

Role of MSMEs in Propelling Economic Development - A Case Study of Shivamogga District, Karnataka, India.

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Abstract

The concept of economic growth is the much-debated one right from decades. The entire world is witnessing multiple challenges to meet their goal. India is not an exception. In India, many economic growth models are being worked out which failed in accomplishment of the constitutional dream of achieving sustainable development. After experiencing many growth models it has been proved that the solution lies in the development of MSMEs sector. These MSMEs have to be established and developed Particularly in Tier II and Tier III cities. The Micro, Small and Medium Enterprises (MSMEs) in Tier-II and Tier-III cities and rural areas face more survival challenges despite being treated as a priority sector. The access to easy finance and modern technology, regulatory constraints and lack of basic infrastructure are hindering the MSME growth. Other factors identified are the dearth of marketing and distribution networks, skilled labour and outdated labour laws. The MSMEs have no control over the price of their products as the buyers of large scale industries including Multinational Corporations, which more or less operate in a buyers ' market, dictate it. This paper has attempted to analyse the challenges faced by Small Scale Industries particularly concentrated in the Tier - II and Tier III cities of Karnataka.

Key Terminologies: Economic growth, Sustainable Development, Tier-II and Tier-III cities, MSMEs.

1. Introduction :

MSMEs in India and abroad exhibited considerable robustness and pliability in maintaining a reliable rate of growth and employment generation during the global recession and economic slowdown. The Indian economy has been showing considerable growth performance by contributing to create livelihood opportunities to millions of people, in magnifying the export potential and in increasing the overall economic growth of the country. As a catalyst to the socio- economic transformation of the country, the MSME sector distinctly crucial in addressing the national objective of bridging the rural- urban divide, mitigate poverty and generating employment for the admirable community of the country. This sector comprises almost about 80% of the total industrial units in the country. In India MSMEs occupy 36 million units, contribute to 45% of industrial production, 40% to the export sector through more than 6000 products ranging from traditional to high-tech and provides employment to about 80 million persons. Therefore, the MSMEs in a developing country like India occupy a special place in the industrial structure. In view of the vast potential, the government has given this sector an important place in the framework of Indian economic planning for economical as well as ideological reasons.

1.2. MSMEs in India

MSMEs have made considerable contribution to the socioeconomic development of almost all the countries including India. In our country, the increasing pressure of population and unemployment has made this contribution even more significant. In India, the MSMEs movement largely regarded as a vehicle for uplifting the weaker sections of the population. This sector includes handloom weavers, handicraft workers, rural women spinning at home, the rural artisans or the urban craftsmen. All of them look to specific support to compete with the modern industrial sector. The growth of MSMEs is phenomenal in our country that it has started thinking global in the wake of liberalization in the nineties. The sector has been receiving due attention and importance from the policy makers owing to its special characteristics, namely, low level of investment required, high potential for creating employment opportunities, least location constraints, thereby contributing to a balanced regional development and a high utilization of local resources. This sector covers a wide spectrum of industries categorized under small, tiny and cottage segments. The sector has also maintained its pace of growth over the years, and has contributed significantly in supporting the overall economic development of the country.

1.3. MSMEs in Karnataka

Karnataka is one of the India's fastest growing states, having a strong industrial base and a vibrant service sector. The State has a host of large industries supported by a strong base of Micro, Small and Medium Enterprises. Due to inherent advantages available in the State, the industry and trade sectors including the service sector are propelling the overall economic development of Karnataka. Hence, Karnataka is considered as one of the most industrially developed States in the Country. It is the first State in the country to have brought out a State Industrial Policy during 1982-83. Due to the progressive policies and proactive measures of the Government and also the contribution of entrepreneurial fraternity and investors, today Karnataka has been recognized as one of the preferred destinations for the establishment of MSMEs.

