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INDIA MICRO, SMALL & MEDIUM ENTERPRISES REPORT 2019



ISED SMALL ENTERPRISE OBSERVATORY

Enterprise Security

Tortoise & Hare Strategy

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Economic Downturn

**Subsectors: Auto components; Food Processing;
Textiles & Hosiery; Sports Goods, Media & Entertainment...**



Institute of Small Enterprises and Development

MSMER 2019

**India Micro, Small and
Medium Enterprises Report
2019**

India Micro, Small and Medium Enterprises Report 2019



ISED Small Enterprise Observatory
Institute of Small Enterprises and Development

ISED House, ISED Enclave, ISED Road, Cochin -682 028, India

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India Micro, Small and Medium Enterprises Report(MSMER) Series, is a flagship project of the Institute of Small Enterprises and Development. Initiated by the Institute's Knowledge Platform, ISED Small Enterprise Observatory (ISED-SEO), it is a tool that addresses the "invisibility syndrome" relating to the small enterprise economy. The aim of the MSMER Series is to put forward an independent and scholarly view of the state of India's micro, small and medium enterprises on an yearly basis, and of the likely happenings. The Report has been brought out under the 'India MSME Communication Programme (IMCP)' of the Institute.

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Foreword

The global development experience relating to enterprise and livelihoods, as in 2019, is distinct. The change in the technology paradigm, with respect to the so-called 'Industry 4.0', and the widespread crash in commodity prices, are two remarkable developments having significant distributional consequences, among and within countries today. It is important to note that, an economic slowdown has shown its ugly face in countries like Germany and Japan also, which were hitherto described as success stories. The Indian economy also has been undergoing some stringencies relating to growth performance and employment creation.


Following the Keynesian tradition, economists often speak of unleashing the "animal spirits" in the economy, simply by "pump-priming", as anti-slowdown measures. However, unlike in the 1930s, the theory and policy perspectives on small and medium enterprises (SMEs) has undergone a sea change. Following the international debates, this Report examines the macro level picture, in relation to the relative roles of the so called "gazzles" and "mice". It takes the arguments to a different level, in the Indian context, and votes for a dual strategic approach: the 'Tortoise and Hare' strategy. 'Enterprise security' and 'entrepreneurship resources' are the basic building blocks of such a strategy. This twenty-second volume of the 'India MSME Report', takes us to an excursion into the micro-meso processes that explains the India scene today.

The Report has made a meticulous effort to bring the above perspective and strategic approach to the understanding of amateurs and professionals alike. I hope, it provides necessary inputs for triggering a lively debate on India's MSME problems from a new perspective, and with focus on subsector level experience. As such, beyond academic interest, it is likely to immensely useful for policy exercises in the country.

I wish to thank the Special Advisory Team, and members of the National Partnership Network, wholeheartedly, for their rich contributions to this humble initiative of the Institute of Small Enterprises and Development. My congratulations to the team of the ISED Small Enterprise Observatory for its painstaking and meticulous effort.

New Delhi/Cochin

November 01, 2019



Kamal Nayan Kabra

Chairman, ISED

Preface

India MSME Report series (MSMER series) is a unique model of Development Reporting. Its purpose is to analyse and present enterprise development in India, on a global canvas. On its early third decade, the Project has been able to gain significant experience in the subject area, as also to play a humble role as an opinion maker.

As in 2019, there has been a major churning of global policies in enterprise development. This invades of disruptive technologies, rapid changes in global trade and investment relations, and the fast changing consumer tastes and preferences has changed the ecosystem especially of the MSMEs. As indicated by the Union Budget 2019, economic policy in India is likely to respond to such changes differently from the beaten track.

The present volume of MSMER is devoted to address an emerging international view of the SME problem. The purpose, by enlarge, is to shape a global view of India's problems and imperatives, so that the MSME sector of the country gets equipped to address such global challenges and to grab new opportunities.

The ISED model of 'Inclusive Partnership' forms the backbone of this project. We thank all our Partner Institutions who make this 'Partnership Network' what it is.

This Report is the outcome of the co ordinate work of the various Knowledge Centers of the Institute. The ISED Small Enterprise Observatory took care of the overall co ordination. The strong support and the meticulous job of our Special Advisory Team and Editorial Team have made possible this document into its present form. I wish to thank the Field Teams and our esteemed respondents, without whose co operation, our field findings would not have taken shape.

