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Innovation - Key Growth Driver for MSMEs

Shri Dinesh Rai

With India's vast cultural diversity, geographical expanse and entrepreneurial spirit, **Micro, Small and Medium Enterprises (MSMEs)** have always played a vital role in the growth of India's economy.

MSMEs have over a **45 per cent** share in **manufacturing** output in India, producing over 6000 value-added products. They contribute nearly **40 per cent** in the overall export from the country. They are one of the biggest employment-providing sectors after agriculture, accounting for employment to **about 60 million** skilled and unskilled people.

The role of MSMEs in terms of employment creation, upholding the entrepreneurial spirit and innovation has been crucial in fostering competitiveness in the economy. For India to achieve a growth rate of over 8 per cent, it is imperative that the industrial sector along with the MSMEs grows at a faster pace.

Indian MSMEs have a more positive outlook towards their growth and business prospects in contrast to most of their regional counterparts. However MSMEs in India, constitute more than 90 per cent of the total number of industrial enterprises and form the backbone of industrial development, but suffer from the problems of sub-optimal scale of operation and technological obsolescence. Indian MSMEs are facing tough competition from their global counterparts due to liberalization, change in manufacturing strategies, turbulent and uncertain market scenarios and the need to adopt certain strategies for growth. There is also an imminent need for MSMEs to innovate by thinking out-of-the-box and to develop products with unique differentiators. They also need to attract Venture Capitalists and Private Equity investors to get sufficient investments and enter markets where there are not too many players.

Innovation has always been the hallmark of Micro, Small and Medium Enterprises. Studies conducted by the US Department of Commerce, revealed that since World War II, 50% of all innovations and 95% of radical innovations, have come from new and smaller firms. The innovation process is seen as a cycle involving trial and error, where problems, at some stage of development lead to the need for re-evaluation of the earlier stage of the innovation process.

Although Indian MSMEs realize the importance of technological innovation, most of the Indian MSMEs still believe in importing technology, rather than developing it in-house or through/in association with, National Research and Development (R&D) centers. Indian MSMEs, over the years, have largely ignored R&D requirements and have not

embarked on new product development or technological up-gradation at the requisite pace. This is despite the fact, that India has the third largest pool of technologically trained manpower.

The growth rate for MSMEs has always been higher than the rate of growth of the industrial sector as a whole. To maintain the same momentum and to be competitive, they will increasingly need to learn and imbibe the process of innovation, in their day to day working.

I am certain that Indian MSMEs have the required vigour and resilience and in the current situation they will not only survive but will also move from strength to strength. I think this decade is going to belong to the MSMEs of India, which have truly come of age and are ready to conquer the world with quality products at very competitive prices.