

ROLE OF MSMES IN STIRRING THE SOCIAL ECONOMY AT BENGALURU

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) in Bengaluru is a critical contributor to the economic escalation and employment generation. This study aims to explore the issues regarding the performance and progress of MSMEs. The study is descriptive in nature, both primary and secondary data collected and appropriate statistical tools employed to draw the inherent facts about MSMEs performance. The study divulged that the MSME sector in Bengaluru faces challenges, such as access to finance, infrastructure constraints, and regulatory compliance. MSMEs rely on traditional banking channels for financing, while few look for NBFIs because of their flexible lending criteria. The future growth and prospects of MSMEs in the services industry are promising. By embracing innovation, collaboration, sustainability, talent development, market differentiation, customer-centricity, agility, resilience, continuous improvement, adoption of emerging technologies, focus on data analytics, expansion into niche markets, and adoption of flexible business models, MSMEs can unlock their full potential and grow. With the right support, resources, and strategies, MSMEs can take advantage of the growing demand for services and emerging opportunities in the digital economy.

Introduction

The Micro, Small and Medium Enterprises (MSME) sector is a major contributor to the socio economic development of Bengaluru. It is the Silicon Valley of India because of its prosperous IT industry. The MSME sector in Bengaluru includes a wide range of industries like electronics, food processing, textiles, service and engineering, Retailing etc. Regardless of being a momentous contributor to the economy, the MSME sector in Bengaluru exposed to numerous challenges. This study aims to explore the issues regarding the performance and progress of MSMEs. One of the vital issue is raising finance. MSMEs in Bengaluru struggle to get loans from banks and other financial institutions due to their diminutive size, lack of collateral, and credit record limitations. In addition to that the MSME sector in Bengaluru is having the issue that lack of skilled workers. The city has a huge demand for skilled workers; however the education system does not always supply with relevant training. Even with these

challenges, the MSME sector in Bengaluru has several sources of support. The Government of India has launched several initiatives to promote and support the MSME sector, such as the Prime Minister's Employment Generation Programme, which provides financial assistance to entrepreneurs to set up new enterprise. In the report submitted to the Reserve Bank of India, the Expert Committee on MSMEs has [1], mentioned the lack of adequate funding, high cost of technology, shortage of skilled manpower and lack of collaboration among R&D institutions, academic institutions and MSMEs as the main obstacle for innovation of MSME sector. Indian MSMEs in general have shortage of financial resources issues. This issue is mainly with the Micro organizations as most of these firms are very small in size. Micro(tiny) firms comprise 99.47% of the total MSMEs [2]. Benefits of Innovation- In the Silicon Valley CEOs meeting 2015, the Prime Minister Narendra Modi mentioned, 'I see technology as a means to empower and as a tool that narrows the distance between hope and opportunity' [3]. The study tries to find out the ways and means to overcome the issues faced and unlock the MSME's optimum potential and achieve sustained growth and success in the globalized scenario.

The Karnataka government has also launched various schemes to support the MSME sector in Bengaluru, such as the Karnataka MSME Policy, which aims to provide a conducive environment for the growth of MSMEs in the state. The Karnataka State Finance Corporation and the Small Industries Development Bank of India are few other sources of financial support for MSMEs in Bengaluru. In recent years, Bengaluru has emerged as a hub for entrepreneurship and innovation, attracting start-ups and MSMEs across the country. The city's vibrant ecosystem, characterized by a encouraging business environment, access to talent, and robust infrastructure, has propelled the growth of the MSME sector. In line with rapid growth, the MSME sector in Bengaluru faces multifaceted challenges that warrant attention and strategic intervention. Beyond access to finance and skilled labours, other challenges such as regulatory compliance, infrastructure bottlenecks, and market access constraints pose significant hurdles to the sector's sustainable development.

Research Methodology

Descriptive research method was used for this study. Bearing in mind the following objectives of the research

1. To study the current status and evaluate the overall growth and developments in the MSME sector at Bengaluru.
2. To identify the vital challenges faced by the MSME sector as well as to study future prospects of MSME.
3. To suggest the way outs to overcome the challenges faced by the MSME sector in Bengaluru.

The samples were selected across Bengaluru which includes food processing industry, engineering industry, garments manufacturing industry, automobile industry, chemical industry, handicrafts plants. Primary and secondary sources of data are collected for the study. Primary data were collected through a structural interview schedule by using questionnaires. The primary data were collected from sample of micro and small enterprises, engaged in proprietor, company, cooperative, engineering

industries. Secondary data collected from available literature and published sources like industry department of micro small and medium enterprises, books, journal, website, government records etc. The sample size of the research was 124. By using convenient sampling method 124 respondents from different enterprises across Bengaluru was taken into account. Factor analysis used for analysis and interpretation of data collected through the survey.