I wish to specially thank the officials of the Ministry of MSME, Ministry of Skill Development and Entrepreneurship, and various other national organisations, State Departments of Industries and Commerce, Reserve Bank of India, and various financial institutions in the public and private sectors. The Report is expected to be released at Chandigarh. I wish to thank Mr. Suresh Kumar, and Mr. Tejvir Singh, Chief Principal Secretary and Principal Secretary to the Chief Minister of Punjab, and Ms. Vini Mahajan, Addl. Chief Secretary, Department of Industries and Commerce, for their kind interest and support. Mr. C. Sibin, Director Industries and Commerce and Mr. Rajat Agarwal, CEO Invest Punjab, extended substantial logistical support for the release of the Report.

At the desk, I would like to acknowledge and appreciate the meticulous support of J.M.I. Sait, Phillips Mathew, Jovel Johnson, Ajith George and P. Sreekumar. P. Jagannathan and Vishnu Vardhanan extended excellent support in data processing and analysis. Last, but not the least, I would like to place on record the technical support of Johny Antony, Shine Job, Mathew George, Ashique and Arun.

The Institute wishes to thank, without fail, the pains and efforts of all.

Cochin

November 01, 2019



P.M. Mathew
Project Director

HIGHLIGHTS

Globally, the year 2019 has been reported to be marked by rapid techno-economic changes. The further flattening of economic processes, against the more recent changes in information and communication technologies (ICT), makes such changes path-breaking. 'Industry 4.0', as the new and emerging paradigm, redefines business transactions today. Globally, as also in individual countries, this has obvious consequences on economy, social life, and environment.

The global trade regime, bilateral and multilateral, also has been undergoing rapid changes. Commodity prices have been falling, throwing the exporting countries in a rather difficult situation. Absolute poverty has come down in most countries. However, the accelerating economic and social inequalities turn the world into a new phase of economic slowdown, spreading from one country to another. It is important to note that, the slowdown has shown its uncomfortable face in countries like Germany and Japan also, which have been described as success stories for quite some time.

It makes one to look back into the gloomy stories of the 1930s, and of later of 2008, when the pains of such a slowdown were felt in most countries of the world. But strikingly, the techno-economic context has undergone a revolution, thereby indicating the imperative for new analytical methods and altogether new policy approaches. Unlike the 1930s, it is difficult to unleash the "animal spirits" in the economy, simply by "pump-priming". One needs to look meticulously into the economic structure of countries, subsector dynamics, and their global relationships regarding technology and trade, where global value chains are the vital connectors. It is in this specific context, that small and medium enterprises (SMEs) and their role has to be understood. They are no more the passive victims of an economic down-turn, as in the 1930s. Today, they are a sizeable influence factor in many countries.

For India, 2019 has been an year of rapid changes. A strong government having taken charge at the Union level, with changes in public policy and governance, the opportunities and challenges of the MSME sector today are quite different. However, the year has been marked by a significant official recognition of the MSME role in the economy, and several new policy initiatives have a reflection of the same. The content of such policies and strategies, obviously, is debatable. But, such healthy debates should continue, in order to help this vital sector of the economy to unleash its full potential. In fact, that is one of the major purposes of this twenty-second report in the India Micro, Small and Medium Enterprise (MSMER) Series, coming out from the meticulous work at the ISED Small Enterprise Observatory.

This volume of MSMER is focused on two key thematic areas: first, the changing scene of enterprise security, which is a continuation of the ongoing discussion in the Series. Readers are advised to keep track with the debates at the ISED Small Enterprise Observatory from time to time. Secondly, the discussion, running through nine chapters, tries to put forward a new policy focus and a strategic approach. While the policy focus hinges on a 'rights-based approach' to enterprise development, at the operational level, it is extended to the context of MSME-heavy enterprise subsectors. Accordingly, the experience and learning have been spotlighted in the case of eight subsectors that are truly representative of eight thematic categories: auto components, Textiles and Hosiery, Renewable Energy, Bicycles, Food Processing, Pharmaceuticals, Entertainment and Media, and Sports Goods. The more recent experience of these categories is critical in shaping an appropriate development strategy.

Unlike the beaten track global strategies of dealing with an economic slowdown, this Report puts forward an innovative approach based on India's diverse economic reality and cultural heritage. The 'Tortoise and Hare strategy' is unique in terms of the recognition and respect it proposes to give to millions of dynamic entrepreneurs of the country. Entrepreneurs differ in terms of their outlook, approach, and strategies; but each entrepreneur of the country is a wealth creator. Hence, each of them needs to be recognized and respected in its own right.