1.4. Industrial Profile of Shimoga District

It is one of the fastest growing Tier – II cities of the country which is contributing significantly towards the growth of MSMEs in the state. Shivamogga district has iron, agriculture, automobiles and engineering as major industries. Foundry activity has been going on for a long time. Major investments are made in food, beverages, agro based industries, engineering and mechanical goods. Other rural industries in this district are carpentry, blacksmith, leather, pottery, beekeeping, stone cutting, handlooms, agarbathi, and sandalwood carving.

When Karnataka government created industrial regions, the idea was to encourage industrialization in the district. Hence, industrial estates like Nidige Industrial Area in Bhadravathi taluk, Mandli-Kallur Industrial Area, Shivamogga Industrial Estate and Kallahalli Industrial Estate in Shivamogga have been established.

1.4.1 **Table 1 Details of types of MSMEs in Shivamogga**

| Sl.No | TYPE OF INDUSTRY | NUMBER OF UNITS | INVESTMENT (Lakh Rs.) | EMPLOYMENT |
|-------|-----------------------------------|-----------------|-----------------------|------------|
| 1 | Agro based | 2505 | 6730.00 | 8950 |
| 2 | Soda water (aerated Water) | 50 | 25.00 | 250 |
| 3 | Cotton textile | - | - | - |
| 4 | Jute & jute based | - | - | - |
| 5 | Ready-made garments & embroidery | 1500 | 790.00 | 3700 |
| 6 | Wood/wooden based furniture | 1650 | 900.00 | 5250 |
| 7 | Paper & Paper products (printing) | 410 | 570.00 | 1330 |
| 8 | Leather based | 740 | 320.00 | 1660 |

2. Literature Review

Jatindranath Swain (2004) observed that, "There was a notion among the youth that business enterprises could be set up only in urban areas. But, some small-scale business activities could be launched in rural areas too with the benefits like availability of workers at moderate wages, less building rents etc".

Beydokhti Abbas Taleb (2007), clearly said that the Small Scale Industry (SSI) sector is a key of economic growth and contributes substantially to India's total industrial production, export and employment generation. SSI units have weak capital base besides very small in size. They are not placed well in terms of capital formation. It is the fact the success or failure of an enterprises to a large extent depend upon the effectiveness with which financial resource of the firms applied and managed.

Aremu, Mukaila Ayanda (2011) has said sustainable development is recognized as an essential requirement for achieving economic goals without degrading the environment. If goals of sustainability are to be achieved, small and medium-sized enterprises must be reformed to minimize their negative ecological and social impacts which is not possible in case of large scale industries.

Bansal Sandeep (2012) in his article entitled "A Critical Analysis of SSIs in India" reveals that Small scale industries play a very vital role in the development of economy. They are a vital segment of Indian economy in terms of their contribution towards country's industrial production, exports, employment and creation of an entrepreneurial base.

Gade Surendar (2018) in his study "MSMEs' Role in Economic Growth – a Study on India's Perspective" opined that the MSMEs are providing uniform development to the society and can be a strong mean to utilize the natural resources of India. The MSMEs are very helpful to remove the regional imbalances if they are established in the underdeveloped areas. The MSMEs are providing more employment per unit. If this contribution is to be sustained, then their uniqueness needs to be nurtured in an overt and explicit manner.

3. Research Design

3.1 Statement of the Problem and Need for Research

The MSMEs have become the hub for many economic activities in developing countries, by virtue of its special features like less capital and labour intensive. It plays a major role to play in developing nations, which suffer from slow capital formation and over population. Realizing the potential of the small-scale sector, the Government of India has taken several measures for the promotion and smooth functioning of this sector. Besides these, the Government has carefully planned the development of MSMEs in the country. In spite of this, the sector has not been working well owing to various problems both at the promotional and operating stages. In this backdrop, the present study has been taken up to identify the problem areas in this sector and to suggest appropriate measures to resolve the problems.

3.2 Objectives of Study

1. To study the present status of MSMEs in India, Karnataka and Shivamogga
2. To examine the major problems of MSMEs in Shivamogga
3. To offer suggestions for better performance of MSMEs in Shivamogga

3.3 Scope of the Study

The study covers the Shivamogga Taluk of Shivamogga District where there is a large concentration of MSMEs in the industrial estates established.

