

Pimpri Chinchwad Education Trust's
S.B. Patil Institute of Management

Conference Proceedings on
**Innovation in Management
Practices for the Sustainable
Development Goals**



Editors

- Dr. Kirti Dharwadkar
- Dr. Padmalochana Bisoyi
- Dr. Bhushan Pardeshi

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ABSTRACT

Micro, small and medium enterprises (MSMEs) are amongst the strongest drivers of the economy with a vast network of about six crore enterprises, contributing about 45 per cent to manufacturing output, 50 per cent to exports, around 30 per cent to GDP, and creating employment for about 11 crore — second only to agriculture. This sector mirrors the diversity in the economy in terms of the size of these enterprises, the variety of products and services, and the levels of tech employed. MSMEs have been inordinately affected by the COVID-induced lockdown, transport disruptions, severance of supply chains, social distancing measures owing to their dominant presence in economic sectors like retail, trading and services. This disruptive effect has been compounded due to their limited financial resources and borrowing capacity. The government has introduced a slew of legislative, regulatory and financial measures to support the MSME sector amidst this unprecedented crisis unleashed by the pandemic. The area of review mainly focuses of MSME and sustainable development of MSMEs. The paper was also trying to focuses the new definition toward MSMEs sustainable development.

Keywords: MSME, Sustainability, Issues of MSME.

INTRODUCTION

On 26th June 2020, the Ministry of Micro, Small and Medium Enterprises notified certain criteria for classifying enterprises as micro, small and medium enterprises (MSMEs) and specified the form and procedure for filing the applicable memorandum (the Udyam registration), with effect from 1st July, 2020. The change in the classification of MSMEs is a part of the relief package offered to the MSME sector amid the COVID-19 outbreak. This reclassification has been well received across sectors as it will help MSMEs to increase in size without losing their entitled benefits. The expanded ambit now allows a larger pool of enterprises to get the benefits of the MSME Act and pandemic-induced reforms. Micro, small and medium enterprises (MSMEs) are amongst the strongest drivers of the economy with a vast network of about six crore enterprises, contributing about 45 per cent to manufacturing output, 50 per cent to exports, around 30 per cent to GDP, and creating employment for about 11 crore — second only to agriculture. This sector mirrors the diversity in the economy in terms of the size of these enterprises, the variety of products and services, and the levels of tech employed.

MSMEs have been inordinately affected by the COVID-induced lockdown, transport disruptions, severance of supply chains, and social distancing measures owing to their dominant presence in economic sectors like retail, trading and services. This disruptive effect has been compounded due to their limited financial resources and borrowing capacity. The government has introduced a slew of legislative, regulatory and financial measures to support the MSME sector amidst this unprecedented crisis unleashed by the pandemic.



IMPORTANCE OF MSMEs FOR INDIAN ECONOMY

- **Employment:** It is the second largest employment generating sector after agriculture. It provides employment to around 120 million persons in India.
- **Contribution to GDP:** With around 36.1 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11 per cent of the manufacturing GDP and 24.63 per cent of the GDP from service activities.
 - MSME ministry has set a target to up its contribution to GDP to 50 per cent by 2025 as India becomes a \$5 trillion economy.
- **Exports:** It contributes around 45 per cent of the overall exports from India.
 - **Inclusive growth:** MSMEs promote inclusive growth by providing employment opportunities in rural areas especially to people belonging to weaker sections of the society.
For example: Khadi and Village industries require low per capita investment and employ a large number of women in rural areas.
- **Financial inclusion:** Small industries and retail businesses in tier-II and tier-III cities create opportunities for people to use banking services and products.
- **Promote innovation:** It provides opportunity for budding entrepreneurs to build creative products boosting business competition and fuels growth.

Thus, Indian MSME sector is the backbone of the national economic structure and acts as a bulwark for Indian economy, providing resilience to ward off global economic shocks and adversities.

MSME REDEFINED

The Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018 proposes to reclassify all MSMEs, whether they are manufacturing or service-providing enterprises, on the basis of their annual turnover.

