

# MSME's GLOBALLY IN GENERAL & INDIA IN PARTICULAR

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## **Abstract**

In recent years the MSME sector has consistently registered high growth rate compared to the overall industrial sector. MSME has been looked as an effective way to contribute to growth and development of an economy. MSME becomes the global trend in the industrial sector and captured almost all the markets of developing and developed countries both. The definition of small scale industries according to different countries is different. In some countries it has been identified on the basis of employment size, on the basis of infrastructure and on the basis of level of investment and the problems faced by them also differs country wise. In India, it is important for informal MSME's who are currently not registered to be made part of the formal ones. MSME sector can provide comparatively huge employment opportunities at very low capital cost especially in the rural and remote areas, by becoming part of the industrial development and by acting as ancillary units for large enterprises supporting them in growth. Immense potential is hidden into MSME sector in India, so share to contribution in GDP has been continuously targeted high by the government. But there gap in growth of enterprises across services and manufacturing sectors is to be filled for the even growth of this sector.

Keywords: MSME's, Global trend, Growth, Employment, Export Potential

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## **1. INTRODUCTION**

Globally it is widely accepted that the micro small and medium enterprises (MSME) has great potential for economic development and promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher in comparison to that of the large enterprises.

The MSMEs constituting over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India also, the MSMEs are playing a vital role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered high growth rate

compared to the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

There are approximately 46 million Micro, Small and Medium Enterprise sector enterprises across various industries, employing 106 million people (MSME Annual Report 2013-14). Overall, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent of exports. While most of the sector is un-organised (approximately 94 per cent) (Inter-Ministerial Committee for Accelerating Manufacturing in Micro, Small & Medium Enterprises Sector (Shri Madhav Lal) – Ministry of MSME 2013), informal and un-registered, initiatives to have more enterprises registered are well underway.

## 2. OBJECTIVE OF THE SYUDY

The objective of this study is to highlight the scenario of MSME's globally and to focus on untapped growth potential and opportunities available for the development of this sector in India and to offer suggestions for the same.

## 3. METHODOLOGY

The study involves a comparative analysis of MSME's in India and MSME's worldwide. The data was collected from secondary sources which includes annual published reports by Government departments, journals, books and official websites

## 4. REVIEW OF LITERATURE

Several studies related to MSME's in India have been reviewed. The conclusion and findings of those studies have been discussed under:

S.No.	Contribution/Year	Proposal
1.	<b>Vasu and Jayachandra (2014)</b>	Analysed that MSMEs also have an aptitude for innovation, creativity, and flexibility which enabling them to respond with more quickly to structural changes and to adapt the dynamic demand patterns of consumers..
2.	<b>Chandraiah and Vani (2014)</b>	Explained in her article that MSMEs are a very important segment in the Indian industrial sector and would continue to play a crucial role in the Indian Economy in the future. A rewarding feature of economic development in India is due to impressive growth of modern MSMEs.

<b>3.</b>	<b>Kumar (2017)</b>	Revealed that MSME sector in India is growing at good pace & even is providing employment opportunities to masses of the people. The contribution of Manufacturing Sector as well as Service Sector of MSMEs is significant to the total GDP of the Country
<b>4.</b>	<b>Mukherjee (2018)</b>	Suggested that more efforts in the form of higher investment in advanced technology and research and development, higher usage of digital and technology enabled platform, transfer of technology, more investment in human resources, improved access to finance, reduced infrastructural gaps, lesser stringent business regulations can help in improving the competitiveness of the MSMEs
<b>5.</b>	<b>Gade (2018)</b>	Studied that the MSMEs are very helpful to remove the regional imbalances if it is establish in the underdeveloped areas. The MSMEs are providing more employment per unit. If this contribution is to be sustained, then their uniqueness needs to be nurtured in an overt and explicit manner.
<b>6.</b>	<b>Khatri (2019)</b>	Assessed that there is a lack of motivation and presence of high employee turnover. Marketing functions are very challenging for MSMEs because of low competitiveness, inefficient logistics, low-quality products, poor bargaining power, informational gap about foreign markets and changing demand patterns.

## 5. MSME's DEFINED GLOBALLY

In this cut throat competition, where global dynamisms of advancement and development are spurring towards more competitive age, enhancing MSME has been looked as an effective way to contribute to growth and development of an economy.

MSMEs differ in many ways; it refers to the different sets of industries having small operational divisions, low employment level, low functional divisions, low investments etc. and differentiates in their problems and difficulties as well.