Subsectors like Pharmaceuticals, Engineering, Textiles, & Garments, Minerals & Metals, belong to the 'Tortoise Club'. They have a legacy behind them, which still continues. On the other hand, there are the 'Hares Club', represented by, Renewable energy, Bio-technology, Robotics, and Defence Equipments, having high aspirations, beyond the

beaten track. For historical and strategic reasons, there are strong opportunities with both. Given such an objective assessment, we propose, a 'Pentagon Initiative', involving five subsectors that are representative of five distinct characteristics of the enterprise reality of the country. Textiles is a subsector connecting the history of Industrial Revolution with the information technology driven era of the 21st century. India need to stand on the shoes of England, which had global monopoly in Textiles. Pharmaceuticals is a subsector by which India can conquer the world markets. Engineering has enormous potential of broad basing its opportunities through reengineering. The Media & Entertainment subsector has huge potential, but demands regulated growth. Renewable Energy is a vital subsector for shaping India's sustainable development agenda. The task of public policy need to be to identify the potential embedded in these subsectors, individually, and in their totality, against the country's development aspirations.

Beyond the well known subsectors, the country also need to explore and experiment virgin areas like 'Circular Economy' and 'Social Enterprise', that can help to give a new dimension to the development path we are used to.

This strategic approach also gives a call to India's MSME fraternity, irrespective of their background, culture, and capabilities, to contribute their mite, and to adapt their strategies for a common cause. It is not simply economic development that matters; the concept of India as a nation, and as a major global player, need to be highlighted and broadcasted through enhanced social inclusion, and by focusing on diversity as an asset. The individual entrepreneur need to be the beginning and end of change.

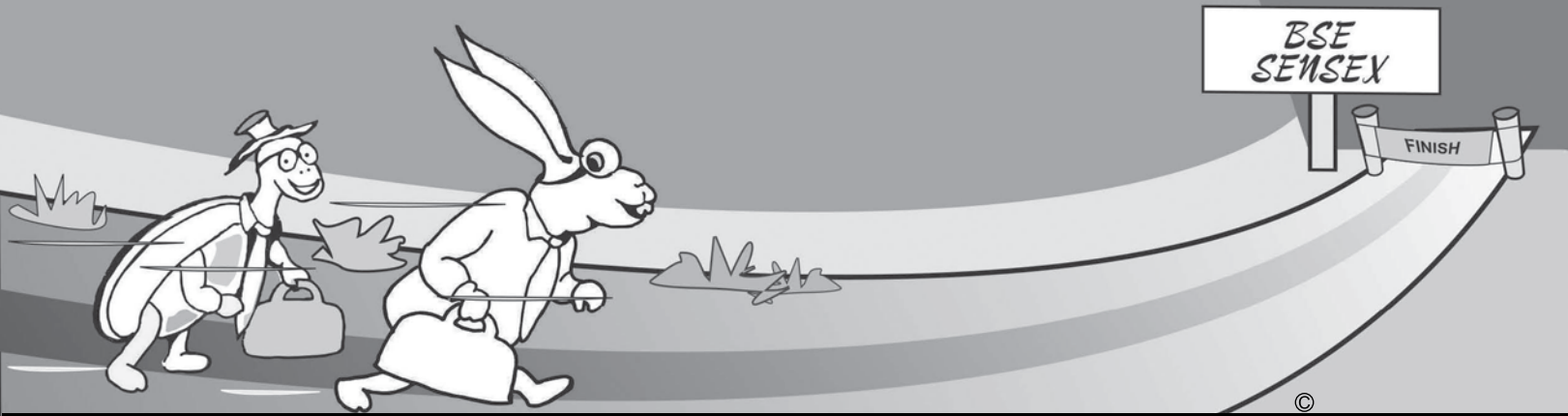
This report examines their role under six cultural categories and makes some recommendations. Unleashing the creativity of the Indian citizen for common good: this need to be the beginning and end of India's enterprise development agenda.

Strategies for overcoming a slowdown in the economy need to happen at three levels: a)policy level; b)subsector level; and c)firm level. At the policy level, the government has made some announcements. Against such a broad canvas, there is enormous need and scope of structural changes at the subsector and firm levels.