Earlier and Revised Definition of MSMEs			
Earlier MSME Classification			
Criteria: Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Manufacturing Enterprises	Investment < ₹ 25 lac	Investment < ₹ 5 cr.	Investment < ₹ 10 cr.
Services Enterprise	Investment < ₹ 10 lac	Investment < ₹ 2 cr.	Investment < ₹ 5 cr.
Revised MSME Classification			
Composite Criteria: Investment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment < ₹ 1 cr. & Turnover < ₹ 5 cr	Investment < ₹ 10 cr. & Turnover < ₹ 50 cr.	Investment < ₹ 20 cr. & Turnover < ₹ 100 cr.
<i>Source: Ministry of Finance</i>			

- The bill was introduced in the Lok Sabha and further referred to the Standing Committee which tabled its report on 28th December, 2018.

BENEFITS OF PROPOSED RECLASSIFICATION

- The new classification would eliminate the need for frequent inspections which was earlier required to check the investment in plant and machinery.
- It would be a non-discriminatory, transparent and objective criterion.

FACTORS WHICH LED TO GROWTH OF MSMEs

- Campaigns like Skill India, Startup India, Digital India and Make in India aim to provide MSME players with a level playing field and a definitive push towards enhanced productivity.
- Digitization – Increasing internet penetration, customer's familiarization with digital payments fuelled by B2C ecommerce players facilitate MSME sector growth.
- Tie-ups with new-age non-banking finance (FinTech) companies allowed access to timely collateral free finance to MSMEs.
- Changing employment patterns – Younger generation shifting from agriculture towards entrepreneurial activities creating job prospects for others.

ISSUES FACED BY MSMEs AND STEPS TAKEN TO IMPROVE THEIR CONDITION

Issues and Challenges	Steps Taken
<p>Access to Credit</p> <ul style="list-style-type: none"> ● 90 per cent of the MSMEs are dependent on informal sources for funding ● Lack of sufficient collateral and high working capital needs 	<ul style="list-style-type: none"> ● Launch of the 59 minute loan portal to enable easy access to credit for MSMEs. ● 2 per cent interest subvention for all GST registered MSMEs, on fresh or incremental loans. ● Trade Receivables e-Discounting System (TReDS) to enable access to credit from banks, based on their upcoming trade receivables from corporate and other buyers.
<p>Access to Markets</p> <ul style="list-style-type: none"> ● Low outreach and non-availability of new markets. ● Lack of skilled manpower and ineffective marketing strategy ● Difficult for MSMEs to sell products to government agencies ● Competition from MNCs and other big industries 	<ul style="list-style-type: none"> ● Union Government announced to launch an e-commerce platform on the lines of “Amazon and Alibaba” to sell products from MSMEs and the Khadi and Village Industries Commission. ● Public sector companies now compulsorily procure 25 per cent, instead of 20 per cent of their total purchases, from MSMEs. ● More than 40,000 MSMEs registered on Government e-Marketplace (GeM) portal. It provides transparency in procurement and facilitates MSMEs to directly reach out to the buyers.
<p>Technology Access</p> <ul style="list-style-type: none"> ● Limited human resources and weak financial standing ● MSMEs, particularly in the unorganized sector, show lower adaptability of new technology and innovation 	<ul style="list-style-type: none"> ● 20 hubs and 100 spokes in the form of tool rooms will be established across the country. This will facilitate product design and easy access to latest technology to MSMEs. ● Financial assistance is provided for implementation of lean manufacturing techniques to enhance the manufacturing competitiveness of MSMEs.
<p>Quality and Export Issues</p> <ul style="list-style-type: none"> ● Low quality products impact export competitiveness ● Inadequate access to quality raw materials ● Use of traditional machines causes low productivity 	<ul style="list-style-type: none"> ● Financial support to MSMEs in ZED (Zero Defect Zero Effect) certification to improve quality of products. ● Government provides subsidy towards the expenditure incurred by enterprises to obtain the product certification licenses from national and international bodies.

