

REDESIGNING BUSINESS STRATEGIES FOR INCLUSIVE GROWTH

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ABSTRACT

India stands at 60th & 62nd position in 2017 and 2018 year, on the IDI index as per the World Economic Forum, whereas Norway stands 1st. Our country can have real growth if 'inclusive growth' happens. Employment opportunities for vast majority of our population, is one of the pillars for achieving 'inclusive growth'. Since Small Scale Sector is really considered as the backbone of our economy, due to its manifold advantages, we can focus on this sector and go forward in the path of actual growth of not only India, but 'Bharat' also. Small scale sector covers rural and backward areas of India. Small Sector (SSI / MSME) accounts for 45 % of India's manufacturing output; 35 % of our exports, and gives employment to 11.1 crore people. Hence SSI generates large employment and promotes entrepreneurship. This paper initially discusses the meaning of inclusive growth, then the recent classification of MSME. It correlates / dovetails the initiatives of the Government to reduce / eliminate the problems faced by this sector. Coupled with the 'Make in India' program, it can be seen that we can achieve our goal of inclusive growth, through support and strengthening the Small Scale Sector.

Keywords : SSI MSME Inclusive-Growth Make-in-India

1. Introduction

In his address at the valedictory function of the Tamil Nadu Global Investors Meet (GIM) on 24th January, 2019 our Vice President Shri M. Venkaiah Naidu mentioned that, our country is focused on inclusive growth, and on reducing income inequalities. (<https://pib.gov.in/newsite/PrintRelease.aspx?relid=187747>)

The World Economic Forum (WEF) publishes the Inclusive Development Index (IDI) report every year. India's position was 60th in 2017, and 62nd in 2018; while Norway stood 1st as world's most inclusive advanced economy. This means India needs a lot many efforts to improve.

Inclusive development or growth can be understood as that development which covers every segment of the society. Another way to look at 'inclusive growth' is to ensure that the economic growth is spread

across the society creating equal opportunities for all the people.

There are various macro and micro level factors / interventions that promote proper inclusive growth. Some of the macro factors are tax reforms, liberalization, privatization, social security etc. The micro factors like developing infrastructure, education, healthcare, job opportunities, reducing income disparity etc. In short, therefore education, healthcare, skill development, employment, financial inclusion, infrastructure, social inclusion take priority.

There are 5 Pillars of "Inclusiveness" – Education and Skills; Fiscal Efficiency; **Employment**; Equitable Growth; and Asset Building & Entrepreneurship (Aggarwal S.C. et al 2019). Thus it is evident that strengthening of the SSI / MSME sector would enhance Employment and nurture Entrepreneurship.

In the Economic Survey 2019-20, presented in the

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Parliament on 31 January 2020, the Union Minister of Finance and Corporate Affairs Ms. Nirmala Sitharaman mentioned the need for integrating 'Assemble in India for the world' into 'Make in India', India has the potential to raise its export market share to about 3.5 % by the year 2025, and to 6% by 2030. India also has a good potential of job creation: 4 crore well-paid jobs by 2025, and 8 crore by 2030.

So it can be realized that one of the means of achieving Inclusive Growth is good job creation.

Thus we need to find whether supporting the SSI coupled with 'Make in India' can lead us to the path of inclusive growth.

2. Survey of Literature :

Rajendra D Wakhale and Suchismita Semgupta (2016) trace the start of SSI. Since the year 1997, about 850 items have been de-reserved for the SSI sector. The limits of investment for MSME are discussed.

Banik Subhamoy (2018) emphasizes that world-over SSI units have been accepted as the originator of economic growth. Further the article mentions that in different countries the criterion of MSME differs. The article also mentions the exports performance of SSI, and the challenges faced by them.

S. Pratibha (2018) discusses the categories of MSME, and the employment generated over a decade.

Manali Chakrabarti (2018) in her paper details the different statistics about the employment.

Dripto Mukhopadhyay (2019) in his article, mentions

about the distribution of national income, the world inequality etc., concluding that inclusiveness is necessary for India's growth.

3. Objectives

“How are most of the difficulties faced by the MSME, being addressed by the government”?

(I) The first objective of this research paper is to understand the SSI sector. (ii) Finding the advantageous features of the Small Scale Sector, and checking out that they orient towards the 'inclusive growth'. (iii) Next it has to be found out, what are the difficulties faced by them, and (iv) how the policies of the Government try to address / remedy their problems. If these are correlated, then one can hope to achieve 'inclusive growth'.

4. Classification of Small Scale Sector

Small Scale industries have emerged as a vibrant & dynamic sector of the our economy. They constitute about 35 % of direct exports from India, and around 15% of exports indirectly. As per the 73rd National Sample Survey (NSS) in the year 2017, the MSME sector had created 11.10 crore jobs in India – both rural and urban areas – of which 32 % was in manufacturing; 35 % in trade; and 33 % in services.

