



CHAPTER 9

MSME and Business Entrepreneurship

INTRODUCTION

Micro, Small and Medium Enterprises (MSME) contribute significantly to the development process and acts as a vital link in the industrialisation in terms of production, employment and exports for economic prosperity by widening entrepreneurial base and use of local raw materials and indigenous skills.

MSMEs play a significant role in the economic growth and contribute to 29.7 per cent of GDP and 49.66 per cent of exports. The sector offers employment to nearly 60 million people through 28.5 million enterprises, after the agriculture sector. This sector produces a wide range of products, from simple consumer goods to high-precision, sophisticated finished products. In India, the MSME consists of both 'traditional' and 'modern' small industries. This sector has eight subgroups. They are handlooms, handicrafts, coir, sericulture, khadi and village industries, small scale industries and power looms. Many global companies are increasingly looking to Indian MSMEs for strategic partnerships of mutual benefit due to the innovative capabilities in niche of low-cost manufacturing and local skills and capabilities.

MICRO, SMALL AND MEDIUM ENTERPRISES

It is important to know how size is defined in our country, with reference to MSME establishments. Several parameters can be used to measure the size of business units. These include the number of persons employed in business, capital invested in business, turnover of business, etc.

<u>Type of Units</u>	<u>Investment in Plant and Machinery</u>	<u>Turnover</u>
Micro Enterprises	1 Crore	Does not exceed 5 crore
Small Enterprises	10 Crore	Does not exceed 50 crore
Medium Enterprises	50 Crore	Does not exceed 250 core

Village Industries

Village industry has been defined as any industry located in a rural area which produces any goods, renders any service.

Cottage Industries

Cottage industries are also known as rural industries or traditional industries. They are not defined by capital investment criteria as in the case of other small-scale industries.

Role of MSME

MSME in India enjoy a distinct position in view of their contribution to the socio-economic development of the country. Development of MSME prevents migration of rural population to urban areas in search of employment and contributes to other socio-economic aspects, such as reduction in income inequalities, dispersed development of industries and linkage with other sectors of the economy. In fact promotion of MSME and rural industrialisation has

been considered by the Government of India as a powerful instrument for realising the twin objectives of 'accelerated industrial growth and creating additional productive employment potential in rural and backward areas.' The following points highlight their contribution.

(i) The contribution of these industries to the balanced regional development of our country.

(ii) MSME are the second largest employers of human resources, after agriculture. They are considered to be more labour intensive and less capital intensive. This is a boon for a labour surplus country like India.

(iii) MSME in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items, soaps and detergents, domestic utensils, leather, plastic and rubber goods, processed foods and vegetables, wood and steel furniture, paints, varnishes, safety matches, etc.

(iv) MSME which produce simple products using simple technologies and depend on locally available resources both material and labour can be set up anywhere in the country. Since they can be widely spread without any locational constraints, the benefits of industrialisation can be reaped by every region. They, thus, contribute significantly to the balanced development of the country.

(v) MSME provide ample opportunity for entrepreneurship. The latent skills and talents of people can be channelled into business ideas which can be converted into reality with little capital investment and almost nil formalities to start a small business.

(vi) MSME also enjoy the advantage of low cost of production. Locally available resources are less expensive. In fact, the low cost of production which small industries enjoy is their competitive strength.

(vii) Due to the small size of the organisations, quick and timely decisions can be taken without consulting many people as it happens in large sized organisations. New business opportunities can be captured at the right time.

Problems Associated with MSME

The potential of MSME is often not realised fully, because of several problems related to size and operations. In general the small businesses are faced with the following problems:

(i) Finance: One of the severe problems faced by MSME is that of non-availability of adequate finance to carry out its operations. Generally these businesses begin with a small capital base. Banks also do not lend money without adequate collateral security or guarantees and margin money, which many of them are not in a position to provide.

