The Relationship between Government Policy and the Growth of Entrepreneurship in the Micro, Small & Medium Enterprises of India

Asghar Afshar Jahanshahi1, Khaled Nawaser2, Seyed Mohammad Sadeq Khaksar3, Amin Reza Kamalian4

Abstract

With an impressive history of small firm development policy, in post-Independence India MSMEs (Micro, small and medium enterprises) dominate the industrial scenario through its contribution to generation of employment and income as also tackling the problem of regional disparities. Policymaking in the entrepreneurship field is complex and messy. Many areas of Government policy affect levels of entrepreneurial activity - regulatory policies, trade policies, labor market policies, regional development policies, social policies, and even gender policies. This means Governments must adopt more horizontal structures for developing and implementing an integrated policy approach. The mix of policy options will depend on a number of factors, including the prevailing attitudes of the population towards entrepreneurship, the structure of the labor force, the size and role of Government, the prevalence of existing level of entrepreneurial activity and the existing MSMEs. It is commonplace for Governments to have policies to encourage the growth of local MSMEs as they can help to directly alleviate poverty by increasing income levels and creating jobs. So the main purpose of the article is to introduce and analyze the relationship between Government policy and the growth of entrepreneurship in the micro, small & medium enterprises of India. In particular, it also considers the contribution of MSMEs towards country's employment generation. The global market has changed considerably as also the activities of Micro, Small and medium enterprises. Today, for businesses to survive, dynamism and entrepreneurship must exist in its fullest degree.

Keywords: India; government policy; entrepreneurship; micro; small and medium enterprises; employment.
Introduction

In the present world of globalization, Micro, small and medium enterprises (MSMEs) are key actors in almost every production system. In all continents they represent the largest number of firms, and also contribute significantly to both employment generation and Gross Domestic Product (GDP) formation (AESMEC, 1998; Peres and Stumppo, 2002). Micro, Small and Medium Enterprises (MSMEs), including khadi and village/rural enterprises constitute an important segment of Indian economy in terms of their contribution to country’s industrial production, exports, employment and creation of an entrepreneurial base (MSME, 2008-09). As a legacy of Gandhian philosophy in India, since independence the micro, small and medium sectors have played an important role in the economic development of the country. Especially since the commencement of planning for economic growth, adequate emphasis has been given on the development of MSMEs by policy makers, politicians and the intelligentsia alike (Gupta, 2006; Banerjee, 2005). The multi pronged objectives of increased industrial output, generation of employment, dispersal of industrial activities across regions and development of entrepreneurship has been successfully met through the propagation of MSMEs. Entrepreneurship is vibrant assertion of the facts that individual can be developed, then outlook can be changed and their ideas can be converted into action though on organized and systematic program for entrepreneurs. It was also felt that systematic training can be given a better output and attracting people for taking up business venture can change economic scenario.

Aim of study

• This paper starts with a literature review regarding the definition of MSME in various countries and also the new definition of MSME in India
• The second part will focus on the Government policies for the MSME sector in India
• The third part and the most important part will deal with the Role and performance of Entrepreneurship on the MSMEs sector in India and Contribution of MSME in Employment Generation

Research Approach

In an attempt to learn as much as possible about the Government policy and the growth of entrepreneurship, we conducted in depth research to obtain most of the necessary data. Through content analysis of historical data analysis, firm disclosure data, company case studies, and sector reports, we gained much valuable information pertaining to our research. We used secondary sources of data collection such as the Internet, websites, books and magazines etc.