The main need of the study is to analyses the challenges faced by MSMEs (Micro, Small and Medium Enterprises) in Bengaluru is important for several reasons. First, MSMEs are the backbone of the Indian economy, and they play a crucial role in generating employment, promoting innovation, and supporting economic growth. Second, Bengaluru is one of the most important MSME hubs in India, and understanding the challenges faced by MSMEs in this Region can help policy makers and entrepreneurs develop targeted interventions and strategies to support the growth of these businesses.

Result and Discussion

MSMEs serve as crucial drivers of economic growth worldwide, offering significant employment and income opportunities. The Karnataka government has implemented supportive schemes, notably the Karnataka MSME Policy, to foster the growth of MSMEs in Bengaluru. Financial abet is available through entities like the Karnataka State Finance Corporation and the Small Industries Development Bank of India to bolster MSMEs in the city. These initiatives aim to create an enabling environment for MSMEs, enhancing their contribution to the state's economic development.

Factor Analysis

Factors chosen for analysis

For choosing effective production system to gain competitive advantage, certain factors are to be considered. They are

- | | |
|---|--|
| X ₁ – Estimation of financials | X ₂ – Assessing demand and supply |
| X ₃ – Quality control Mechanism | X ₄ – Optimizing Capacity utilization |
| X ₅ – Inventory management | X ₆ – Maintenance system |
| X ₇ – Reduction of errors and wastages | X ₈ – Working capital optimization |
| X ₉ – Monitoring and Controlling | |

Factor loading

Simple correlation between the variables and factors is studied with the help of factor matrix, containing the factor loading on the factors. In the present study, factor analysis has been applied to assess the major attributes to be considered before choosing effective production system. A correlation matrix has been constructed based on the ratings. The analytical process is based on the matrix of correlation between variables. Valuable insight can be gained from an examination of this matrix. To evaluate the appropriateness of factor analysis, the variables must be correlated. If the correlation between all the variables is small factor analysis may not be appropriate. In the inter correlation matrix the correlation of all the variables are in good fit and factor analysis may be appropriate.

Table 1. Component Matrix^a

Parameters	Component	
	1	2
Maintenance system	0.726	-0.107
Working capital optimization	0.723	-0.218
Optimizing Capacity utilization	0.708	-0.205
Monitoring and Controlling	0.685	-0.159
Reduction of errors and wastages	0.683	-0.265
Inventory management	0.670	-0.227
Quality control Mechanism	0.608	0.239
Assessing demand and supply	0.566	0.549
Estimation of financials	0.564	0.648

Source : Primary data

Extraction Method: Principal Component Analysis

a. 2 components extracted.

Component matrix

The above table is a correlation matrix on the ratings. The analytical process is based on a matrix correlation between the variables. If the correlations between all the variables are small, factor analysis may not be appropriate.

Table 2. KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.878
	Approx. Chi-Square	1.297E3
Bartlett's Test of Sphericity	Df	36
	Sig.	0.000

Source: Primary data

The above table shows the result of Bartlett’s test of sphericity and Kaiser-Meyar-Olkin measure of sampling adequacy. Since the appropriate chi-square statistic is 1.297E3 which is significant at 1% level, the test leads to rejection of null hypothesis. The value of KMO statistic (0.878) is also high (greater than 1% level), Hence the factor analysis may be considered as an appropriate technique for analyzing.

Table 3. Communalities

Parameters	Initial	Extraction
Estimation of financials	1.000	0.738
Assessing demand and supply	1.000	0.621
Quality control Mechanism	1.000	0.427
Optimizing Capacity utilization	1.000	0.544

Inventory management	1.000	0.500
Maintenance system	1.000	0.538
Reduction of errors and wastages	1.000	0.536
Working capital optimization	1.000	0.570
Monitoring and Controlling	1.000	0.494

Source: Primary data.

Extraction Method: Principal Component Analysis

Table 4. Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	%of Total Variance	Cumulative %		%of Total Variance	Cumulative %		%of Total Variance	Cumulative %	
1	3.943	43.809	43.809	3.943	43.809	43.809	3.137	34.852	34.852
2	1.026	11.396	55.205	1.026	11.396	55.205	1.832	20.353	55.205
3	0.751	8.348	63.552						
4	0.707	7.859	71.412						
5	0.615	6.830	78.242						
6	0.582	6.463	84.705						
7	0.514	5.716	90.421						
8	0.470	5.226	95.647						
9	0.392	4.353	100.000						

Extraction Method: Principal Component Analysis.