(ii) Raw materials: Another major problem of MSME is the procurement of raw materials. If the required materials are not available, they have to compromise on the quality or have to pay a high price to get good quality materials. Also, they cannot afford to take the risk of buying in bulk as they have no facilities to store the materials.

(iii) Managerial skills: These businesses are generally promoted and operated by a single person, who may not possess all the managerial skills required to run the business. Moreover, they may

not find enough time to take care of all functional activities. At the same time they are not in a position to afford professional managers.

(iv) Marketing: Marketing is one of the most important activities as it generates revenue. Marketing is a weaker area of small organisations. These organisations have, therefore, to depend excessively on middlemen, who at times exploit them by paying low price and delayed payments. Further, direct marketing may not be feasible for small business firms as they lack the necessary infrastructure.

(v) Quality: Many MSMEs do not adhere to desired standards of quality. Instead they concentrate on cutting the cost and keeping the prices low. They do not have adequate resources to invest in quality research and maintain the standards of the industry, nor do they have the expertise to upgrade technology.

(vi) Capacity utilisation: Due to lack of marketing skills or lack of demand, many firms have to operate below full capacity due to which their operating costs tend to increase. Gradually this leads to sickness and closure of the business.

(vii) Global competition: These enterprises face competition not only from medium and large industries, but also from multinational companies which are giants in terms of their size and business volumes.

MSME and Entrepreneurship Development

Entrepreneurship is the process of setting up one's own business as distinct from pursuing any other economic activity, be it

employment or practising some profession. The person who set-up his business is called an entrepreneur. The output of the process, that is, the business unit is called an enterprise. It is interesting to note that entrepreneurship besides providing self-employment to the entrepreneur is responsible to a great extent for creation and expansion of opportunities for the other two economic activities, that is, employment and profession. And, in the process, entrepreneurship becomes crucial for overall economic development of a nation.

The following are the characteristics of entrepreneurship:

(i) Systematic Activity: Entrepreneurship is a systematic, step-by-step and purposeful activity. It has certain temperamental, skill and other knowledge and competency requirements that can be acquired, learnt and developed, both by formal educational and vocational training as well as by observation and work experience.

(ii) Lawful and Purposeful Activity: The object of entrepreneurship is lawful business. Purpose of entrepreneurship is creation of value for personal profit and social gain.

(iii) Innovation: From the point of view of the firm, innovation may be cost saving or revenue-enhancing. Every entrepreneurial act results in income and wealth generation. Entrepreneurship is creative also in the sense that it involves innovation in introduction of new products, discovery of new markets and sources of supply of inputs, technological breakthroughs as well as introduction of newer organisational forms for doing things better, cheaper, faster and that causes the least harm to the ecology/ environment.

(iv) Organisation of Production: Entrepreneur, in response to a perceived business opportunity mobilises these resources into a productive enterprise or firm.

(v) Risk-taking: It is generally believed that entrepreneurs take high risks.

Intellectual Property Rights (IPR)

Over the past two decades, intellectual property rights have grown to a stature from where it plays a major role in the development of global economy. All inventions of creations begin with an 'idea'. Once the idea becomes an actual product, i.e., Intellectual Property, one can apply to the authority concerned under the Government of India for protection. Legal rights conferred on such products are called 'Intellectual Property Rights' (IPR). Intellectual property is divided into two broad categories: industrial property, which includes inventions (patents), trademarks, industrial designs and geographical indications, while the other is copyrights, which includes literary and artistic works, such as novels, poems, plays, films, musical works, artistic works, such as drawings, paintings, photographs and sculptures and architectural designs.

The following types of Intellectual Property Rights are recognised in India: Copyright, Trademark, Geographical Indication, Patent, Design, Plant Variety, and Semiconductor Integrated Circuit Layout Design.

Another type of IP is Trade Secrets. A trade secret is basically any confidential information which provides a competitive edge. Trade secrets in India are protected under the Indian Contract Act, 1872.