Definition of Micro, Small and medium enterprises in various countries

The lack of a formal means of defining an MSME has lead to diverse approaches by Governments and other organizations in different countries. Defining the SME sector, and particularly small businesses, is fairly difficult, as there are differences in what is appropriate to describe as “small” in different industries. The main criteria that predominate to define the MSMEs sector are the number of employees, turnover and the balance sheet total. The new European Union (EU) definition for micro-, small- and medium-sized enterprises is shown in Table 1.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum number of employees</td>
<td>9</td>
<td>49</td>
<td>250</td>
</tr>
<tr>
<td>Maximum annual turnover</td>
<td>2 million Euros</td>
<td>10 million Euros</td>
<td>50 million Euros</td>
</tr>
<tr>
<td>Maximum annual balance sheet total</td>
<td>2 million Euros</td>
<td>5 million Euros</td>
<td>43 million Euros</td>
</tr>
</tbody>
</table>

Table 1: the new European Union definitions for micro-, small- and medium-sized enterprises/ Source: (SME definition User guide and model declaration, 2003)
The Australian Bureau of Statistics (ABS) defining a small business as an enterprise employing up to 99 people. A medium enterprise employs between 100 and 199 individuals and organizations with more than 200 employees are considered large businesses. The ABS definition has become the de-facto definition of SMEs in Australia. In 2001, more than 1.2 million organizations fell into this category according to the ABS (Macgregor, et al. 2007).

The United States bases its definition on the position of the organization within the overall marketplace. According to the United States Small Business Administration (SBA), Section 3 of the Small Business Act of 1953 defines an SME as “one which is independently owned and operated and which is not dominant in its field of operation.” The SBA defines different size standards for each industry in the USA. More than 99% of all businesses in Sweden are classified as small to medium enterprises (SMEs), which means they employ less than 250 people. Of those, 94% are micro businesses with less than 10 employees (MIEC, 2003).

Some countries tend not to make a distinction between legal and statistical definitions. This is the case for Canada, Greece, Portugal, Mexico and the Slovak Republic. The definition can be based on a threshold in revenue, like it is the case in Canada, it can be based on number of employees, as in the UK, or it can combine the number of employees and turnover for legal and statistical purposes like in Portugal. The Slovak Republic, Mexico and Greece use the number of employees as criterion.

In most EU countries, there is a distinction between the legal definition and the statistical definition. The legal definition, based on EU recommendation number 2003/361/EC takes account of the number of employees, annual turnover, annual balance sheet and independence. In some cases the monetary thresholds have been adapted (Italy, Hungary and Moldova). Some EU countries do not have a commonly accepted legal and administrative definition; this is the case for the Netherlands and Spain. Similarly, in New Zealand there is no common administrative definition; turnover is used by some, taxes on employee salaries and wages by other administrations. In Brazil, different criteria and thresholds are used for different legal, fiscal and international trade purposes. Denmark, France, Norway and Switzerland do not use a legal definition. In Japan, the regular workforce, together with capital or investment, determine the size class, however, thresholds vary for the different activity classifications. This is also the case in Korea, where MSMEs are classified by the number of permanent workers, capital and sales. In the US the number of employees is used to identify small businesses in most sectors, except in the non goods producing sectors where annual receipts are the criteria. The statistical definition is generally based on the number of employees or takes account of a mix of the number of persons employed and turnover. However, a number of countries do not differentiate SME statistics collection from other statistics; this is the case, for instance, in Denmark, Germany, New Zealand and the US. Norway uses the number of employees together with the independence criteria. Finally, a simplified definition, based on the number of employees, is used in France and Finland in addition to the EU recommendation (Lindner, 2005).

Enterprise in India is broadly classified into two categories:
1- Manufacturing and
2- those engaged in providing/rendering of services.

The Graph describes the composition of the Micro, Small & Medium Enterprises in India. This Graph also highlights the decomposition of MSME units based on nature of activity. In the sector as a whole, about 33 percent of enterprises are engaged in services sector and a majority of enterprises are in the manufacturing space (67 percent).
There was a longstanding demand from entrepreneurs, small industry associations and related stakeholders for a single comprehensive legislation. The "Micro, Small and Medium Enterprises Development (MSMED) Act, 2006" is the first Act for micro, small and medium enterprises which, inter alia, provides for establishment of a statutory National Board for Micro, Small and Medium Enterprises, filing of memoranda, measures for promotion, development and enhancement of competitiveness of micro, small and medium enterprises, credit facilities, procurement preference and provisions related to delayed payments to micro and small enterprises. The medium sector has been defined for the first time in India and Micro enterprises have been defined for the first time in this Act.

