

## GLOBALIZATION IMPACT ON MSMEs

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### INTRODUCTION:

Micro, Small and Medium Enterprises (MSMEs) are one of the most exciting and sensitive sectors in Indian economy. The significance of Micro, small and Medium Enterprises (MSMEs) is attributable to its capacity of employment generation, low capital and technology requirement, use of traditional or inherited skill, use of local resources, mobilization of resources and exportability of products. It helps in overcoming the shortage of capital in capital scarce countries like India as Micro, Small and Medium Enterprises generally use more labour and less capital. Hence, the small scale industries are more suited to a labour surplus economy like India. A major change took place in 2006 with the enactment of MSME Development Act, 2006. In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, **the Micro, Small and Medium Enterprises (MSME) are classified into two categories**

1. **Manufacturing Enterprises-** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act,

1951. The Manufacturing Enterprise is defined in terms of investment level in plant & machinery.

2. **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment. The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified are as under:

#### MANUFACTURING SECTOR

Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

#### SERVICE SECTOR

Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

(Source: MSME Development Act 2006, Ministry of the District Industry Centers (DIC) MSME, Government of India)

**IMPORTANCE OF MSME DEVELOPMENT ACT, 2006:**

With the introduction of new MSME Act 2006, the Govt. has tried to resolve some major issues related to the MSMEs like complicated bureaucratic registration procedures, lack of finance, lack of managerial skills etc. The most important thing the Act has done is to increase the significance of the sector and to offer a clear definition of MSMEs. Further, the act mandated the composition of the National Board of MSMEs with clear long run objective of overseeing and regulating the development of micro, small and medium enterprises in India. The broad functions of this board are to manage cluster development, train entrepreneurs, develop infrastructure and promote financial access to this sector.

The MSME Act 2006 has framed a strict rule regarding payment of dues by increasing penalties substantially for delay in payment. For example, the Act mandates that all payments be made within 45 days failing which the creditor must pay compound interest which is higher than the bank rate notified by the RBI. As noted in section 2.1, registration in the MSME sector is voluntary and unregistered firms constitute a significant proportion of the total firms. As a result, proper maintenance of records becomes extremely difficult. The new MSME Development Act 2006 has made the registration procedure much simple and less time taking.

#### **CONCEPT OF GLOBALIZATION:**

Globalization may be defined as the process of integrating various economies of the world without creating any hindrances in the

free flow of goods and services, technology, capital and even labour or human capital. Therefore, it signifies internationalization plus liberalization, through which the world has become a small global village.

#### **OPPORTUNITIES:**

**1. EXPOSURE TO FOREIGN MARKETS:** Globalization has opened up the economy and integrated with the world economy. The MSMEs enjoy the benefits of selling their products and services to the world market rather than being confined into domestic or local market. The free economy leads to accessibility to bigger markets, greater linkages for MSMEs with larger & multi-national companies and marketing outfits, improved manufacturing techniques and processes to achieve maximum output and profit.

**2. EMERGING AREAS OF BUSINESS:** MSMEs have been able to identify many uncommon but highly promising business areas like outsourcing, medical transcription, clinical research trials, sub-contracting, ancillarization and many new technologies like biotechnology, nanotechnology etc which are attractive for the new generation MSME entrepreneurs.

**3. FLOW OF FOREIGN INVESTMENT AND TECHNOLOGY:** The MSMEs in India suffer from outdated technology and sub-optimal scale of operation. Many foreign companies have tied up with Indian MSMEs and helped them to use better technology, managerial skill etc. Thus, a proper collaboration between the small and large companies can help the small firms to develop technology base through Research

& Development activities, contribution from the technological institutes, universities etc.

**4. LESS GOVERNMENT INTERVENTION:** As the economy is mainly market driven; there is less Govt. intervention, red tapes, less control on import and export etc. The MSMEs would be allowed to work in a free environment created by the concept of Globalization.

**5. EMPLOYMENT GENERATION:** Being labour-intensive in nature, the MSMEs make significant contribution in employment generation and expanding industrial network in rural areas. This sector takes care of the traditional skills and knowledge based small and cottage industries. The workers inherit and transfer skills from generation to generation. The handicrafts and other products produced by this sector have good demand in market. The MSMEs have been a good source of employment generation and can be even more if the sector gets support in terms of mixture of technology, capital and innovative marketing techniques etc.

**6. BETTER PERFORMANCE BY THE MSMES:** Before globalization, the MSME sector was a highly protected sector. Suddenly, after globalization they discover that many of such protective measures were withdrawn and they have to fight for their existence in the market. This competitiveness in domestic and global market may bring out superior performance.

**7. BETTER CUSTOMER SATISFACTION:** As the domestic market gets competitive, small and medium firms try to satisfy the consumers in every possible way. They try to produce products

as per the needs and preferences of the consumers and satisfy the customers in best possible way.

**8. SHORT AND LONG TERM CAPITAL:** In a liberalized economy, banks would try to find out new possibilities of giving credits to increase their profitability. Thus, supply of funds may be easier. Development in money market would initiate development in capital market.

**9. EXPORT CONTRIBUTION:** The products produced by MSME sector (like sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products, handicrafts etc) have an excellent foreign market. As per the results of fourth MSME census (2006-07), this sector has registered an export earning of Rs 202017 crores in 2007-08.