3.4 Research Methodology

The researcher has adopted Descriptive Research Methods. Further, the researcher has used both primary and secondary data for the study.

Selection of the Study Units The field study covers a total number of 75 MSMEs selected on stratified sample basis. Weightage is accorded to the actual number of units in different categories of MSMEs viz., chemical, food Processing, engineering, Automobile and Electronic etc., while selecting the units in the study area.

3.4.1 Sources of Data:

Primary Source: Primary data required for the study was collected through fieldwork and well prepared questionnaire. Interviews conducted with managers, supervisors and others involved in manufacturing activities. The questionnaire has contained both open ended and close-ended questions.

Interview: In order to collect relevant information regarding the Small scale Industries, the investigator conducted structured and instructed interview with the Director, District Industry Center, Shivamogga and other managerial level officials of industries.

Secondary Source: Data required for the study was collected through Government Annual Reports, journals, magazines, unpublished and published research reports and websites.

B. Data Collection Methods

Primary information for the present study collected through survey and observation methods.

C. Data Analysis

The data collected from primary and secondary sources were analysed and interpreted and on the basis of which conclusions were drawn. The data gathered through the primary investigation were tabulated, presented, analyzed and inferences were drawn.

3.7 Limitations of the study

1. The study deals with units located in Shivamogga.
2. Most of the selected units are reluctant to furnish the required information.
3. The study has not covered the entire population
4. Correctness and accuracy of data in respect of cost and production suffers due to non maintenance of correct records.

4. Data Analysis and Interpretation

Table 2. Factors responsible for delay in commencement

| Sl. No. | Particulars | Rank | Rank | Rank | Rank | Rank | Rank | Rank | Rank |
|---------|----------------------------|------|------|------|------|------|------|------|------|
| 1 | Delay in license | 13 | 5 | 8 | 5 | 11 | 17 | 11 | 5 |
| 2 | Registration | 19 | 11 | 17 | 13 | 7 | 2 | 2 | 4 |
| 3 | Labor Shortage | 21 | 15 | 13 | 8 | 3 | 2 | 5 | 8 |
| 4 | Raw materials | 41 | 13 | 6 | 2 | 3 | 3 | 2 | 5 |
| 5 | Lack of technical know how | 29 | 7 | 9 | 5 | 3 | 6 | 9 | 7 |
| 6 | Lack of finance | 17 | 5 | 19 | 1 | 1 | 7 | 10 | 15 |
| 7 | Power | 34 | 17 | 7 | 2 | 3 | 5 | 4 | 3 |
| 8 | Communication facility | 7 | 5 | 11 | 2 | 20 | 16 | 11 | 3 |

Entrepreneurs of MSMEs are highly enthusiastic and wish to start production of commodities at the earliest to realize more profits. But in reality the commencement plan does not become possible as per schedule. It is quite but natural that for some reason or the other there will be delay in commencement of production much against the desire of small scale entrepreneurs. Keeping this aspect in mind the researcher wanted to know about the factor that would have become responsible for delay in commencement of production by respondent units in the study area. This information has been depicted in the above table Eight factors have been selected as parameters to which the respondent have awarded ranks based on their personal reason and experience.

Table 3 Problems of Raw Material

| Sl. No. | Particulars | Number | Percentage |
|---------|--|--------|------------|
| 1 | Always available | 38 | 50.67 |
| 2 | Available but not at required quantity | 24 | 32.00 |
| 3 | Interrupted supply | 4 | 5.33 |
| 4 | Seasonal availability | 2 | 2.67 |
| 5 | Scarcity | 7 | 9.33 |
| | Total | 75 | 100.00 |

Most of the MSMEs hardly have satisfaction about raw material management. The availability of raw material to respondent units in study area has been presented. 38 (50.67%) respondent units stated that raw material is always available to them and they are happy about it. 24 (32%) respondent units replied that raw material available to them regularly but not in required quantity. Availability of raw material is a scarce factor to 7 (9.33%) respondent units. While 4 (5.33%) respondent replied that they have interrupted supply of raw material, the remaining 2 (2.67%) raw material is available to them only during some seasons.