Under the MSMED Act 2006, the earlier, rather limited, concept of ‘Industries’ has been widened to that of ‘Enterprises’. Enterprises have been classified broadly into two categories, namely enterprises engaged in the manufacture/production of goods pertaining to any industry; & enterprises engaged in providing/rendering of services. Enterprises have been defined in terms of investment in plant and machinery/equipment (excluding land & building) as below:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Manufacturing enterprises</th>
<th>Service enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Up to Rs. 2.5 million (US$ 50,000)</td>
<td>Up to 1 million Rs. ($ 20,000)</td>
</tr>
<tr>
<td>Small</td>
<td>Between 2.5 &amp; 10 million Rs ($ 50,000 &amp; 0.20 million)</td>
<td>Up to 1 million Rs. ($ 20,000)</td>
</tr>
<tr>
<td>Medium</td>
<td>Not defined before 2006</td>
<td>Not defined before 2006</td>
</tr>
</tbody>
</table>

Table 2-1: Definitions before 2 October 2006 (Ravi, 2009)

<table>
<thead>
<tr>
<th>Classification</th>
<th>Manufacturing Enterprises*</th>
<th>Service Enterprises**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Up to Rs. 2.5 million (US$ 50,000)</td>
<td>Up to Rs. 1 million (US$ 20,000)</td>
</tr>
<tr>
<td>Small</td>
<td>Rs. 2.5 to Rs. 50 million / (US$ 1 million)</td>
<td>Rs 1 to 20 million Rs (US$ 40,000)</td>
</tr>
<tr>
<td>Medium</td>
<td>Rs.50 million to Rs.100 million (US$ 2 million)</td>
<td>Rs 20 to 50 million Rs (US$ 1 million)</td>
</tr>
</tbody>
</table>

Table 2-2: Definitions after 2 October 2006 (Ghatak, 2010)

* Investment limit in Plant & Machinery ** Investment limit in equipments *** Rs 50 = 1 USD
Government policies for the MSME sector in India: an historical view

The evolution of the policy framework and support measures of the Government can be broadly grouped into the following three periods:

1948-1991:
In all the policy resolutions from 1948 to 1991, recognition was given to the micro and small enterprises, termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resource of capital and skills. The micro, small and medium enterprises development organization [earlier known as small industries development organization (SIDO)] was set up in 1954 as an apex body for sustained and organized growth of micro, small and medium enterprises. Within next two years, the national small industries corporation, the Khadi and Village Industries Commission and the Coir Board were also set up. The era provided the supportive measures that were required to nurture MSEs, in the form of reservation of items for their exclusive manufacture, access to bank credit on priority Sector Lending Programs of commercial banks, excise exemption, reservation under the Government Purchase Programs and 15% price performance in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development. MSME- Development Institutes [earlier known as Small Industries service Institute (SISI)] were set up all over India to train youth in skills/entrepreneurship and Tool Rooms were established with German and Danish assistance for providing technical services essential to MSEs as also for skill – training. At the State level, District Industries Centers were set up all over the country.

1999 onwards:
The ministry of MSME came into being from 1999 to provide focused attention to the development and promotion of the sector. The new policy package announced in August 2000 sought to address the persisting problems relating to credit, infrastructure, technology and marketing more effectively. A credit liked capital subsidy scheme was launched to encourage technology upgradation in the MSE sector and a credit guarantee scheme was started to provide collateral – free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of central excise duty was raised to Rs. 1 crore ($0.25 million) and a market development assistance scheme for MSEs was introduced. At the same time, consolations were held with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year. In 2006, the long- awaited enactment for this sector finally became a reality with the passage of the micro, small and medium enterprises act. In March 2007, a third package for the promotion micro and small enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment, wherein to be competitive is the key of success (MSMEs in India an overview, 2007).

