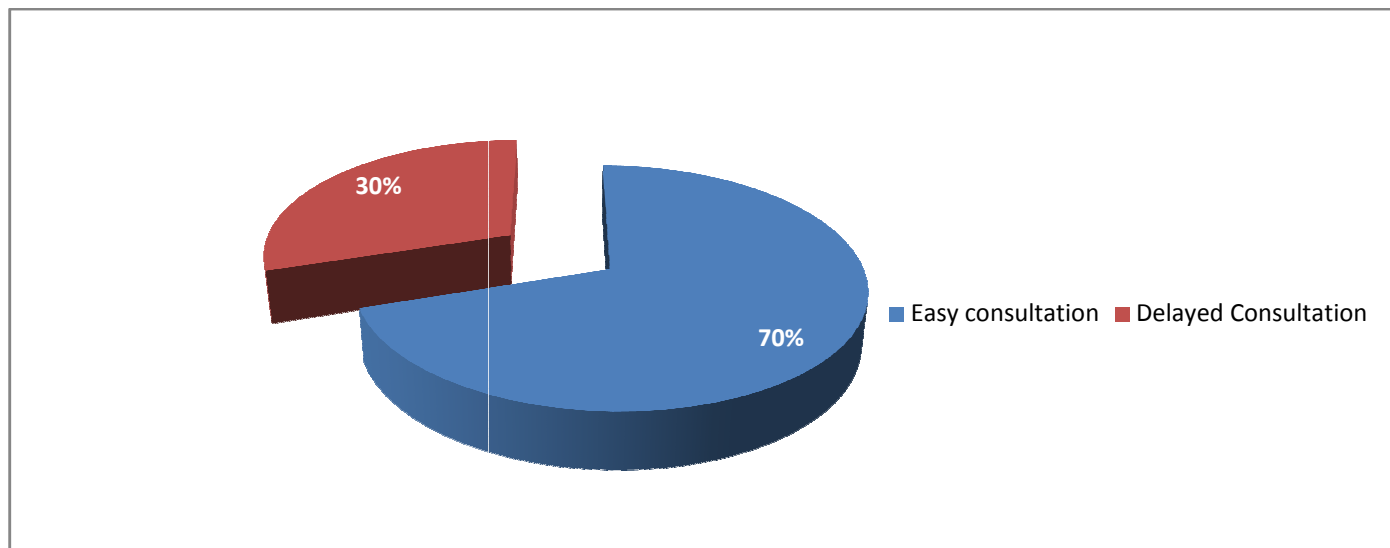
Availability of Finance and Financial assistance: The data shows that the MSME Act has helped in improving the availability of finances and financial assistance to the SSIs in the study area. Majority of the respondents (80%) opined that registering as SSI unit as per the MSME Act 2006 helped to get more loan and 60% opined the availability of subsidy for the loans. But it is distressing to note that 67% of the respondents have the opinion that there stringency in the availability of credit guarantee loan which is provided without collateral. Being the entrepreneurs in the SSI sector financially backward, availability of loan without collateral is more important¹². The study also found that all the units in the study area agreed that they are availing concessional rates for electricity from KSEB. This is the result of MSME Act 2006 result of which is they could cut down the unit cost.

Managerial and Technical support from DIC: Managerial and Technical support is an important determinant in making an enterprise more competitive and efficient¹³. It determines the existence and sustainability of a particular enterprise. For evaluating the managerial and technical support the study used the parameters of easy consultation opportunities and capacity building programmes for the employees and managers, awareness level about the MSME programmes.

The field survey among the SSI units shows that all of the units have the opportunity to have managerial and technical consultation opportunities to strengthen the working of their units. 70% of the units responded that they got easy managerial and technical consultation with the help of DIC for improving the working of the industry but 30% reported to have delay in getting the consultation services. Of course this consultation opportunity is the best service to the working of enterprises especially among the rural areas

Table-2
Availability of Finance and Financial assistance to SSI in the study area
After MSME ACT 2006

Parameter	Improved	Percentage	Not improved	Percentage
1.Availability loan	12	80	3	20
2.Availability of subsidy	9	60	6	40
3.Availability of Credit guarantee loan	5	33	10	67
4.Concessional Tariff for Electricity	15	100	0	0
Source: Field survey.				



