The Role of Government Policy and the Growth of Entrepreneurship in the Micro, Small (&) Medium-sized Enterprises in India: an Overview

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Abstract: Micro, Small and medium enterprises (MSMEs) as the most common form of enterprises in many countries are very significant for the development of their market economies. They are the main creators of the new working places and they present a vital core of the market economy. The experiences of well-developed countries show that the sector of Micro, small and medium enterprises is a basic link to the growth and development of their public economy. Policymaking in the entrepreneurship field is complex and messy. Many areas of Government policy affect levels of entrepreneurial activity. 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 Micro, small and medium enterprises (MSMEs) as they can help to directly alleviate poverty by increasing income levels and creating jobs. This paper evaluates the government policies with respect to the MSMEs and the performance of these enterprises in relation to these policies and assistance. In particular, the article concentrates on the growth of entrepreneurship within the Micro, Small and Medium-sized enterprises (MSMEs) in India. In addition, 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. We found 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.

Key words: Entrepreneurship, micro, small and medium enterprises, Government policy, employment, India.

INTRODUCTION

Micro, Small- and medium-sized enterprises are a vibrant and growing sector in most economies round the world. (Levy et al, 2005) Audretsch et al. (2006) explains that creating supportive environments for entrepreneurship and MSME development has become a top policy priority in almost every country around the world. (Audretsch et. al. 2006) Lester et al. (2007) claims that There is broad agreement on the merits of devising policies to enhance the contribution of MSMEs to global trading, since it is widely recognized that MSMEs are under-represented in the global economy. For example MSMEs typically contribute some 50 per cent of GDP in the developed economies and some 60 per cent of total employment, yet MSMEs contribute only around 30 per cent of exports and even less in terms of flows of international investment.

In India also, the role of micro, small and medium enterprises (MSMEs) in the economic and social development is well established. (Report of the Task Force on MSME, 2010) 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. 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. (Gupta, 2006) (Banerjee, 2005) The MSME sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. This sector contributes 8 per cent of the country’s GDP, 45 per cent of the manufactured output and 40 per cent of its exports. The MSMEs provide employment to about 60 million persons through 26 million enterprises. The labor to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. (Report of the Task Force on MSME, 2010).

**Aims of the Study:**

The aims of this paper is to look into Government policies to micro, small and medium enterprises development and to measure performance in terms of their contributions towards employment generation and entrepreneurship in the Indian context up to 2009-10.

The MSME sector has often been termed the ‘engine of growth’ for developing economies. We begin with an overview of this sector in global scene and look at some recent trends which highlight the development and significance of this sector vis-à-vis the Indian economy. Over the last few years, there has been major policy changes at the federal and state level aimed at consolidating and developing this sector. The MSME Development Act of 2006 is perhaps the most crucial of these recent policy changes.

**Concept 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>
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<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>

Source: (SME definition User guide and model declaration, 2003)

The Australian Bureau of Statistics 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. (Macgregor, et al. 2007).

The US bases its definition on the position of the organization within the overall marketplace. The SBA defines different size standards for each industry in the USA. (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. (Lindner, 2005).

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. 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. (Lindner, 2005).

Enterprise in India is broadly classified into two categories:

1- Manufacturing and
2- those engaged in providing/rendering of services.
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 MSMEs which, 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 MSMEs, 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>
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<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>
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The below Graph describes the composition of the MSME 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).

**Graph 1:** Describes the composition of the MSME in India.

Data source: Annual Reports, Ministry of Micro, Small and Medium Enterprises, Government of India (2009-10)

**Government Policies for the MSME Sector in India:**

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. 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. (Lundstrom et al. 2005)The evolution of the policy framework and support measures of the Government can be broadly grouped into the following three periods which has been shown briefly in the following Figure.

**Some of the Recent Policy Reforms for the MSME Sector in India:**

The MSME Development Act of 2006 introduced a number of new policies, such as a simplified registration process for new MSMEs. This now involves completing a memorandum instead of the earlier, more time-consuming process. With this new process in place, District Industry Centers (DICs) no longer have to shoulder the administrative burden of MSME registration. Another change implemented in the act is the systematic penalties imposed on late payments from suppliers. Often, large firms delay payments to smaller
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 new policies from 1991-99 laid the framework for Government support in the context of Liberalization, which sought to replace protection with competitiveness to infuse more vitality and growth to MSEs in the face of foreign competition and open market.

The new policy package announced in August 2000 sought to address the persisting problems relating to credit, infrastructure, technology and marketing more effectively.

**Entrepreneurship as a Driving Force Behind MSMEs:**

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).

Entrepreneurship includes the ability to affect the outcome and therefore the risk taken is calculated and weighted against its potential benefits and is therefore smaller than perceived by outsiders. (Landstrom et al., 2009-10).