Some of the recent policy reforms for the MSME sector in India are as follows:

• National Manufacturing Competitiveness Council (NMCC) was set up to energizes and sustains the growth of the manufacturing industry. New Promotional Package for MSMEs, and focus on accelerating development of clusters.
• A single comprehensive legislation for the promotion, development and enhancement of the competitiveness of the MSME sector - Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 came into effect from October 2006.
• Revised strategy of lending and introduction of newer
measures, such as the scheme to establish Small Enterprises Financial Centres (SEFC) for strategic alliance between branches of banks and SIDBI located in 388 clusters identified by ministry of SSI.
- Promotion and financial support for Credit-cum-Performance Rating in MSME sector in India, to facilitate greater and easier flow of credit from the banking sector to SMEs.
- The National Commission for Enterprises in the Unorganized Sector (NCEUS) has been set up as an advisory body and a watchdog for the informal sector to bring about improvement in the productivity of these enterprises for generation of large scale employment opportunities on a sustainable basis, particularly in the rural areas.
- Facilitation of technology transfer through the Technology Bureau for Small Enterprises (TBSE)
- Accelerating initiatives to address various developmental needs for MSMEs in the 11th Five Year Plan.
- Guarantee coverage under Credit Guarantee Fund for Small Enterprises expanded substantially
- Credit Linked Capital Subsidy Scheme for Technological Up gradation.
- New legislation on Limited Liability Partnerships being worked on.
- Merger of the Ministry of SSI with the Ministry of ARI (India at 60 & beyond, 2007).
- Package for Promotion of Micro and Small Enterprises (MSEs): in order to assist the MSEs in fully harnessing their potential by enhancing their competitiveness to face the challenges of stiff competition and in availing opportunities generated by trade liberalization, the Government in its NCMP declared that a “major promotional package” will be announced for this segment to provide full support in the areas of credit, technological up-gradation, marketing and infrastructure up-gradation in industrial infrastructure.
- Filing of Entrepreneurs’ Memorandum by Enterprises: In pursuance of Section 8 of the MSMED Act, 2006, an entirely new process of filing of Entrepreneurs’ Memorandum (EM) by Micro, Small and Medium Enterprises (MSMEs) has been put in place.
- Steps Taken to Discourage Delayed Payments to MSEs (MSME, 2007-08).
- Notification for Authority for receiving Memoranda for Micro and Small Enterprises (MSEs): All States & UTs except Meghalaya and Mizoram have issued the Notifications nominating authority for receiving Entrepreneurs Memorandum for MSEs (MSME, 2009-10).

Role and performance of Entrepreneurship on the MSMEs sector in India

Promotion of entrepreneurship among MSMEs is widely handled through a combination of public- and public-private sector organizations in different countries. Entrepreneurship development within MSMEs has been made part of the development Action Plan at the national level by India also (Asian Productivity Organization, 2007). Despite the definitional differences, it is commonly agreed that entrepreneurship is a driving force behind MSMEs. Available evidence suggests that entrepreneurship can contribute significantly to achieving key policy objectives. Entrepreneurship is an effective means of achieving certain policy objectives, but not all, and at least in the short term, there are trade offs which have to be recognized. Entrepreneurs are the driving force behind MSMEs, and MSMEs play an important structural and dynamic role in all economies. The main areas where increased levels of entrepreneurial activity can contribute significantly to specific policy outcomes are:

i) Create opportunities - Job creation, careers, and new products/services
ii) Economic growth, productivity improvement, and innovation.
iii) Poverty alleviation and social opportunities.
iv) Create new customers and open up new markets.