<p>Ease of Doing Business</p> <ul style="list-style-type: none"> ● Cumbersome government procedures and rules for establishing new units ● Bureaucratic delays in getting clearances ● Poor litigation system in the country 	<ul style="list-style-type: none"> ● The return under 8 labor laws and 10 Union regulations must now be filed only once a year. ● Computerized random allotment for inspector visits to the establishment. ● Environmental Clearance under air pollution and water pollution laws, have been merged into one. Also, the return will be accepted through self-certification. ● For minor violations under the Companies Act, the entrepreneur will no longer have to approach the courts, but can correct them through simple procedures. This signifies simplification of government procedures and instilling confidence among entrepreneurs.
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GOVERNMENT SCHEMES TO PROMOTE MSMEs

- **Udyami Mitra Portal:** Launched by SIDBI to improve accessibility of credit and handholding services to MSMEs.
- **MSME Sambandh:** To monitor the implementation of the public procurement from MSMEs by Central Public Sector Enterprises.
- **MSME Samadhaan:** MSME Delayed Payment Portal will empower Micro and Small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments/CPSEs/State Governments.
- **Digital MSME Scheme:** It involves usage of Cloud Computing where MSMEs use the internet to access common as well as tailor-made IT infrastructure
- **Prime Minister Employment Generation Programme:** It is a credit-linked subsidy program under Ministry of MSME.
- **Revamped Scheme of Fund for Regeneration of Traditional Industries (SFURTI):** It organizes traditional industries and artisans into clusters and make them competitive by enhancing their marketability and equipping them with improved skills.
- **A Scheme for Promoting Innovation, Rural Industry and Entrepreneurship (ASPIRE):** It creates new jobs and reduce unemployment, promotes entrepreneurship culture, facilitates innovative business solution etc.
- **National Manufacturing Competitiveness Programme (NMCP):** To develop global competitiveness among Indian MSMEs by improving their processes, designs, technology and market access.
- **Micro and Small Enterprises Cluster Development Programme (MSE-CDP):** It adopts cluster development approach for enhancing the productivity and competitiveness as well as capacity building of MSMEs.
- **Credit Linked Capital Subsidy Scheme (CLCSS):** It is operational for upgradation of technology for MSMEs.

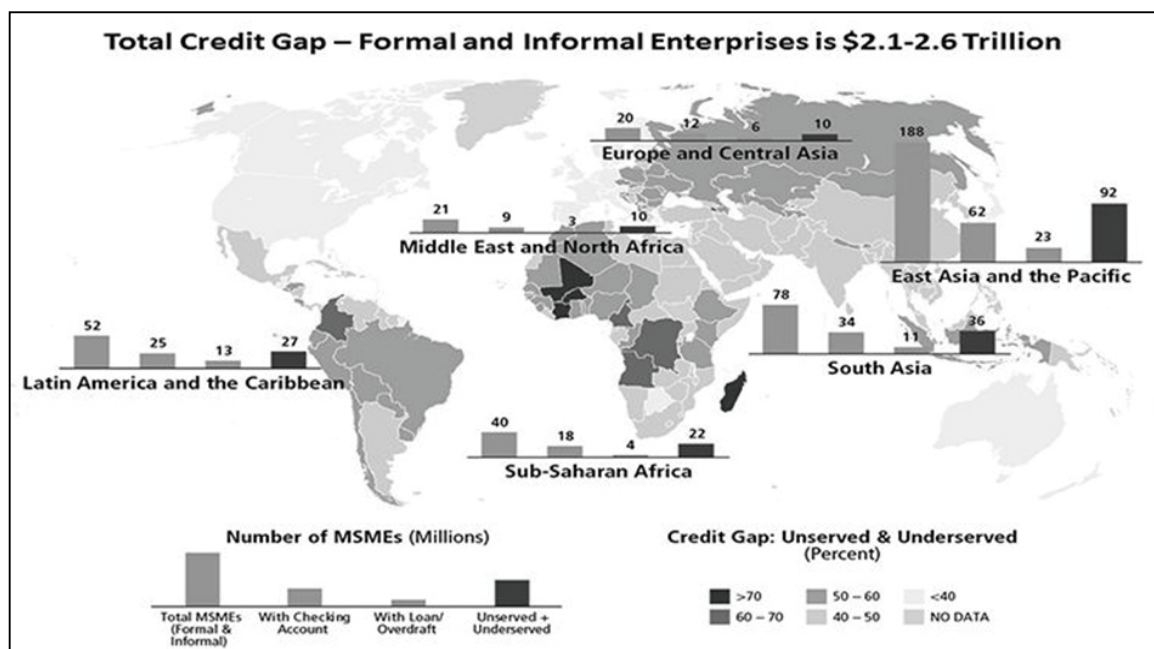
OTHER RECENT INITIATIVES TO PROMOTE MSMEs