MSME becomes the global trend in the industrial sector and captured almost all the markets of developing and developed countries both. It has been perceived that the success of corporate sector lies in

the fast pacing future of small industries market. Growing number of customer quick response to this production sector witnessed its positive aftermath (McRae, 1979).

In India, MSMEs refers to low manufacturing activities with low financial investments. Now to an extent it included servicing activities such as repair and maintenance shops and few community services.

**Table 1: Scope of Small Industry in Selected Countries**

Country	Terminology	Scope
Japan	Small enterprises	Manufacturing, mining, services, trading (wholesale and retail)
India	Small Scale Industry	Manufacturing, repair and maintenance
Korea	Small Business	Manufacturing, mining, construction, commerce
USA/Canada	Small Firms	Manufacturing ,services, trading
Indonesia	Small Industry	Manufacturing services

**Source:** Desai.V. (2006), *Small-scale Industries and Entrepreneurship*, Page-12, Himalaya Publishing house, Mumbai.

The definition of small scale industries according to different countries is different. In some countries it has been identified on the basis of employmentsize, on the basis of infrastructure and on the basis of level of investment.

The definition of MSMEs is very important for the government for the purpose of policy making. The first officially remark came into being in Second Five year plan when the criterion was in terms of gross investments in land, building, plant, machinery, strength of the labour force. Afterwards, on the recommendation of the Federation of Association of Small Industries in India (FASII), which was set up under the aegis of the Food Foundation team, where only amount of fixed assets and investments had been considered as the basis of set of small scale industries. And these policies lead to continuous change as per the requirement of the time and need.

## **6. DEFINITION OF SMALL SCALE INDUSTRIES EXISTING IN SOME COUNTRIES**

**China:** In China, The definition of the small industry, less quantifies and varies with the product. These industries are designed to mobilise local raw materials, local skills, local finance and local markets.

**ECAFE:** The working group of the Economic Commission for Asia and the Far East had suggested in 1952 that small industries be defined for statistical purposes as establishment employing not more than 20 persons when using power or 50 when not using power.

**Egypt, Israel and Turkey:** The United Nation Report (1958) on the development of the manufacturing industry in Egypt, Israel and Turkey refers to all manufacturing establishment employing less than 10 persons as small scale Industries.

**ESCAP Region:** In Indonesia, there is no differentiation between small scale enterprises and cottage enterprises. More than 90 percent of the enterprises in small scale and cottage industries group are cottage industries. The World Bank has characterised the small scale industries in Indonesia as a hybrid of the traditional and modern industries.

Small scale enterprises contributed 22.6 percent of the business establishments, 32 percent of the total employment, 29 percent of the value added and 25 percent of the gross output in Malaysia.

In Thailand, a small industrial enterprise is defined as an enterprise, the fixed deposits of which do not exceed Baht 2 million (Approximately Rs. 12 Lakhs). Industrial enterprises are grouped under four categories, namely, manufacturing servicing, handicrafts and cottage industries.

**Germany, Sweden, Norway and Denmark:** There is no official definition of a small industry. Units employing upto 300 workers are considered to be small. There is no clear cut definition of a small industry in Scandinavian countries. However, such units which employ 10 to 100 workers are taken to be small scale units.

**Iran:** Small industries are defined as those:

- 1) With 100 percent Iranian ownership and management
- 2) Whose assets do not exceed 5 million Rials and
- 3) Whose products are not artistic in nature

It has been further provided that investment in land and buildings must not exceed 25 percent of the total capital.

**Italy:** Units having a capital investment of not more than 15.00 million lire and employing not more than 500 workers are considered to be small industries

**Korea:** The term small and medium industry is defined in the small and medium industry Co-operative act as any unit.

- (i) In manufacturing with more than 5 and less than 200 employees or with total assets of less than 50 million won and
- (ii) In mining with the 5 and less than 200 employees or with assets of less than 50 million won.

**Netherlands:** There is no small- scale industry which generally employs 10 to 100 workers.

**Philippines:-** The institutes for small scale industries,Philippines defines the small industry ‘as a manufacturing or industrial services enterprise in which the manger is not actively engaged in production but performs a varied range of tasks involved in guidance and leadership without the help of as specialised staff officer.

**Sudan:** Small industries are defined in Sudan as those industries have capital investment of Ls 50,000 (\$ 142,000) or which employs less than 30 full time workers. Most industries in this category are workshops, small oil mills, perfumeries, ice factories, tanneries etc.

**Taiwan:** In the manufacturing and processing sector (includinghandicrafts) any business employing less than 100 persons or with assets worth NT \$ 5 million.

**Turkey:** All industries employing less than 10 workers and having a connected load of less than 10 h.p. are considered small in Turkey.