Source: Field Survey

Figure-2
Level of Managerial consultaion available for SSIs in the study are

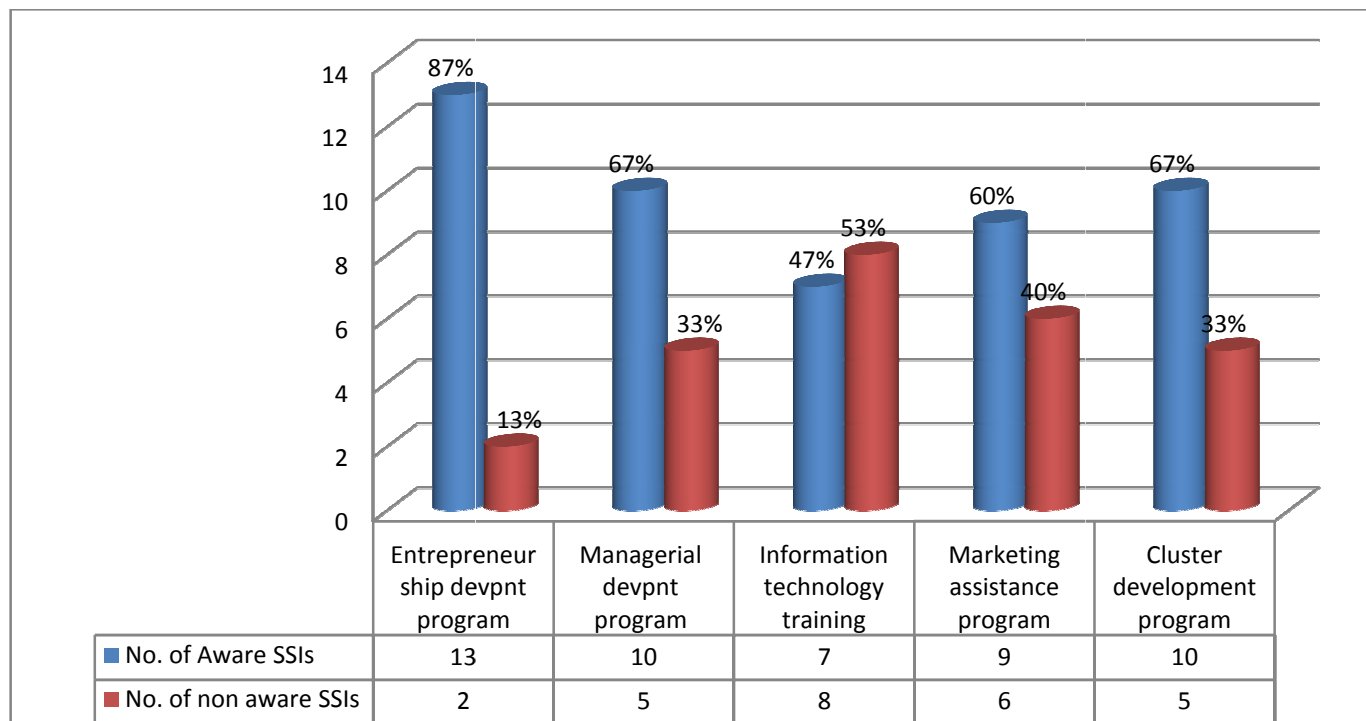
Table-3
Capacity building programme under MSME Act 2006 in the study area.

Type of programme	Yes	Percentage	No	Percentage
Regular training	11	73	4	27
Participation in Exhibition	9	60	6	40
Industrial Visit	3	20	12	80
Guild Meeting	10	67	5	33
Source: Field survey				

The capacity building programme is another managerial and technical assistance programme under taken after enacting the act. The study shows that important capacity building programmes were conducted in the study area and majority of the units under study participated in the programme with an exception in the industrial visit programme. The regular training for in technical and managerial aspects is an asset regarding to an industry. 73% of the industrial units participated in the training programme. 67% percentage participated in guild meeting and 60 percentage attended in exhibition which are good opportunity to share the experiences, innovations and strategies among different industrial entrepreneurs. Visiting successful industrial units is an important capacity building programme in all respect regarding to an industry. But this

programme is seen to be less considered and only 20% participated in industrial visit and the majorities haven't received such an opportunity.