Why is IPR Important for Entrepreneurs?

It encourages creation of new, path breaking inventions. It allows the work created by a person to be distributed and communicated to the public only with his/her permission. Therefore, it helps in the

prevention of loss of income. It helps authors, creators, developers and owners to get recognition for their works.

TYPES OF IPS

IPRs are extremely essential for fostering creativity and contribute towards the economic growth of a nation. Such rights allow creators and inventors to have control over their creations and inventions. These rights create incentives for artists, entrepreneurs and inventors to further commit the necessary resources to research, develop, and market new technology and creative works.

Copyright

Copyright is the right to “not copy”. It is offered when an original idea is expressed by the creator or author. It is a right conferred upon the creators of literary, artistic, musical, sound recording and cinematographic film. The copyright is an exclusive right of the creator to prohibit the unauthorised use of the content which includes reproducing and distributing copies of the subject matter. The unique feature of copyright is that, the protection of work arises automatically as soon as the work comes into existence. The registration of the content is not mandatory but is essential to exercise exclusive rights in case of an infringement.

Trademark

A trademark is any word, name, or symbol (or their combination) that lets us identify the goods made by an individual, company, organization, etc. Trademarks also let us differentiate the goods of one company from another. A trademark helps in distinguishing similar products in the market from its competitors.

Trademark may be categorised as Conventional and Non-Conventional trademark—

(i) Conventional Trademark: Words, colour combination, label, logo, packaging, shape of goods, etc.

(ii) Non-Conventional Trademark: Under this category those marks are considered which were not considered distinctive previously but started getting recognition with the passage of time.

The registration of trademark is not mandatory under the Trademark Act 1999, but registration of trademark helps establish exclusive rights over the mark.

Geographical Indication

A Geographical Indication (GI) is primarily an indication which identifies agricultural, natural or manufactured products (handicrafts, industrial goods and food stuffs) originating from a definite geographical territory, where a given quality, reputation or other characteristic are essentially attributable to its geographical origin. GIs are part of our collective and intellectual heritage that need to be protected and promoted.

Patent

A 'patent' is an exclusive right granted by the Government which provides the exclusive 'right to exclude' all others and prevent them from making, using, offering for sale, selling or importing the invention. For an invention to be patentable, it must be new, non-obvious to any person who is skilled in the relevant field of technology and must be capable of industrial application.

Patent can only be filed to get rights over an invention and not discovery. The purpose of patent is to encourage innovation in the scientific field. A patent grants exclusive rights to the inventor for a period of 20 years, during which anybody else who wishes to use the patented subject matter needs to seek permission from the patentee, by paying certain costs for the commercial use of such an invention. This process of seeking exclusive rights of the patentee for a fee is called Licensing. Patent creates a temporary monopoly. Once the term of a patent expires, the invention is in public domain which means it is free for use by people. This prevents the patentee from involving in anti-competitive practices like creating monopoly, etc.

Design

A 'design' includes shape, pattern, and arrangement of lines or colour combination that is applied to any article. It is a protection given to aesthetic appearance or eye-catching features. The term of protection of a design is valid for 10 years, which can be renewed for further 5 years after expiration of this term, during which a registered design can only be used after getting a license from its owner and once the validity period is over, the design is in public domain.

Plant Variety

Plant Variety is essentially grouping plants into categories based on their botanical characteristics. Such protection promotes investment in R&D, recognizes Indian farmers as cultivators, conservers and breeders as well as facilitates high quality seeds and planting material. This leads to the growth of the seed industry.

Semiconductor Integrated Circuits Layout Design

A semiconductor is an integral part of every computer chip. Any product that contains transistors and other circuitry elements used and formed on a semiconductor material, as an insulating material, or inside the semiconductor material. Its design is to perform an electronic circuitry function. Whether a business is establishing its presence in the marketplace or is already well-entrenched, protecting and managing its intellectual property is crucial in taking the business ahead.

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