



ORIGINAL RESEARCH PAPER

Economics

CHALLENGES OF GLOBALIZATION & LIBERALIZATION FOR SMES IN INDIA

KEY WORDS: Economic Growth, Globalization, Liberalization, MSMEs

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ABSTRACT

In the recent years, a number of emerging issues are posing serious challenges to the micro small and medium sized enterprises (MSME's) in India. Hence, these enterprises enter the new era, faced with dramatic challenges such as constraints in establishing new enterprises, globalization, financial constraints, indeterminate turnover, low motivation among employees, lack of human capital building etc., Hence understanding the problems and challenges are fundamental solutions to expand and strategize SME's towards their future growth. This article examines the background and challenges faced by SMEs which play a vital role in the nation's economic growth.

INTRODUCTION

The economic development and growth of the Indian Economy depends, to a great extent, on the role played by SMEs in the economy. Over 80 million persons are provided employment. About 22% of GDP and 40% of the exports of the country are from MSME Sector. In countries being developed, MSMEs are termed as Engine for Growth in 21st century and provides the crucial link in the promotion of equitable development at all levels around the globe There are various categories of economies such as developed, developing and Under Developed), but the survival and enlargement of MSMEs is indispensable for economic and social progress. The major gain of the sector is its role in Industrial output, exports, and most prominently in employment generation at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. The MSMEs constitute 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.

The model of socio-economic policies of State, which focus on job creation at all levels of income layer and dispersal of economic power in the hands of a few, thereby depressing monopolistic practices of production and marketing; and in all prospects leading to growth of economy and foreign exchange earnings with low import-intensive operations. SMEs in India are also facing a number of challenges and issues like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent and uncertain market scenario. SMEs that are innovative, inventive, international in their business outlook, have a strong technological base; competitive spirit and a willingness to restructure themselves can withstand the present challenges and come out successfully and continue to contribute to GDP.

As per the report of the working group on Micro, Small and Medium Enterprises (MSMEs) growth for 12th Five Year Plan (2012-2017), the sector accounts 45 % of the manufacturing output and 40% of total exports of the country. The sector provides employment to about 69 million persons through 26 million enterprises throughout the country. Over 8000 products ranging from traditional to high-tech items are being manufactured by the MSME in the country. The labour to capital ratio in MSMEs and the overall growth in the sector is much higher than in the large industries.

Micro Small and Medium Enterprise (MSME) Act 2006 classifies SME's . SME's are separated in terms of investment in plant and machinery for both manufacturing and service sectors as shown in Table 1.

Table 1: Classification of sectors

Manufacturing sector	
Enterprises	Investment in plant & machinery
Micro enterprises	Does not exceed 25 Lakhs rupees
Small enterprises	More than 25 Lakhs and does not exceed 5 Crores rupees
Medium enterprises	More than 5 Crores and does not exceed 10 Crores rupees
Service sector	
Enterprises	Investment in plant & machinery
Micro enterprises	Does not exceed 10 Lakhs rupees
Small enterprises	More than 10 Lakhs and does not exceed 2 Crores rupees
Medium enterprises	More than 2 Crores and does not exceed 5 Crores rupees

Source: MSME Act 2006

Review of Literature:

Based on review of literature, it is found that MSME's are confronting various challenges because of external environmental changes along with changing social, economic, cultural and political changes occurred in the country. Most of research scholars, experts and economists revealed that SME's are facing many challenges in terms of production, marketing, finance, Human resources, external factors etc. It is known that SME's facing more challenges are like surveillance problems because of changing external environment structure.

Das, K. (2008) says that there are many constraints faced by SME's are credit facilities, technology up gradation, inadequate infrastructure, poor transportation facilities etc.

Siti Sarah bt. Omar (2009) et.al. Expressed that small organizations are facing problems relating external environment like power, market place, customer related factors etc. They conclude that SME's growth and surveillance depends on HRD activities like training and development, motivation, career and learning etc.

Fridah Muriungi Mwobobia (2012) indicated that gender based discrimination in Kenya along with these there are many challenges faced by Kenya people as lack of finance, lack of education, poor justice, discrimination and problems with city councils etc. Among all their studies identified challenges faced by SME's as access to finance, multiple responsibilities taken by women, poor justice, lack of education, competition, lack of planning, lack of management skills etc are identified as major challenges faced by Kenya.