Table 4 Problem in procurement of raw materials

| Sl. No. | Particulars | High | Percentage | Moderate | Percentage | Low | Percentage | No Issue | Percentage |
|---------|-------------------------|------|------------|----------|------------|-----|------------|----------|------------|
| 1 | Quality | 19 | 25.33 | 21 | 28.00 | 9 | 12.00 | 26 | 34.67 |
| 2 | Price | 35 | 46.67 | 23 | 30.67 | 2 | 2.66 | 15 | 20.00 |
| 3 | Transportation cost | 49 | 65.33 | 7 | 9.33 | - | - | 19 | 25.34 |
| 4 | Government restrictions | 17 | 22.67 | 21 | 28.00 | 4 | 5.33 | 33 | 44.00 |
| 5 | Tax problems | 39 | 52.00 | 17 | 22.67 | 6 | 8.00 | 13 | 17.33 |

It is already stated that regularity in supply of raw materials is a basic factor contributing to sustainable growth of industrial units. The researcher wanted to now problems faced by respondent units in procurement of raw materials. For this purpose 5 parameter were identified as problem areas and respondent were asked to give their replies as high, moderate, and low about the intensity of each of the problems affecting them. If particular issue was not a problem they were asked to reply as no issue.

Table 5 Problems of power and fuel

| | | Shivamogga | |
|---------|------------------|------------|------------|
| Sl. No. | Particulars | Number | Percentage |
| 1 | Inadequate power | 63 | 84.00 |
| 2 | Adequate power | 3 | 4.00 |
| 3 | Irregular Power | 9 | 12.00 |
| | Total | 75 | 100.00 |

Electric power supply, in the recent decades, is subject to greater degree of control and regulation because of its absolute scarcity in all users. Mechanization of industrial units in variably requires electric power driven motors and gadgets. The common complaint is that irregular supply of power is an important factor responsible for slow pace of industrial growth. Problem related to power and fuel confronting the respondent unit in study area

Table 6 Finance related problems

| Factors | High | Percentage | Moderate | Percentage | Low | Percentage |
|---|------|------------|----------|------------|-----|------------|
| Availability of funds | 23 | 30.67 | 39 | 52.00 | 13 | 17.33 |
| Borrowings | 41 | 54.67 | 27 | 36.00 | 7 | 9.33 |
| Problems faced in institutional advance | 53 | 70.67 | 7 | 9.33 | 15 | 20.00 |
| Insufficient loan | 56 | 74.67 | 13 | 17.33 | 6 | 8.00 |
| Too much procedure | 58 | 77.33 | 13 | 17.33 | 4 | 5.34 |
| Delay in sanctioning loan | 43 | 57.33 | 18 | 24.00 | 14 | 18.67 |
| Delay in installment grant | 23 | 30.67 | 42 | 56.00 | 10 | 13.33 |
| High interest and service in charges | 63 | 84.00 | 8 | 10.67 | 4 | 5.33 |
| Threat of NPA | 35 | 46.67 | 27 | 36.00 | 13 | 17.33 |

It is the general belief that financial crunch affects development of any economic activity. This problem becomes very serious to small scale units on account of their status in market share as well as profit earning capacity. Therefore, it is essential to signify financial problems faced by small scale industrial units. Depicted in above table provides an insight into financial related problems to respondent small scale industries in study area.