It is observed that the labeled Eigen value for a factor indicates total variance attributed to the factor. Factor one account for 3.943 which is 43.809 percent of total variance. Likewise the second factor accounts for 1.026 which is 11.396 percent of total variance. The two factors show the variance of 1.026. The cumulative value 55.205 percent represents combination of these two factors.

Determination of factors based on Eigen values

In this approach only the factors having Eigen values greater than 1.0 are retained. The other factors are not included in this model. Since there are two components that posses Eigen values which are greater than 1.0, two components are said to be extracted from the total of nine factors.

Table 5. Rotated Component Matrix^a

Parameters	Component	
	1	2
Working capital optimization	0.730	0.195
Reduction of errors and wastages	0.720	0.134

Optimizing Capacity utilization	0.710	0.198
Inventory management	0.689	0.159
Maintenance system	0.673	0.291
Monitoring and Controlling	0.666	0.225
Estimation of financials	0.139	0.848
Assessing demand and supply	0.193	0.764
Quality control Mechanism	0.392	0.523

Source: Primary data

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

It is divulged that only two variables are influencing at high level for choosing effective production system to gain competitive advantage in Small Scale Industries. They are Estimation of financials and Assessing demand and supply which shows 55.205 level of variance [4]. Study also revealed universally accepted outdated technology and primitive manufacturing practices are the major challenges of Indian MSMEs. There is necessity for technological up gradation of the units and modernization of practices. Increasing the quality and upgrading the technology are indispensable for enhancing competitive advantage for the MSME sector.

Present growth, performance and contributions of MSMEs in Bengaluru

In view of Ministry of Micro, Small and Medium Enterprises, over 8 lakhs registered MSMEs in Bengaluru, employing more than 50 lakhs. The sector has been an essential source of employment and entrepreneurship opportunities for the city's residents, providing a significant boost to the local economy. One of the vital factor contributing to the growth of MSMEs in Bengaluru has been the city's reputation as a technology hub. With a thriving startup ecosystem, relatively vast pool of talented tech professionals, and access to the latest technologies, MSMEs in the city have been able to develop innovative products and services that have helped them compete in the global market.

The government of Karnataka has also played a crucial role in supporting the growth of MSMEs in the state, including Bengaluru. Through various initiatives, such as providing financial assistance, access to technology, and business incubation facilities, the government has been able to create an enabling environment for MSMEs to thrive. Government has also introduced policies to encourage MSMEs to adopt sustainable and eco-friendly practices. The micro, small and medium enterprises (MSME) sector in Bengaluru plays a crucial role in contributing to Employment Generation over 7 lakh, Nation's GDP contribution, export earnings of India, Innovation Hub with several startups and small businesses being set up here in Bengaluru, Women Empowerment -the city has several women entrepreneurs who have set up successful businesses. Technological Advancement to improve their productivity and efficiency, Diversified Products ranging from software development

to manufacturing and service. Competitive advantage due to availability of resources and infrastructure, vibrant entrepreneurial, eco system contributing to Sustainable development and that supports the growth of MSMEs, with several incubation centers, accelerators and funding options available.

Challenges faced by MSME sector in Bengaluru

Micro, Small and Medium Enterprises (MSMEs) are commonly facing with problems that are rare to the larger companies. In this research through factor analysis it is divulged that currently, Micro, Small, and Medium Enterprises (MSMEs) in Bengaluru face several challenges and problems like Access to finance: Skilled labor shortage, Infrastructure, Market access and Global Competition, Access to Information & Training, Access to Government Support and Regulatory challenges, [5] study also reveals Government policy-covers every aspect of innovation including availability of finance, technology, market supportive events, and building of Research and Development and educational institutions-remains one of the important aspect in MSME innovation. A significant challenge faced by MSMEs in Bengaluru is the slow adoption of technology. Many MSMEs still rely on traditional methods of production and do not have access to the latest technology and tools [1].

A significant challenge faced by MSMEs in Bengaluru is the slow adoption of technology. Many MSMEs still rely on traditional methods of production and do not have access to the latest technology and tools. Lack of innovation: MSMEs in Bengaluru struggle to innovate and bring new products and services to market. This is partly due to a lack of resources, limited access to research and development, and insufficient knowledge about the latest trends and market demands. Study also revealed from the study conducted in Indonesia on existing MSMEs for at least five years. It is found that there are 5 inhibiting factors of MSMEs' technological innovation: government support, quality of employees, finance for adopting technological innovation, economic environment and business partners. Conduct market research: Understanding the customers' needs and preferences, as well as competitors' offerings, can help the enterprise to adapt products and services to better meet demand and gain a competitive edge [6].