Ishu Garg & Suraj Walia (2012) says that Small Scale Industries (SSI) is facing numerous problems relating to obtaining

credit, identifying technology, industrial training, quality control etc. SSI's are facing numerous problems from large and medium enterprises in aspects of production and marketing.

Mukund Chandra Mehta (2013) says that lack of finance, low on production capacity, lack of skilled man power, lack of infrastructure facilities, lack of industrial estate facilities etc. He concludes that government should consider these factors influencing SME's in formulating of any schemes or programs. Neeru Garg (2014) says that there are many opportunities and problems faces by MSME's in India. He found that many opportunities from external environment are finance and subsidies provided by government, by globalization, credit & finance, competitive technology, skill development, national manufacturing competitive programs, export promotion and infrastructure development etc. There are many programs by government like cluster development, credit schemes, entrepreneurship development programs, etc. He highlights some major challenges faced by MSME's are due to lack of finance, IT literacy, management skills, financial and human resources, infrastructure, lack of knowledge on foreign markets and market information etc.

Sangita G.Patil & P.T.Chaudhari (2014) says that growth of MSME's was increased from year by year with an average number of registered units in MSME sector. They identified small scale sector problems as relating to man power, lack of credit assistance, organized marketing, inadequate infrastructure, competition, poor planning, managerial skills, transportation facilities, lack of power, lack of ware housing facilities, lack of information etc.

Aruna.N. (2015) say that MSME are facing problems relating to timely banking finance facilities, availability of suitable technology, marketing problems, availability of limited resources, lack of skilled man power etc. Her study identified that financial constraints and also issues relating to power and non-availability of skilled man power, raw material etc.

Gisha.P.Mathai (2015) say that problems faced by SME's are SME's in India are facing problems relating to lack of credit facilities from banks, infrastructure problems, unavailability of raw materials, lack of technology, lack of training, lack of skills both managerial and technical, lack of laws pertaining to labour, competition from large companies etc. They had given some suggestions in their article relating to challenges are implementing training and development awareness programs, research and development facilities, meeting consultants etc.

Mishu Tripathi (2016) et.al concentrates majorly on six challenges and elaborates them with multiple dimensions as dearth of easy finance and credit instruments, complicated regulatory policies for starting a business, unavailability of modern and affordable technology, lack of basic infrastructure facilities, absence of exclusive marketing

Table 3: Review of Literature Matrix

Due to lack of market information	External issues and challenges	N. Aruna(2015) Siti Sarah bt. Omar (2009) Das, K. (2008) Rajesh K. Pillania, (2008)
Due to lack of customer related information		
Lack of power		
Poor access to justice		
Competition		
Competing with imported products	Environmental issues and challenges	Siti Sarah bt. Omar (2009) N. Aruna(2015) Rajesh K. Pillania, (2008) N.V.R. Jyoti Kumar &
Due to globalization did you feel changes in information for production of products?		
Are you facing any law related problems or city councils?		
Are you facing any political challenges?		
Sustainability challenges due to lack of demand		
Are you facing regulatory issues?		

platforms and distribution networks, inflexible labour laws and availability of affordable skilled labour. He concludes that government should implement some schemes for encouraging SME's

Objective of the Study

The major objectives of this study were as follows:-

1. To study the role of MSMEs in Indian Economy
2. To develop a review of literature matrix model
3. To study Challenges of Globalisation & Liberalisation for MSEs in India

Data Interpretation and Methodology

Data used in the study are secondary in nature and collected from the Annual Reports published by the Ministry of Micro, Small and Medium Enterprises. The study covers a period from 2011-12 to 20015-16

1. Role of MSMEs in Indian Economy

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavors through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA)¹ and Gross Domestic Product (GDP)², at current prices for the last five years is as below:

Table 2 : Contribution of MSMEs in Country's Economy at Current Price

(Figures in Rs. Crores adjusted for FISIM3 at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation

It can be observed from the above table that the contribution of Manufacturing MSMEs in the country's total Manufacturing GVO (Gross Value of Output) at current prices has also remained consistent at about 33%, i.e. one third during the last five years.