History demonstrates different models of industrial transition, under which the SMEs have gained their position in the economy. Unlike in Europe and in North America, India's historic legacy lies in the co-existence of a relatively strong formal sector of enterprises, along with a sizeable informal sector. While, in recent global literature, this kind of a growth experience is described in terms of the concept of 'missing middle', India's real experience is not that simple. Naturally, when such understanding is translated into public policy, one need to be extremely cautious. It is on this logic that, this report looks into 'subsector' as the foundation of analysis and policy. But within any subsector, the critical resource that need to be preserved and nourished is entrepreneurship itself. It further takes forward this logic to six behavioral typologies under which the entrepreneurs and enterprises perform. The 'strategic subsectors' are critical for anti-cyclical policies. 'High penetration subsectors' are vital for the social angle of enterprise promotion. 'Regional engines of growth' are vital for achieving local economic development. 'Outward orientation subsectors' are crucial for innovation, growth and export promotion. 'Sunrise subsectors' offer immense potential for the country going global. 'Knowledge-culture-bonding subsectors', besides their educational and cultural focus,are important for strengthening India as a nation.

There is a major imperative for entrepreneur education today. A thorough review and recast of the training and skill development initiatives, with focus on MSMEs, is a major imperative. The constraint is not lack of 'skills', as it is popularly perceived. Lack of motivation and adaptability are the critical constraints. The two conventional streams, viz. entrepreneurship Education and Training/Skill Development, have not been much successful in addressing this problem. It calls for innovations and new strategic approaches, that can offer comprehensive solutions for the labour market.

At a time when the country faces an economic slowdown, it gives a common lesson, both to their millions of participants: unless wealth creation takes place in a sustainable manner, India will feel short of achieving the 'Sustainable Development Goals'.



1 | SME Development: The Emerging Global Agenda

1.0. Introduction

The rationale for SME development has, traditionally, been built upon two major pillars of development policy: 1) employment promotion; 2) balanced regional development; with strong political foundations in a democratic system, this conventional perception 'closed economies'. The emerging trend, however, is towards globalization of production and accelerated enhancement of scale. How do the SMEs perform against such rapid changes in the economy, where value chains are the decisive force? These questions, form the compass of public policy today. It is the content of such a policy framework that drive the actions or not, of the government in power. The purpose of this study is to examine and analyse change management strategies in the sphere of MSMEs, with public policy as a key instrument and central force. It spells out the learning for India, based on international experience. Such a learning, on an international plane, is important for India to shape its MSME policy, in correspondence with the challenges and opportunities brought in by the emerging global economic order.

2.0. Brief History of the SME Constituency

From the days in the First Industrial Revolution, the large firm has been considered as the corner stone of manufacturing. Adam Smith (1776), conceptualized 'scale of production' as the driving force of capitalist manufacture. In the scheme of Karl Marx also such a paradigm is implicit, wherein, the ultimate state is one in which "the entire social capital would be united, either in the hands of a single capitalist, or in those of one single corporation (Marx, 1912).

The perception that, in the manufacturing sector, large and even giant firms will dominate, existed in Western

economies throughout most of the twentieth century. In fact, Galbraith (1956), wished away the role of small firms, as essentially on a diminishing mode. Hence, the preference for large scale production was shared both by market economies and planned economies, for the better part of two centuries (Acs, 2003).

The publication of the 'Wealth of Nations' by Adam Smith (1776) corresponded broadly with the onset of the Industrial Revolution in England. During this period, subcontracting was widespread. In the then prominent putting-out system, the manufactories were dependant on cottage workers and their families. The production units were essentially small workshops. However, the initial technological interventions such as the spinning jenny, the mechanical loom, and subsequently, development of steam power in the late eighteenth and early nineteenth centuries, gradually led to the factory form of organization (Acs, 2003). By the middle of the nineteenth century, most of the industrial employment came under factories, generally in the owner-managed form.

By 1870, Britain emerged in its role as a supreme industrial power, under its colonial regiment. On the other hand, other leading countries, especially Germany, the USA and Japan, were starting on a period of even more rapid expansion. Such expansion however, soon eclipsed Britain. By the early twentieth century, armed with the abundant natural resources base, and immigrant labour, there took place a booming of industry in the continental United States. This huge market size was exploited by the early entrepreneurs like Rockefeller, Morgan, and Carnigie. The process of merger was set in motion, leading to a wave of the world's largest 'corporations' or 'trusts', which began to dominate the US economy. By 1902, this hegemony of the US corporations got into the development of a