Literature Review

Report of the Prime Minister’s Task Force on Micro, Small and Medium Enterprises, 2010 :- Even after the enactment of the Act, there wasn’t considerable improvement of the development of SMEs and therefore the Prime Minister appointed a Task Force on MSMEs in 2010. The said Task Force considered the progress of SMEs and submitted its report and made following recommendations:

A. Measures that need immediate attention:

- The Stimulus package should be extended beyond March 31, 2010.

- Government must strictly observe the targets of credit flow to this sector from commercial banks. A separate fund be created to ensure funding the commercial banks to comply with the target.

- Public procurement policy for MSMEs as envisaged in the MSMED Act, 2006, should be introduced at the earliest.

- The Government should earmark additional funds for specifically targeting deficiencies in the existing infrastructural and institutional set up.

- The government should take steps to create an overall enabling environment using legal and fiscal instruments to incentives the transition of MSMEs from the unorganized to the organized sector as well as for their corporatization as entities.

- Ongoing exercise to introduce Direct Taxes Code and Goods and Services Tax to achieve the objectives.

- Detailing of schemes to avoid procedural delays

B. Medium Term Measures:

- Set up independent body at national level for the promotion and development of MSMEs. Expert Group be appointed to recommend on the structure and mandate of the said body.
- Set up of Standing Review Committee to monitor the flow of credit to MSME sector.
- Encourage Micro-finance institutions
- State Governments should set up Rehabilitation Funds supported by the Central Government and operationalise appropriate schemes for rehabilitation of units temporarily rendered sick due to circumstances beyond their control.
- New cluster for MSEs should be created to meet the requirements of planned development and growth.
- Establish SME Exchange
- Develop workable legal options to securitise trade credit receivables and promoting factoring services.
- Give wide publicity for Limited Liability partnerships and One Person Companies.
- Labour laws should be simplified.
- Additional measures to be taken for developing special packages for North Eastern Region States and the State of Jammu & Kashmir.

The Task Force noted that “None of the measures recommended would work unless their implementation status is monitored regularly at the highest level”.

Some of the successful measures taken for the development of SMEs in other countries can be summarized as follows:

- In USA, statutory annual goal for small business procurement by federal agencies is 23% of prime contracts. In addition, the following sub-goals have also been established.
- In Malaysia, in order to encourage greater participation of the bumiputeras (indigenous Malays), tenders from bumiputra companies receive preferential treatment in government contracts.
• In South Africa, the 2000 Preferential Procurement Policy Framework Act provides that a preference point system must be followed in awarding public contracts, in order to promote the advancement of people historically disadvantaged by unfair discrimination on the basis of race, gender or disability.

• In EUROPE, particularly in Germany and Italy, the Code of Best practices, helps public authorities to develop 'strategies', 'programmes' or 'action plans' with the specific aim of facilitating SMEs' access to public contracts. It also encourages Member States to learn from each other as they implement the new rules under the public procurement directives.

• A Single Market for goods and services is one of the main drivers of Europe's economy. It relies largely on the opportunities available for businesses to market goods and to provide or access services in the EU.

• A project on "Supporting the internationalization of SMEs" was launched in EU, to understand the barriers that impede greater SME involvement on international operations and the drivers that foster the process and to make efforts to achieve international growth and have a more international orientation.

• Japanese government has established support centers that provide so-called “One-Stop” assistance services in terms of both funds and non-material areas such as Marketing, human resources, information, and technologies in an attentive manner, to meet the diverse needs of SMEs on each of the national, prefectural and local levels.

• The focus of export promotion in China and Chinese Taipei is on financing supports such as loan guarantee and grants. The focus in Korea and Japan is on information and consulting services that enable SMEs to participate in the global market. In the Philippine, the main focus of export promotion is on brokerage supports that link SME exporters and foreign buyers.

• Malaysia has the strategic focus of SMEs’ innovation policies in integrating domestic SMEs into global production networks mainly through MNCs. Thus the selected best practice also emphasizes the technological linkage and technological collaboration of domestic SMEs with MNCs.
Cutting across all sections of production and services, MSME sector is truly a strategic asset for the economy of any country.

The existence of SMEs has also resulted in creation of a base for developing entrepreneurial talent in the country. With the economy rising at an encouraging rate, the pace of development of this sector has also been tremendous.