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:

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**Fig. 1:** Government policies for the MSME sector in India.

<table>
<thead>
<tr>
<th>Period</th>
<th>Government Policies</th>
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<tbody>
<tr>
<td>1948-1991:³</td>
<td>The micro, small and medium enterprises development organization was set up in 1954.</td>
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<tr>
<td></td>
<td>The Khadi and Village Industries Commission and the Coir Board were set up.</td>
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<tr>
<td></td>
<td>MSME Development Institutes were set up all over India.</td>
</tr>
<tr>
<td></td>
<td>At the State level, District Industries Centers were set up all over the country.</td>
</tr>
<tr>
<td>1991-1999:²</td>
<td>Testing centers were set up for quality certification.</td>
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<td></td>
<td>Supportive measures concentrated on improving infrastructure, technology and quality sub-contracting exchange were established.</td>
</tr>
<tr>
<td></td>
<td>The small industries development bank of India and a technology development and modernization fund were created.</td>
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<tr>
<td></td>
<td>A Delayed Payment Act was enacted.</td>
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<td></td>
<td>A credit linked capital subsidy scheme was launched.</td>
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<td></td>
<td>The exemption limit for relief from payment of central excise duty was raised.</td>
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<tr>
<td></td>
<td>A market development assistance scheme for MSEs was introduced.</td>
</tr>
<tr>
<td></td>
<td>Consultations were held with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year.</td>
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</tbody>
</table>
Fig. 2: Shows some of government polices for MSME sector in India after 2006. Sources: (MSME, 2009-10) (MSME, 2007-08) (India at 60 & beyond, 2007)

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 Program’s 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 programs. 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) Entrepreneurship development and training is, thus, one of the key elements for development of 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. (Ministry of Micro, Small and Medium Enterprises, Government of India 2009-10)

**Contribution of MSME's Towards Employment Generation:**

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 (Leutkenhorst, 2004) the contribution of MSME’s 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

The presence of micro, small and medium enterprises plays a pivotal role in the balanced and holistic industrial development of the country as MSMEs generate employment and add value to the products and services while encouraging entrepreneurship. (Karnataka, 2010)

The below graph illustrates clearly the growth of micro, small and medium enterprises in India, which has a direct effect on growth in employment.

**Graph 2:** Total number of MSME and employment generation by MSME sector in India

*Data Source: (Annual Report Ministry of Micro, Small and Medium Enterprises, 2009-10):*

It can be deciphered from the graph 2 that the number of MSMEs has increased steadily in India from 9.7 million in 1999-00 to 12.3 million in 2005-06. This could be possible due to the conducive policy environment during the liberalization era. There was a significant rise in the number of MSMEs between 2005-06 and 2006-07, because 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. Similarly, 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.

Arguably, Indian Micro, Small and Medium Enterprises (MSMEs) contribute significantly to the national priorities of employment generation, entrepreneurship promotion and backward area development. The number and percentage of employment generation by Indian registered MSMEs from 2009 to 2010 are as under:

**Graph 3:** Employment generation by Indian registered MSMEs (2009 - 2010).
Data source: Annual Reports, Ministry of Micro, Small and Medium Enterprises, Government of India (2009-10)

Graph 1 provides the major statistical information regarding the number of employment generation by registered MSMEs in Indian economy in 2009-10. This information is extracted from the same publication by the Ministry of Micro, Small and Medium Enterprises, Government of India (2009-10). Hence, the following data represent the latest information available regarding the structure of employment generation in Indian MSMEs.

From the above graph it is evident that the micro enterprises have approximately three quarters (69%) of the total number of employment generation in India. The sector is characterized by low investment requirement, operational flexibility and location wise mobility. After that the small enterprises have 24% of the employment generation. The small industry sector has done quite well and has enabled the country to achieve considerable industrial growth and diversification. Being generally less capital intensive, micro and small enterprises Suit the Indian economic environment with scarce financial resources and large population base.

Finally, medium enterprises have only 7% of the total number of employment generation in India. As a result, this important part of the Indian economy must not only be protected against natural or man-made disasters, but also be nurtured for the benefit of the whole society in general, and the majority of the Indian employed by this sector, in particular.

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).

**Conclusion:**

"Micro, Small and Medium Enterprises (MSMEs) have emerged as an engine of growth in several developed and developing economies of the world. In India also, 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 the manufacturing sector. The micro, small and medium enterprises (MSME) 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. A noteworthy shortcoming of the MSME Development Act of 2006 is that it does not substantially address labor policy. The act does not encourage provisions for more flexible employment policies, nor does it have provisions to promote entrepreneurship among women in spite of the clear objective laid out in the 11th five-year plan (2007).

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