- In June 2019, **RBI Committee** headed by former **SEBI Chairman UK Sinha** suggested a ₹ 5,000 crore stressed asset fund for the MSME sector to provide relief to small businesses hurt by **demonetization, GST**, and an ongoing **liquidity crisis**.
 - It has also recommended doubling **the cap on collateral-free loans to ₹ 20 lakh** from the current ₹ 10 lakh extended to borrowers falling under the Mudra scheme, self-help groups, and MSMEs.
- MSME Ministry announced in June 2019 to lift the ban on entry of **corporates and private players** in the MSME sector to pave way for the formation of **700 clusters** to reduce dependence on imports as well as for job creation.
- MSME Ministry is also planning to set up **enterprise facilitation centres** across the country to make smaller businesses more competitive and help them integrate with big enterprises.

Therefore, the government should continue to put concerted efforts for holistic development of MSMEs in key areas like **human capacity development, knowledge services, access to finance, technology, infrastructure, market access, and ease of doing business**.

INTERNATIONAL EXPERIENCES

- According to World Bank, formal SMEs contribute up to 60 per cent of total employment and up to 40 per cent of national income (GDP) in emerging economies.
- 600 million jobs will be needed in the next 15 years to absorb the growing global workforce, mainly in Asia and Sub-Saharan Africa. In emerging markets, most formal jobs are generated by SMEs, which also create 4 out of 5 new positions.
- However, access to credit remains a major problem to the MSME sector globally.



In globalized world, it is imperative to enable MSMEs to adapt and thrive in a more open environment and participate more actively in the digital transformation, to boost economic growth and deliver a more inclusive globalization.

Way Forward

- Today, enterprises need to adopt best practices and follow international standards to go forward for offering innovative solutions.
- Focus should be on transfer of information and skill development to effectively use the transferred technology.
- There is an urgent need to upgrade infrastructure utilities (like water, power supply, road/rail) for any enterprise to run its operations successfully.
- Entrepreneurs need to develop quality conscious mindsets embedded in the organizational culture.
- Sensitization and handholding of MSMEs at different and upgraded level of certification is the need of the hour.

Finally, as recommended by **India MSME Report 2018**, we need an entitlement approach that can have the potential of compelling all related stakeholders to work on a common national agenda and solutions under a scientifically structured framework. This approach demands the identification and analysis of major security threats to the MSMEs, and entrepreneurship at the grass root level.

In light of this new classification criteria and definition of an MSME, all MSMEs in India will now be known as an '*udyam*' since that term aligns more closely with the meaning of an enterprise. The new definition of an MSME has resulted in the enhancement of the investment and turnover limits, which in turn has led to the reversal of the traditional policy bias in favour of units staying small in order to qualify for benefits.

At a time when India's economy is experiencing unprecedented effects due to months of a nationwide lockdown to prevent the spread of COVID-19, the new definition of MSME is a major step towards recovery on both the domestic and export fronts.

COMPOSITE FORMULA

A major structural reform, in this direction, has been undertaken by the government by adopting a new composite formula of classification for manufacturing and service units in the MSME sector with effect from 1st July, 2020. India defined Small Scale Industry (SSI), first in 1950s, as an industry with investment of up to ₹ 5 lakh in fixed assets and employment of 50-100 people with or without power.

By the 1960s, the employment criterion was dropped and the investment ceiling thereafter was constantly increased. The MSMED Act in 2006, last laid down the definitions based on investment limits for 'micro and small' and added a definition of 'medium'. A static investment limit for a period of 13 years led to an increasing demand for change from many sectors where MSMEs have substantial share such as pharmaceuticals, auto-component, food processing, among others.