Level of awareness among the units about MSME programmes: Level of awareness about the MSME programmes is an important determinant of the success and spread of the programme among the beneficiaries. The figure above shows the level of awareness among the SSIs about the various programme undertaken after MSME Act 2006. Awareness level about the various programme conducted under the auspices if MSME Act. Nearly half of the entrepreneurs are unaware of the programme with an exception of entrepreneur development programme.



Source: Filed Survey

Figure-3
 Level of awareness among SSIs about MSME programme

Table-4
 Market and Profitability of SSIs after MSME Act 2006

Parameter	Increase	Percentage	Fluctuate	Percentage	Decrease	Percentage
Market for Products	13	87%	2	13%	0	0
Competition in the Market	11	73%	4	27%	0	0
Sale and Profit	7	47%	5	33%	3	20%

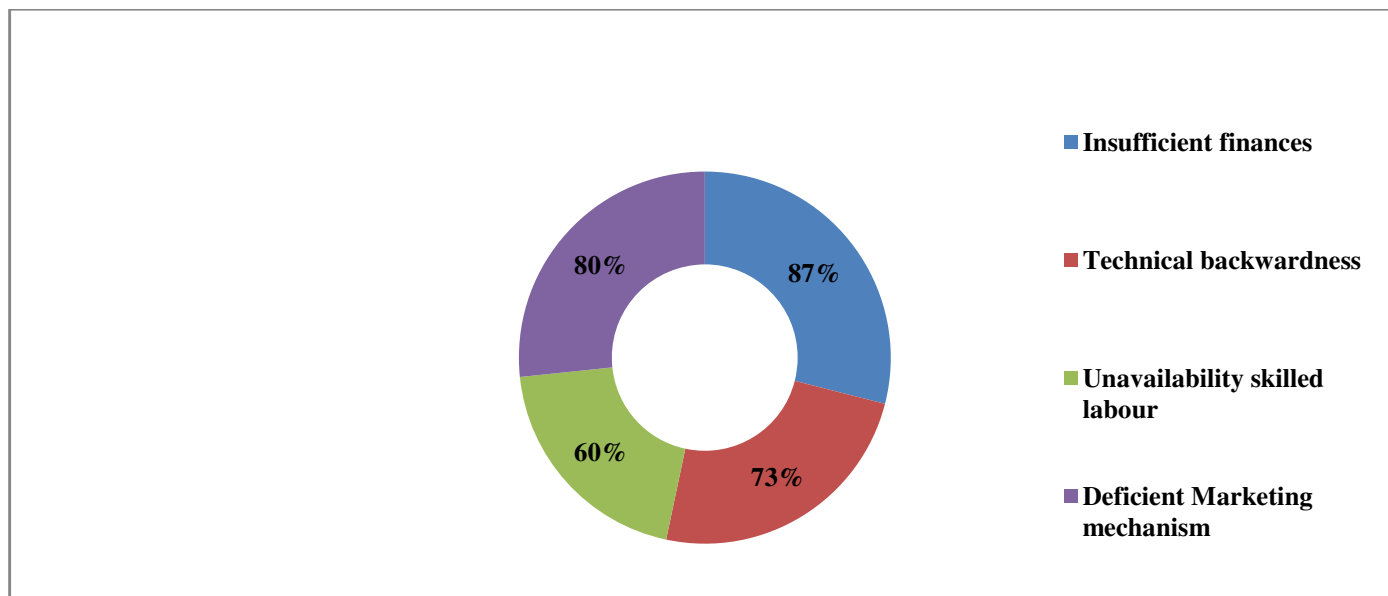
Source: Field Survey

Extension of Market and profitability of the industry: Extension in market and the profitability also another important determinant of an industry. Availability of market and penetration in to market is a challenge to the industrial sector especially small scale sectors. Adequate measures and support is required to penetrate and to exist in a market when affirm is small in size and capacity.