Lack of financial management has been confining the growth of any enterprise; and at the same time, the use of funds got impressed the use of all the other resources. Any type of entrepreneurial activity obsessed with production, marketing, personnel, and the like, ultimately turn around the availability of financial resources. Financial Management has been the significant factor which determines whether a business will be successful in the long run. Bengaluru is home to many Micro, Small and Medium Enterprises (MSMEs) which creates intense competition among them. Small businesses must compete with established and large enterprises, which can make it challenging for MSMEs to gain market share and grow. With globalization, MSMEs in Bengaluru are not only competing with local businesses but also facing competition from international companies. Adapting to global standards and competing on a global scale can be daunting for smaller enterprises.

Creating a website, social media profiles, and using digital marketing techniques such as search engine optimization (SEO) and pay-per-click advertising can

help you reach a wider audience and increase sales, [7] divulged around 5 to 6% MSMEs which have ensured their digital presence. These lacks of adoption to digitalization in business practices by the MSMEs has left them deprived of the prospective raise in income through enhanced operational effectiveness and widen customer coverage. Therefore, the need to put the SMEs on digitalization track has been recognized by the respective stakeholders and the process of digitalization has started shaping the MSME firms. Diversifying the enterprise offerings can help them to attract more customers and generate additional revenue streams, providing excellent customer service can help build loyalty and encourage repeat business. Embracing environmentally friendly practices can not only reduce the enterprise's ecological footprint but also appeal to environmentally conscious consumers and enhance brand reputation and developing strong leadership capabilities within the organization can provide direction, inspire confidence, and foster a culture of accountability and innovation.

Addressing these challenges requires a concerted effort from various stakeholders, including government agencies, industry associations, financial institutions, and educational institutions. By addressing these challenges effectively, the MSME sector in Bengaluru can unlock its full potential and contribute more effectively to economic growth and development.

Government initiatives to promote Bengaluru MSME sector

Considering the socio-economic development of Bengaluru, the government has provided several reforms to MSME sector. Provide financial assistance to MSMEs, including low-interest loans, subsidies, and tax incentives, to help them overcome the challenges of starting and scaling a business. Create a, suppliers, and investors. This portal could also provide information on government schemes, regulatory compliance, and other resources. Develop a training and skill development program for MSMEs, to help them enhance their technical and managerial capabilities and compete effectively in the market. Organize regular exhibitions, trade fairs, and networking events, comprehensive online portal to connect MSMEs with buyers and suppliers, and learn about the latest industry trends and technologies. Establish a dedicated start-up incubation center to provide mentorship, training, and funding assistance to early-stage MSMEs [8].

Encourage collaboration and innovation among MSMEs by launching a start-up accelerator program, where small businesses can collaborate with researchers, industry experts, and investors to develop new products [9]. Streamline regulatory processes and reduce the bureaucratic burden on MSMEs, by establishing a one-stop-shop for all government clearances and approvals. Partner with private sector players, such as venture capital firms, industry associations for R&D, and large corporate, to provide funding, mentoring, and market access to MSMEs in Bengaluru [1]. The Government of India has launched various schemes to extend the financial support to the MSME sector such as the Prime Minister's Employment Generation Programmed (PMEGP), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), and etc. Government is extending the supporting hand to the MSMEs in creating awareness and upgrading of technology from side to side workshops, trade fair,

seminars and subsidies to procuring the technology also [10]. Addressing the Silicon Valley CEOs in 2015, the prime minister Narendra Modi had said 'I see technology as a means to empower and as a tool that bridges the distance between hope and opportunity' [3].

Conclusion

To conclude, With the favorable ecosystem for startups and entrepreneurship, Bengaluru has emerged as one of the top destinations for MSMEs in India. The city's well-established IT infrastructure, availability of skilled workforce, and supportive government policies has further strengthened its position as a hub for MSMEs. The government has also announced several measures to support the sector, including financial assistance, skill development programs, and technology up gradation initiatives. MSME sector with the right support and policies, it has the potential to further contribute to the city's economic growth and development. However, there are some areas where the MSME sector in Bengaluru faces challenges, such as access to finance, infrastructure constraints, and regulatory compliance. To overcome these challenges, it is important for MSMEs in Bengaluru to adopt innovative and technology-driven approaches and collaborate with other players in the ecosystem.

Innovation espousal, collaboration, sustainability, talent development, market differentiation, agility, resilience, continuous improvement, adoption of emerging technologies, focus on data analytics, expansion into niche markets, and adoption of flexible business models, MSMEs can unlock their full potential and achieve sustained growth and success in the dynamic and competitive services landscape. With the right support, resources, and strategies, MSMEs can take advantage of the growing demand for services and emerging opportunities in the digital economy to achieve sustained growth and success

Avenues for further research prospects of MSMEs in the services sector looks very positive, online platforms and its impact on MSMEs performance, Government aids, globalization impact towards the MSMEs performance, and shift in consumer taste and preferences.

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