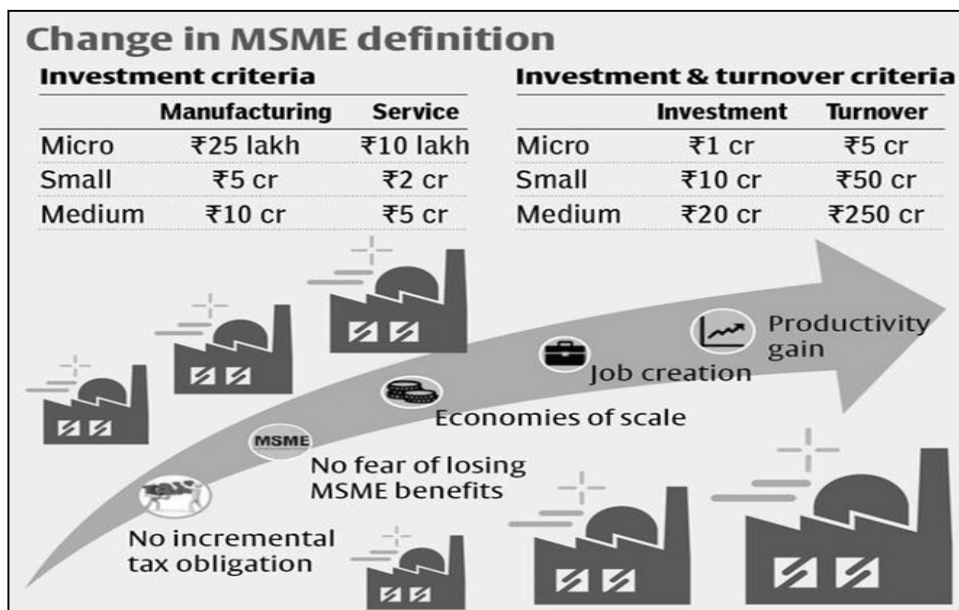
The investment-based definition gave an undue 'first-mover' advantage to older enterprises *vis-à-vis* new enterprises and discouraged investments in new technology. It also required certification from authorities on the value of plant and machinery creating a window for

‘rent-seeking’. Under the new definition, an enterprise qualifies as an MSME depending upon the broadened thresholds of amount of investment made with respect to: (i) plant and machinery in case it undertakes manufacturing; or (ii) equipment in case it provides services (see Graphic). In addition to this existing investment conditionality, a new criterion for turnover has been introduced.

The turnover details of enterprises are being captured by Goods and Services Tax Network (GSTN) and enables MSMEs to reduce the burden of record keeping for compliance or for availing themselves of benefits. The distinction between manufacturing and services industries has been done away with and is likely to benefit retailers and contractors. The provision of excluding the exports from counting of turnover will encourage the MSMEs to increase their exports without the fear of losing the benefits of an MSME unit.

The change in the definition of MSME is one of the most significant enabling changes made to the legal regime governing MSMEs, since the enactment of the MSME Act, 2006. The expanded ambit of the MSME Act has now allowed the larger pool of enterprises to get the benefits of the Act as well as of the reforms introduced by the government for the MSME sector during the pandemic, without any additional tax liability. It is likely to improve the ease of doing business in operation for MSMEs, and in the process make it easier for them to attract investments and create more jobs.

A series of reforms undertaken across sectors also creates suitable circumstances for the MSME sector to grow. The two laws on agriculture sector issued recently aim at deregulating agriculture markets and foster robust farm-firm linkages towards a robust supply chain. This reform is set to open the window of opportunity for processors, aggregators, large retailers and exporters who can now build long-term mutually rewarding relations with farmers. It will enable the agro sector to move up the value-added chain and create wealth for themselves and the economy. An agro-MSME policy is under progress, with a focus on entrepreneurship development in rural, tribal agriculture and forest areas for manufacturing products using local raw materials.



FOUR CODES

The government has also been working extensively to simplify, amalgamate and rationalize 44 Central Labor Laws into broad four codes — wages, industrial relations, social security, and operational safety, health and working conditions. The Wages Bill was enacted last year and the other three codes have been passed by the legislature. This is another step which will go a long way in promoting ‘ease of doing business’ and instil investor confidence in the MSME sector as it intends to reduce the burden of compliance of labour regulations.

The government has taken various complementary steps in designing a policy ecosystem for MSMEs to enable them to grow and contribute more effectively to the economy. The need is to support MSMEs to tide over this crisis and benefit from the enabling framework to give impetus to their and the economy’s growth.

CONCLUSION

MSME significantly contributes to the economic and social development of Indian economy by fostering entrepreneurship development employment generation. The available literature and data show that this sector is continuously growing the passage of time and promoting employment opportunities for the youth. Government of India has taken many new initiatives and makes policies for the development of MSMEs with sustainability, the advancement of technology and the upgradation of small business keeping in mind the future of the Indian economy.

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