Table 7 labor related problems

| Sl.No | Nature of problem | High | Percentage | Moderate | Percentage | Low | Percentage |
|-------|-------------------------|------|------------|----------|------------|-----|------------|
| 1 | Skill labor | 32 | 42.67 | 37 | 49.33 | 6 | 8.00 |
| 2 | Absenteeism | 21 | 28.00 | 11 | 14.67 | 43 | 57.33 |
| 3 | Demand for higher wages | 48 | 64.00 | 17 | 22.67 | 10 | 13.33 |
| 4 | Attrition rate | 5 | 6.67 | 49 | 65.33 | 21 | 28.00 |
| 5 | Demand for facility | 51 | 68.00 | 15 | 20.0 | 9 | 12.00 |
| 6 | Unionism | 24 | 32.00 | 7 | 9.33 | 44 | 58.67 |

One of the major challenges to small scale industries is handling labour issue. It is argued that small scale industries create innumerable job opportunities to unskilled and semi skilled persons as they get employment in local area. But contrary to this small scale industries have been experience in several problems regarding work force. The above Table provides details about the impact of various aspects of labour issues on respondent units in study area.

Table 8 Marketing Problems.

| Nature of problem | High | Percentage | Moderate | Percentage | Low | Percentage |
|--------------------------------|------|------------|----------|------------|-----|------------|
| Competition | 52 | 69.33 | 19 | 25.33 | 4 | 5.34 |
| Unable to build brand image | 61 | 81.33 | 14 | 18.67 | - | - |
| Lack of advertisement | 19 | 25.33 | 52 | 69.33 | 4 | 5.34 |
| Price regulation by government | 13 | 17.33 | 52 | 69.34 | 10 | 13.33 |
| Distribution problems | 43 | 57.33 | 24 | 32.00 | 8 | 10.67 |
| Change of consumer taste | 7 | 9.33 | 5 | 6.67 | 63 | 84.00 |
| Irregular demand | 5 | 6.67 | 13 | 17.33 | 57 | 76.00 |
| Seasonal demand | 3 | 4.00 | 4 | 5.33 | 68 | 90.67 |
| Inadequate demand | 4 | 5.33 | 13 | 17.33 | 58 | 77.34 |
| Lack of marketing finance | 33 | 44.00 | 27 | 36.00 | 15 | 20.00 |
| Packaging related issues | 19 | 25.33 | 14 | 18.67 | 42 | 56.00 |

One of the toughest tasks to entrepreneurs in small scale units is marketing the products. 11 parameters have been identified to assess the nature and extent of marketing problem faced by respondent units. The responses are highlighted in the above table Competition in marketing is a big challenge to small scale units. This competition comes from not only rival units but also from medium, size and large size industries producing similar products.

Table 9 Effect of changes in business Environment

| Particulars | High | Percentage | Moderate | Percentage | Low | Percentage |
|-----------------------------------|------|------------|----------|------------|-----|------------|
| Advances in production technology | 43 | 57.33 | 3 | 4.00 | 29 | 38.67 |
| IT Growth | 37 | 49.33 | 9 | 12.0 | 29 | 38.67 |
| Communication network | 44 | 58.67 | 14 | 18.67 | 17 | 68.00 |
| Financial crises/recession | 21 | 28.00 | 29 | 38.67 | 25 | 33.33 |
| Liberalizations | 48 | 64.00 | 12 | 16.00 | 15 | 20.00 |
| Privatizations | 9 | 12.00 | 5 | 6.67 | 61 | 81.33 |
| Globalization | 41 | 54.67 | 14 | 18.67 | 20 | 26.67 |

Progress of any economic activity requires dynamism. It implies that changes in business environment take place around the globe. These changes have worldwide impact. These aspects in relation to the respondent units have been analysed in above For this analysis 7 parameters have been considered. 1)The impact of factors such as advances in production technology, I.T. growth, communication network, financial crises, liberalization, privatization and globalization have created high intensity and the impact of selected parameters such as advances in production technology, I.T. growth, communication network, financial crises, liberalization, privatization and globalization respectively has been of moderate degree.

Conclusion Micron Small and Medium Enterprises (MSMEs) contribute to economic development in various ways such as creating employment opportunities for rural and urban population, providing goods & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole. MSMEs in India face a number of problems - absence of adequate and timely banking finance, non-availability of suitable technology, ineffective marketing due to limited resources and non availability of skilled manpower. To make this sector to become more vibrant and significant player in development of the Indian economy the Government of India has taken various initiatives.

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