Over the last two decades, there has been a shift toward encouraging greater “social entrepreneurship” as a means of poverty alleviation, increasing employment opportunities and empowerment of disadvantaged or under-represented groups, particularly in rural areas. Awareness of the potential which entrepreneurship may offer for promoting social inclusion is growing worldwide. Much of this emphasis placed by Governments is focused on assisting target groups to start up micro enterprises, usually by means of the provision of low cost micro finance. These policies implemented in many developing economies have been shown to be remarkably effective by some criteria, and are well illustrated by the success of the Grameen Bank. Micro enterprises are important in their own right, for two closely interrelated reasons:

• In the longer term, they can provide a seed bed for entrepreneurship, and for the corporate growth and economic renewal needed to maintain international competitiveness. Almost all MSMEs start as a micro enterprise, in that they start as a concept developed by a single person or a few people.
• In the immediate term, they can provide an alternative to unemployment, and they can provide a means of alleviating poverty and social disparities. Most micro enterprises are non-employing, but they create a job (even if it is only part time) for the entrepreneur (Yadav, 2007).

In this regard, The National Science & Technology Entrepreneurship Development Board (NSTEDB), established in 1982 by the Government of India under the aegis of Department of Science & Technology, is an institutional mechanism to help promote knowledge driven and technology intensive enterprises. The Board, having representations from socio-economic and scientific Ministries/Departments, aims to convert “job-seekers” into “job-generators” through Science & Technology (S&T) interventions (Das, 2007). Objectives are below:

1. To promote and develop high-end entrepreneurship for S&T manpower as well as self-employment by utilizing S&T infrastructure and by using S&T methods.
2. To facilitate and conduct various informational services relating to promotion of entrepreneurship.
3. To network agencies of the support system, academic institutions and Research & Development (R&D) organizations to foster entrepreneurship and self-employing using S&T with special focus on backward areas as well.
4. To act as a policy advisory body with regard to entrepreneurship.

The Programmes have created awareness among S&T persons to take to entrepreneurship as a career. The academics and researchers have started taking a keen interest in such socially relevant roles and have engaged themselves in several programmes. About 100 organizations, most of which are academic institutions and voluntary agencies, were drafted in the task of entrepreneurship development and employment generation (Yadav, 2007). It can be deciphered from the following graph that the number of persons employed in MSMEs has increased gradually from 22.9 million in 1999-00 to 29.5 million in 2005-06 and jumped suddenly from 29.5 million in 2005-06 to 59.5 million in 2006-07 then steady rise from 59.5 million in 2006-07 to 65.9 million in 2008-09. This indicates that The Government has followed a supportive policy towards Micro, Small and Medium Enterprises, aimed at facilitating their growth and enhancing their competitiveness.

Graph 2: Number of employment in MSME sector in India. *The data for the period up to 2005-06 is only for small scale industries (SSI). Subsequent to 2005-06, data with reference to micro, small and medium enterprises are being reflected.
MSMEs enterprises in India contribute to employment generation by creating jobs to skilled and unskilled workers. The above graph illustrates clearly the growth of micro, small and medium enterprises in India, which has a direct effect on growth in employment.

**Government policy toward employment generation and entrepreneurship promotion in MSMEs**

Entrepreneurship development and training is, thus, one of the key elements for development of micro, small and medium enterprises (MSMEs), particularly, the first generation entrepreneurs. To undertake this task on regular basis, the Ministry has set up three national-level Entrepreneurship Development Institutes (EDIs). These are the National Institute for Micro, Small and Medium Enterprises (NI-MSME), Hyderabad; the Indian Institute of Entrepreneurship (IIE), Guwahati; and the National Institute for Entrepreneurship and Small Business Development (NIESBUD), NOIDA, (UP). Further, the Ministry has been implementing [in addition to the schemes operating by the Office of the Development Commissioner (MSME)], an important scheme, namely, Scheme for Assistance to Training Institutions, which has been modified recently. The main objectives of the scheme are development of indigenous entrepreneurship from all walks of life for developing new micro and small enterprises, enlarging the entrepreneurial base and encouraging self-employment in rural as well as urban areas, by providing training to first generation entrepreneurs and assisting them in setting up of enterprises.