**UK:** There is no demarcation between small and large industries. However in books and treatises on industrial subjects, units employing less than 500 workers are generally referred to as small units: but this cannot be considered as a criterion of universal applicability.

**USA:** In USA, the manufacturing firm is officially a small business for government procurement purposes if it is not dominant in its field of operation and if it has fewer than 500 employees, depending on the size and the standard set for different industries.

**Vietnam:** A small industry is defined as one employing less than 300 persons and having not more than 20 million piastres (\$2,500,000 in capital investment).

Source: Country Specific MSME Reports.

## 7. SHARE OF MSME's IN THE ECONOMIES

The contribution of the MSME sector in India was 08 percent for 2011-12 and it is growing at a rate higher than projected GDP growth rate. The contribution of MSME in several other countries ranges from 25-60 percent of GDP.

**Table 2: Global GDP Contribution by MSME's**

Country	SME's Contribution to GDP (%)	Non-SME's Contribution to GDP (%)
Argentina	25	75
Brazil	22	78
Canada	27	73
France	59	41
Germany	54	46
India	08	92
Italy	68	32
Russia	35	65
Singapore	50	50
South Africa	57	43
Taiwan	85	15
UK	50	50
US	48	52

Source: <https://assets.kpmg/content/dam/kpmg/pdf/2016/03/The-new-wave-Indian-MSME.pdf>

Immense potential is hidden into MSME sector in India. The increase in share to contribution in GDP has been continuously targeted high by the government and is making efforts to reach the target which is 15% till 2020. The table above reveals that in most of the developed nations MSME's are contributing to GDP far more than India

Micro, small and medium Enterprises (MSME) proved as the heart of an economy contributing nearly 8% of the country's GDP, 45% of the manufacturing output and 40 percent of the exports. MSMEs constitute the largest share of employment after agriculture. They are known as the base for innovation and entrepreneurship, spread in all over the country to meet the major demands of domestic market and contributing to a large extent in the global market as well (Lal, 2014).

## 8. EMPLOYMENT GENERATION & MSME's

With the increase in MSME's contribution to the GDP, there lies the potential to increase its contribution to employment. It is also important for informal MSME's who are currently not registered to be made part of the formal MSME's in India.

**Table 3: Employment generated by MSME as a percentage of overall employment globally**

Country	Employment Generation by SME's (%)	Employment Generation by Non-SME's (%)
Argentina	15	85
Brazil	67	33
Canada	90	10
France	63	37
Germany	62	38
India	21	79
Italy	80	20
Russia	23	77
Singapore	70	30
South Africa	74	26
Taiwan	78	22
UK	52	48
US	53	47

Source: <https://assets.kpmg/content/dam/kpmg/pdf/2016/03/The-new-wave-Indian-MSME.pdf>



MSME sector can provide comparatively huge employment opportunities at very low capital cost especially in the rural and remote areas, by becoming part of the industrial development and by acting as ancillary units for large enterprises supporting them in growth. The MSME sector is one of the key drivers for India's transition from an agrarian to an industrialised economy. MSMEs account for a large share of industrial units. The total number of enterprises in MSME sector was 58.50 million with total employment of 111 million. (Ministry of MSME, Annual Report 2017-18)

## 9. CONCEPT OF MSME's IN INDIA

India, a country of labour-abundant and capital scarce region, which is continuously resisting against the over exploded population and demand. For dealing with the issues of unemployment, low resource and maintaining developmental spirit small scale industries proven as a boon for a country like India.

As E.F. Schumacher says 'small is beautiful', Apparently this small phenomena of establishing MSMEs paved the righteous way for the growth and development of a country because it needs low infrastructure, low investment and low manpower as well. Apart from that, in these sets up of new born industries, nothing new have been invented but these industries are getting expert in maintaining the existing system of innovation and production.

As per Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below:

<b>MANUFACTURING SECTOR</b>	
<b>Enterprise Category</b>	<b>Investment in plant and machinery</b>
Micro Enterprises	Does not exceed 25 lakh rupees
Small Enterprises	More than 25 lakh rupees but does not exceed 05 crore rupees
Medium Enterprises	More than 05 crore rupees but does not exceed 10 crore rupees
<b>SERVICE SECTOR</b>	

Enterprise Category	Investment in Equipment
Micro Enterprises	Does not exceed 10 lakh rupees
Small Enterprises	More than 10 lakh rupees but does not exceed 02 crore rupees
Medium Enterprises	More than 02 crore rupees but does not exceed 05 crore rupees

Source – Ministry of MSME, Annual Report 2017-18

## 10. ROLE OF SMALL SCALE INDUSTRY IN COUNTRY'S GROWTH AND EXPERIENCE

In a developing economy like India small scale industry is a kind of way forward for the growth and development of a nation. After the independence, with the advent of planning process, India experienced quite excellent results in terms of creating employment, increasing production and contribution in the global market in terms of major export units as well. As India also have a poverty ridden population in this case as well, SSI proved to be better way to sustain and as a source of income. Table 4 shows the growth of small sector since 1950s to recent which depicting a satisfactory picture of growth and development in terms increased number of units, employment, investments, production and share in total export.