Small & Medium Enterprises / Organizations have awakened to the reality that human capital is one of the most important resources they possess and that it helps them to differentiate themselves in an otherwise homogenous and rapidly standardizing marketplace. It has become a widely held premise that the effective management of human capital, not just physical capital, may be the ultimate determinant of organizational performance (Adler, 1988; Reich, 1991).

**Strategic Action Plan, Ministry of Micro, Small and Medium Enterprises, 2006-07** :-
The vision of the Ministry of Micro, Small and Medium Enterprises decided to have a vibrant Micro, Small and Medium Enterprises (MSME) sector in India.

It envisioned that the sector will have a healthy growth with a large number of enterprises being set up and their graduation by upscaling into small and medium enterprises. This would be accompanied by enhancement of their contribution to the GDP, manufacturing output, employment and exports. For those already established, their upward graduation to next higher levels of investments and market shares would be welcomed. On an organizational level, transition of the sector from a predominantly unorganized to the organized sector, would be welcomed.

The Mission of the Ministry is to promote growth and development of Micro, Small and Medium Enterprises, including Khadi, Village and Coir industries, in cooperation with concerned Ministries / Departments, State Governments and other stakeholders by providing support to existing enterprises and encouraging creation of new enterprises.

Their avowed mission is to remove roadblocks that prevent the establishment and growth of MSME sector whether the roadblocks are internal (policy/fiscal/investment/faulty tax
regimes) or external (misuse of WTO regime including dumping, lack of access to export markets, etc.).

Presently, the MSME sector is associated, in public perception, with low quality standards. It is envisioned that the MSME sector will be upgraded through modern and new technologies to achieve global quality standards. Niche markets will be identified and developed for MSME products, including khadi and coir products.

The objective of the Ministry is to support and develop existing MSMEs; creation of new enterprises; support to Khadi, Village and Coir industries. The gamut of these objectives is a wide spectra of support to entrepreneurship and skill development of MSMEs and such other ancillary objectives so as to create a complete promotional eco system.

The functions of the Ministry include inculcation of entrepreneurial culture amongst youths, facilitation of credit flow to MSMEs, improving competitiveness of MSME, promotion of MSMEs through cluster-based approach, marketing support to MSMEs, creation of new Micro Enterprises through Prime Minister’s Employment Generation Programme (PMEGP), support to Khadi and Village Industries (KVI) sector, support to Coir Industry, entrepreneurship and skill development.

However despite the noble vision mission and objectives envisaged by the Ministry, the actual scenario even after five years is not as it should be. This raises some prime questions:

a) Whether the development of an SME is based on legislation such as the MSMED, Act, 2006?

b) Whether the SME management scenario would change post the said enactment?

c) How would the enactment keep up with the pace of migration from one class to another that is to say from micro to small and from small to medium and from medium to large,

d) Whether the benefits as envisaged in the said enactment have in fact reached this sector as contemplated? If not, the reasons therefore.

**DEFINITION:**

It may be noted that the SMEs are entities that:
1. do not have public accountability and
2. publish general purpose financial statements for external users.

We do not need to get tied up in defining what an SME is, but the scope of this paper is wider and seems to focus more at the larger end of the spectrum. These enterprises are generally closely controlled (ie have few shareholders). Often these businesses are controlled by persons who are either involved in the business on a day to day basis, or are related to such persons. Many such businesses are what may be described as “family businesses“, or “family owned businesses”, although many are controlled by “partners” who are not related by marriage. Of course, many family or closely controlled businesses are bigger than some of their listed counterparts. These larger businesses are outside the scope of this paper.

In line with this realization, many organizations are focusing their efforts on leadership development for managers and leaders at all levels. Also, with the changing business environment and India slowly evolving as one of the strongest business forces in the world, organizations are recognizing not just the growing importance but the changing nature of leadership required in companies today.

Given the changing dynamics at the local level as well as globally, it is imperative that there is uniformity in the development of the SMEs. The development as the new mantra states should be “inclusive” and the challenges are enormous. Adding to it are the recent economic crisis, a highly competitive Indian scenario and a high pressure to perform.

Hence the need of the hour today is to understand the power and value of the enactment to the “small and medium enterprises” development.. However there are challenges to determine the same as the small and medium enterprises function mainly in an unorganized manner and the data availability on this sector is not authentic and reliable.