The field survey result shows that there is an increase in the market for the SSI products. 87% percentage opined that there is a growth in the market for their products after MSME Act 2006. At the same time the study also got the response from 70% percentage of the entrepreneurs under study that there is increasing competition from large scale and fully mechanised industrial units. The distressing point to note here that only 47%

reported to have increase in sale and profit. This may due to the high competition from large scale industries and the cost advantage they enjoying as a result of economies of scale.

Problem faced by the SSI sector: The study also attempted to understand the important problems faced by the SSIs of the study area even after the enactment of the MSME Act 2006. The entrepreneurs are asked about the important problem they are facing now. More than half of the entrepreneurs opine that the technical backwardness, Unavailability of the skilled labour, deficient market mechanism and insufficient finances stands in the way of the easy running of the industry. Insufficient finances and defiant market mechanism is the problem about 90% of the respondents considered the biggest obstacle in competing in the market and their survival.



Source: Filed Survey

Figure-4
Problems Faced by SSIs in the study area

Findings, Suggestions and Conclusion: This section deals with the major findings, suggestion and conclusions drawn from the data analysis. The major findings from the analysis of the data are listed below.

Findings: The major findings of the study can be summarized as i. the MSME act 2006 has make positive changes in SSI units., ii. the number of MSME units is increased in recent years. iii the entrepreneur does not have the detailed knowledge about the MSME act 2006, iv. the MSME units have face cut thought competition now also, v. availability of skilled labour and financial problems are the major unsolved problem in MSME units, vi. all MSME units have special tariff from KSEB, vii. 40% MSME units profit and sales are increased and 40% MSME units are fluctuating level, viii. Most of MSME units provide regular training to their employees, ix. the MSME units expanded their market after registering under MSMED act 2006, x. If the raw material is given on favorable price by authorities, they can prevent the cut thought competition at a level, xi. the MSME units are not well aware about the financial assistance provided by government.

Suggestions: On the basis of the above analysis this study put forward the following suggestions to achieve the established goals of o the act. The important suggestions are, establish a labor bank by government to procure skilled labors for eliminating employment problems at a level, provide raw material at favorable price by government, provide more financial assistance to MSME units to prevent financial problem, provide marketing training to the MSME units for meeting the marketing problem, establish a good system for channelize the each and every program started by government

for MSME units.(f)make a year by analysis to understand the reaches of different programs implemented by the government,(g) find out the young entrepreneurs and motivate them for starting new ventures.

Conclusion

MSMED act 2006 was the one of the important measure taken by the government to uplifting the MSME units the study is conducted to know the impact of MSMED act 2006 in MSME units with a special reference to Manjery municipality. Small scale industrial development is an important strategy especially in developing countries where capital is deficient and the natural and human resources are plenty in supply. Financing the large scale industrial units are beyond the reach for a capital deficient country and faulty paradigm where unemployment and under employment disturbs the economy. The strategic approach in promoting SSIs in reducing regional disparities in industrial development in creating employment opportunities especially in rural areas and in developing entrepreneurship is successful especially after the MSME Act of 2006. The Act could spell the needs of the both rural and urban India in promoting the SSI. It contributed much in developing entrepreneurial skills, managerial skills, technical skill among the unemployed youth of India. Implementation of the various programmes as per the MSME Act of 2006 could familiarise the SSIs as the movement in developing and managing entrepreneurial culture and habit in a country where capital is deficient and a large number of people remain unemployed.

Still there various challenge to be addressed in this sector. Competition from large scale industries and increasing unit cost

are to be minimized by adopting adequate strategies. Availability raw material at reasonable price is an important problem faced by the sector. Hence government support in this regard will help the sector in facing the competition from the large scale industrial units.

More steps are to be taken to popularize this movement to make the people aware of the advantage, scope and programmes of MSME Act and the SSI sector. Thus we can face the problem of poverty and unemployment by promoting SSIs industries supplemented with government support in its managerial, technical and financial requirements and popularizing the same among the masses.

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