**Table 4:Small-Scale Sector Growth over the Years**

Year	No. Of Units	Employment No. (Lakhs)	Investments (Rs. Crore)	Production at Current prices (Rs. Crore)	Export (Rs. Crore)	Share in total exports (percent)
1950-51	0.16	7.00	120	615	40	5.2
1965-66	0.37	30.00	356	2,850	210	8.4
1975-76	5.46	45.90	3,204	11,000	532	13.2
1980-81	8.74	71.00	5,850	28,060	1,643	24.5
1985-86	13.55	96.00	9,585	61,228	2,769	25.4

1990-91	20.82	129.80	20,438	1,78,699	13,883	31.5
1992-93	22.46	134.10	21,816	2,09,300	17,785	33.1
1993-94	23.85	139.40	22,934	2,41,648	25,307	36.3
1994-95	25.71	146.60	24,874	2,90,586	29,068	35.2
1995-96	26.58	152.60	26,726	3,62,656	36,470	34.3
1996-97	28.03	160.00	30,250	4,11,858	39,248	33.4
1997-98	29.44	167.20	33,445	4,62,641	44,442	33.0
1998-99	30.80	171.60	36,216	5,20,650	48,979	34.2
1999-00	32.12	178.50	39,048	5,72,888	54,200	34.1
2000-01	33.70	185.64	44,220	6,45,496	59,978	33.4
2001-02	34.64	192.23	48,500	6,97,522	62,377	34.7
2002-03	36.22	199.60	52,600	7,52,467	66,260	35.1
2003-04	37.10	207.50	55,000	8,13,262	70,100	35.2
2004-05	37.95	214.12	60,500	8,75,000	75,000	35.2

**Source:**Desai.V. (2006), *Small-Scale Industries and Entrepreneurship*, Page-64, Himalaya Publishing house, Mumbai.

## 11. MSME'S EXPORT POTENTIAL

The contribution of the services, manufacturing and agricultural sector shows significant variance. Export of services led by IT sector has grown significantly in the last decade, but the contribution to exports from manufacturing output has remained stagnant. India's share of services exports in world exports of services was 3.3 per cent in 2011 and has been increasing faster than the share of Indian merchandise exports in world exports. During 2012-13, Indian merchandise exports showed a little negative growth of around 2 per cent as compared to a positive growth of 21.9 per cent during the financial year 2011-12 (Ministry of Finance - Report of the Inter-Ministerial Committee for Boosting Exports from MSME Sector – Shri R. S. Gujral)

**Table 5: INDIA – TRADE DATA-2013**

Sectors	Current imports (USD million)	Current exports (USD million)	Net surplus / deficit (USD million)
Mineral fuels, oils, and products of distillation	181,382	64,685	116,697
Natural/cultured pearls, precious/semi-precious stones	58,464	41,692	16,772
Vehicles other than railways	4,475	12,933	8,457
Nuclear reactors, boilers, machinery	30,669	12,077	18,592
Organic chemicals	17,044	12,017	5,027

Source – Department of Commerce, Annual Report 2012-13

The share of MSMEs in India's total exports was estimated to be around 40 percent in 2011-12. The share of the top four commodities accounts for about 60 per cent of total MSME exports (Share of MSME Exports – Ministry of MSME, Annual Report 2013-14). While globalisation presented a number of challenges for the manufacturing MSMEs, it also opened up large amount of opportunities for the growth of the manufacturing sector India can significantly diversify its export portfolio, both in terms of products and goods exported as well as regional coverage.

## 12. CONCLUDING COMMENT

Moreover these industries are able to capture the domestic market very easily because they are very much aware about the prevalent trend and fashion in the society and they became the best according to the taste and preferences of the customers. Apart from this they became the symbol of national identity, in a way that they are always reluctant to adopt any change or anything new which is not known for the existing people. So they always try to move with the prevailing customs and traditions of the country. In this way small scale industries gained competitive advantages over other forms of exploration. The current growth of MSME is non-uniform and there exists a significant gap in growth of enterprises across services and manufacturing sectors. Steps must be taken to lower this gap for them to flourish.

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