2. Review of Literature Matrix:

By review of literature, a review of literature matrix had been developed which identifies overall scores for divided into six major issues

Did your religion support you in becoming an entrepreneur?	Socio cultural issues and challenges	Siti Sarah bt. Omar (2009) N. Aruna(2015) Das, K. (2008)		
Did your caste support you in becoming an entrepreneur?				
Did your education support you in becoming an Entrepreneur?				
Did your family members support you in becoming an entrepreneur?				
Lack of education	Production issues and challenges	N. Aruna(2015) Das, K. (2008) Rajesh K. Pillania, (2008) Mukund Chandra Mehta (2013)		
Lack of technical training				
Lack of power				
Lack of raw materials (Scarcity, high cost, poor quality, non availability)				
Lack of machinery and equipment				
Lack of quality control				
Lack of testing facilities				
Poor project planning				
Lack of R&D facilities				
Lack of demand				
Poor promotional skills			Marketing issues and challenges	N. Aruna(2015) Das, K. (2008) Mukund Chandra Mehta (2013) Nirmal Ganguly (1988) N.V.R. Jyoti Kumar & Lalhunthara (2015)
Lack of organized market channels				
Imperfect knowledge of market conditions				
Unorganized nature of operations				
Lack of distribution of marketing channels				
Low returns				
Lack of experience of using consultants				
Lack of networks				
Identification of new markets				
Rising customer requirements`				
Delivery time				
Lack of credit from bank	Financial issues and challenges	Siti Sarah bt. Omar (2009) N. Aruna(2015) Das, K. (2008) Mukund Chandra Mehta (2013)		
Limited capital and knowledge				
Organizational structure of banks				
Prolonged processes involved within banks				
Lack of working capital				
Lack of Awareness on financial and government schemes	Human resources development issues and development	Siti Sarah bt. Omar (2009) N. Aruna(2015) Mukund Chandra Mehta (2013) N.V.R. Jyoti Kumar & Lalhunthara (2015)		
Insufficient training				
Managing employees				
Non availability of skilled labour				
Lack of managerial skills				
Lack of employees				
Lack of job description				
Informal recruiting				
Lack of drinking water facility			Infrastructure issues and challenges	N. Aruna(2015) Das, K. (2008) Mukund Chandra Mehta (2013)
Lack of storage facilities				
Transportation facilities				
Lack of adequate warehousing				
Lack of industrial estate facilities				

This review of literature matrix shows a better way in determining the issues and challenges faced by SME's in category wise as external and internal issues and challenges. challenges faced by SME's in category wise as external and internal issues and challenges

3. Challenges of Globalisation & Liberalisation for MSEs in India:

In the Liberalisation and Globalisation of the Indian economy, the Small Enterprises in India have unprecedented opportunities on the one hand, and face serious challenges, on the other. While access to global market has offered a host of business opportunities in the form of new target markets, possibilities to exploit technological advantage, etc., the challenges in this process have emerged mainly from their scale of operation, technological obsolescence, and inability to access institutional credit and intense competition in marketing. The Micro Small and Medium Enterprises Development (MSMED) Act, 2006 has been formulated as a response to the long-standing demand of the MSEs sector, the emergent need to provide a legal framework to address the developmental concerns of what is globally known as "small and medium enterprises". The Act, inter-alia, provides the first-ever legal framework to facilitate the promotion and

development of micro, small and medium enterprises (MSME), which comprises both manufacturing and services entities. It defines 'medium enterprises' for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. Establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/ programmes for this purpose, progressive credit policies and practice, more effective mechanism for mitigating the problems of delayed payments to MSEs, etc. are some of the other features of this Act. The Ministry of MSME has also taken a view, in the light of liberalized provisions of the MSMED Act, 2006 to do away with the restrictive 24 per cent ceiling prescribed for equity holdings by industrial undertakings, whether domestic or foreign, in the erstwhile Small Scale Industries (now SMEs). This coupled with an expected legislation on Limited Liability Partnership (introduced in the Parliament by the Ministry of Corporate Affairs) is expected to pave the way for greater corporatisation of the Small & Medium Enterprises.

CONCLUSION:

The role of Small and Medium Enterprises (SMEs) in the economic and social development of the country is well established. They have emerged as a vibrant and dynamic

component of the economy by virtue of their significant contribution to GDP, industrial production and exports. However, the most important contribution of this sector is towards employment generation which is second only to agriculture in India. The major advantage of the sector is its employment potential at low capital cost. It is well known that the SME sector constitutes the spine of the nation; small industry has been one of the major pillars of India's economic development strategy since Independence. As many of research scholars and experts and policy makers say that SME's are facing issues and challenges which are presented in this study. There are both external and internal issues and external challenges faced by SME's as they are also listed in this study.

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