**10. REMOVAL OF REGIONAL DISPARITY:** People from remote areas have the tendency to migrate to urban areas in search of jobs. This creates excessive pressure on urban areas and initiates social and personal problems. This problem can be addressed by setting up a network of micro, small and medium enterprises in economically backward areas. MSME sector can take care of local needs, improve economic condition of the area and most importantly, can bring a qualitative change in the economy of the country.

**11. BETTER INDUSTRIAL RELATIONS:** The MSMEs are less prone to industrial disputes. However, the truth behind the scene is the workers in small sectors are mostly from unorganized sector and cannot raise their voice collectively.

Thus, apparently, they share harmonious relation with the firm owners.

## **CONSTRAINTS:**

Process of globalization has resulted in some serious constraints on the MSMEs

**1. FINANCING PROBLEMS:** Financing has always been a major problem for the small and medium industries in India. The MSMEs mostly depend on internal sources of finance (personal savings, loan from relatives, and loan from local money lenders) than that of institutional financing by banks and other financing institutions.

**2. POOR TECHNOLOGY BASE:** There exists considerable heterogeneity among the MSMEs in India. A small percentage of firms operate with sophisticated technology base whereas majority of firms use outdated technology. They suffer from low productivity and poor product quality. Due to their small size, they cannot enjoy large-scale production economies.

**3. CUT THROAT COMPETITION:** The MSMEs face ruthless competition from the large domestic firms and multinationals armed with improved technology, managerial ability, skilled workers, marketing skills, better product quality, and wide range of products. The small firms find it difficult to maintain their existence as the cases of merger and acquisition are continuously increasing.

**4. LACK OF INFRASTRUCTURE FACILITIES:** Lack of infrastructure facilities includes inadequate power supply, transportation, water supply etc. Small firms cannot bear the cost of setting up independent power supply unit. They have to depend on irregular power supply from

the electricity boards. Inadequate transportation system increases cost of production. The MSMEs producing beverages, tobacco products, medicines etc face the problem of inadequate water supply.

**5. LACK OF SKILLED WORKERS:** Though India has no shortage of human resource, most of them are unskilled workers. Large firms pay higher remuneration and employ skilled workers. The MSMEs have to operate with unskilled or semi-skilled workers. Thus, the MSMEs suffer from low managerial capabilities.

**6. MARKETING AND DISTRIBUTION PROBLEMS:** Marketing is probably the most neglected and less explored problem for Micro and Small firms. Most of them do not have any well formulated marketing strategy, market research programmes, innovative advertisement techniques etc. Most of the MSMEs do not have adequate monetary support to develop marketing section and many are not aware of modern low-cost marketing techniques (blogging, sending mails, developing website for the company).

**7. DELAYED PAYMENTS:** The small firms find it difficult to recover their dues from the large firms and even from Government departments due to complex payment procedure and corruption. Due to lack of funds, they cannot employ credit collection machineries (like factoring services). The large firms force them to offer long credit period and even pay advance to ensure timely supply of materials.



**8. GRADUAL WITHDRAWAL OF RESERVATION POLICY:** Reservation Policy, introduced in 1967 emphasized that some products would be earmarked for exclusive production by the small enterprises and Non-MSME units can undertake manufacture of reserved items only if they undertake 50 percent export obligations. Withdrawal of reservation policy allowed MNCs and large domestic firms to produce reserved items without any restrictions and increased the degree of competition for the small firms. However, Several Expert Committees like Abid Hussain (1995), Shri T.S. Vijayaraghavan (1997), Confederation of Indian Industries (CII) (1997) etc concluded that reservation policy is no longer helpful for MSMEs as MSME units with no reservation facility have performed better than those units with reservation support. Moreover many MSMEs do not produce the reserved items and many MSME Entrepreneurs do not consider it a relevant policy.

**9. MINDSET PROBLEMS:** The mindset of the many MSME entrepreneurs has not yet changed. They still expect protection policies and preferential treatment for the MSMEs. Fortunately, this tendency is low in the new generation entrepreneurs. Workshops, success story based approach may help reduce this tendency even more.

**10. OUTFLOW OF WEALTH:** Globalization process seems to favour the developed countries and the multinationals more than that of developing countries and the MSMEs. The MNCs use domestic wealth, infrastructure, and local unskilled

workers at a lower cost and repatriate huge profits to their own countries.

**11. MORE PRONE TO GLOBAL FLUCTUATIONS:** A well liberalized economy reacts more sharply with the changes in global market. The demand and supply would be determined by global fluctuations and not by the needs of the consumers.

**12. SOCIAL WELFARE AREAS NEGLECTED:** The MNCs are more willing to produce consumer goods to maximize their profit. The qualitative services like health, education etc which require huge investment but generate less and time taking return on investment, would be neglected.

#### **CONCLUSION:**

The role of Micro, Micro, Small and Medium Enterprises are more important than that of the large scale industries in underdeveloped countries like India. The role of MSMEs is crucial in reducing the problem of high unemployment prevalent in under developed labour surplus economies. The MSMEs in India face a hard situation due to extreme competition from large industries due to withdrawal of subsidy, lack of infrastructure, anti dumping policy, challenges on product standardization, total quality management etc. Though Globalization has increased competitiveness in Indian MSMEs to certain extent, still Indian MSMEs are not adequately prepared to compete with the global players. There has been a definite change in attitude of the Government from protection to promotion of the MSMEs. The Government has taken several policy initiatives but needs to ensure



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proper co-ordination and implementation of such schemes. The MSMEs must convert the threats of globalization into opportunities through

increased productivity, product diversification, supply chain management, Research and Development activities and should compete with MNCs.