Indian Micro Small and Medium Enterprises (MSMEs) contribute significantly to the national priorities of employment generation, entrepreneurship promotion, backward area development and wealth distribution. The number and percentage of employment generation by Indian registered MSMEs are as under:

**Graph 3 & 4: number of employment generation by MSME sector**/ Data source: Annual Reports, Ministry of Micro, Small and Medium Enterprises, Government of India (2009-10)
Arguably, micro and small industries are the most likely candidates for leading India’s manufacturing growth in the coming decades. They can, provided the right environment exists, lead both output and employment growth. The contribution of the Micro, Small and medium enterprises to the economic growth of a nation is well recognized. In developing countries, as some authors argue (Leutenkhorst, 2004) the contribution of MSMEs towards employment generation is significant because they • tend to use more labor intensive production processes than large enterprises, boosting employment and leading to more equitable income distribution. • Provide livelihood opportunities through simple, value adding processing activities in agriculturally based economies; • Nurture entrepreneurship; and • Support the building up of systemic productive capacities and the creation of resilient economic systems, through linkages between small and large enterprises.

Micro, Small and Medium Enterprises, have for long remained an integral part of businesses in India. In fact, globally too, be it the developed nations like the US and UK or the developing nations like Malaysia and Indonesia, MSMEs have been recognized as a vital component of the domestic economy (Sisodiya, 2006). The below table shows the total number of working MSMEs in India with reference year of 2006-07:

<table>
<thead>
<tr>
<th>Type</th>
<th>Registered</th>
<th>Unregistered</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>1035102</td>
<td>6418294</td>
<td>7453396</td>
</tr>
<tr>
<td>Services</td>
<td>517390</td>
<td>18130011</td>
<td>18647401</td>
</tr>
<tr>
<td>Total</td>
<td>1552492</td>
<td>24548305</td>
<td>26100797</td>
</tr>
</tbody>
</table>

Table 3: Total number of working MSMEs in India/ Data source: Annual Reports, Ministry of Micro, Small and Medium Enterprises, Government of India (2009-10)

The Government of India since 1951 has encouraged and supported the SME’s through its various policy initiatives. Since 2005, The Government of India has identified 3,000 SME clusters of artisan-specific, village and small enterprises in the country and has taken up 1,150 such clusters for intervention and improvement.

Conclusion

The early history of entrepreneurship in India reflects from the culture, customs and tradition of the India people. To process of entrepreneurship therefore passed through the potential roots of the society and all those who accepted entrepreneurial role had the cultural heritage of trade and business. On the other hand, Micro, Small and Medium Enterprises are a critical economic factor in India. They make up a majority of the domestic business transactions and at the same time play an important role in international trade. 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. The experience of recent years shows that while employment in agriculture sector has been declining, large industries are also experiencing jobless growth. In such a situation, the main responsibility for job creation rests with unorganized sector including small and medium enterprises and the service sector. Considering its potential and ability, the MSMEs sector has been assigned a target of 12 per cent annual growth and additional employment of 4.4 million persons.

It has been observed that in India a large number of micro, small and medium enterprises (1,035,102 out of 1,552,492) concentrate on manufacturing sector. The micro, small and medium enterprises sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 65.9 million persons in over 28.5 million units throughout the country. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSME sector provides the maximum opportunities for both self-employment and jobs after agriculture sector. We also founds in the past record of MSME development that, those countries have succeeded in achieving higher growth of MSME, who have given much more emphases on Entrepreneurship Development Program (EDP). Consistently they are trying to accumulate optimum utilization of their resources in this field. Through the EDP, they have earned a very significant achievement to reach in to their development goal.
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