As per the **MSMED Act, 2006** the Micro, Small, and Medium Enterprises are given classification as Manufacturing Enterprises and Service Enterprises The classification of MSME - Manufacturing and Service, based on investment, is exhaustively available. (Source : https://dcmsme.gov.in/ssiindia/defination_msme.htm)

The classification of MSME in brief, is as follows :

Enterprise	Manufacturing – investment in plant and machinery	Service – investment in equipment
Micro	Not more than Rs. 5 Lacs	Not more than Rs. 10 Lacs
Small	More than Rs. 5 Lacs, but not more than Rs. 5 Crores	More than Rs. 10 Lacs, but not more than Rs. 2 Crores
Medium	More than Rs. 5 Crores , but not more than Rs. 10 Crores	More than Rs. 2 Crores , but not more than Rs. 5 Crores

5. Small Scale Sector and Make-in-India : Journey towards Inclusive Growth

Prime Minister of India, Mr. Narendra Modi has launched the '**Make in India**' program, on 25th Sept., 2014 very ambitiously, with the intention of placing India on the world map, as a manufacturing hub. By the end of 2020, India is expected to become the fifth largest manufacturing country in the world. The government aims to create 100 million new jobs by end of 2022. (<https://msme.gov.in/>) Indian manufacturing sector has the potential to achieve \$1 Trillion by the year 2025.

'Make in India' program focusses on 25 different sectors. Many of these can be availed of by the MSMEs directly; and for others they can be the suppliers (to big companies) in the supply chain. Hence, the benefit is expected to percolate down.

The 'Make in India' program intends to raise the share of Manufacturing to our GDP from the current 15% to 25%. It will use the abundantly available labour – skilled and otherwise.

Few **highlights** of the 'Make in India' which are worth mentioning:

Automobile Sector : Mercedes Benz, BMW, and Renault increased their production

Chemicals : FDI increased by 107 %

Textiles and Garments : expects to grow from 13 % to 15%, and add 11,000 jobs

Food Processing : FDI worth \$1.7 Billion. 88 cold chain projects initiated.

Electronics : 38 mobile manufacturing units set-up. Foxconn, Oppo are ready.

Wellness : Potential to create 3 million jobs

Construction : Pradhan Mantri Awas Yojana. Employs about 35 million persons.

Many foreign countries have expressed willingness to get involved :

Mr. Nitin Gadkari welcomed the fact that in the current Budget, big encouragement has been provided to the MSME segment. He further added that his ministry intends to increase the contribution of MSMEs in India's GDP, from the current level of 29 % to above 50% , which will be able to provide jobs to 15 crore people. (Source: Economic Times website)

Over 80 % of the employment in India is in the informal sector. Reducing the size of informal economy is supportive for inclusive growth.

For every Rs. 0.1 million of investment – the small scale sector **provides jobs to 26 people**, as compared to 4 jobs created in the large scale sector.

6. Advantages of SSI Sector

Advantages that the SSI Sector possesses, **which help to promote 'inclusive growth'**:

1. SSI is a labour-intensive sector.
2. It has sizeable presence in rural parts of India, where big companies will not go.
3. The SSI Sector needs all types/levels skills of persons.
4. This sector provides employment for artisans, persons with traditional art/skills etc. which are predominantly residing in rural parts of India.
5. SSI sector helps in balanced development growth.
6. These units employ large number of women.
7. SSI sector achieves some wealth distribution to a larger number of people.
8. Many big companies have had their origins in the small scale industry. Hence we can certainly say that they promote entrepreneurship.
9. It promotes / involves traditional family art/skills and handicrafts skills – which have a good demand for exports.
10. SSI sector thus provide source of livelihood to the weaker, socially backward, and low-skilled persons especially in the rural parts, thereby trying to bring them in the mainstream.
11. Moreover, SSI does not require sophisticated equipment (Phule Kishore R., 2018), so it reduces our import bill burden, and help save foreign exchange.

Apart from the above, many SSI units are suppliers to the big companies, in their supply chain.

7. Difficulties faced by SSI and how the Government is trying to address

Difficulties faced by the SSI sector and how the Government is trying to address most of these difficulties – are briefly discussed below. The names of the schemes which are addressing the mentioned difficulties are

given. For constraints of space, the details are skipped, but can be easily accessed and understood for their intent, application on this website. (<https://msme.gov.in/all-schemes>)

1. **Insufficient Finance**

- (a) Prime Minister's Employment Generation Program (PMEGP)
- (b) Credit Guarantee Trust Fund for Micro and Small Enterprises (CGT SME)

2. **Incompetent Management :**

This can be due to lack of interest; lack of proper experience esp. of the second generation; feud within the family members; etc.

3. **Lower Quality of Products / Processes**

- (a) Enabling Manufacturing Sector to be Competitive through QMS&QTT i.e. Quality Management Systems (QMS) and Quality Technology Tools (QTT).
- (b) Revamped Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

4. **Lack of Marketing Support**

National Manufacturing Competitiveness Program (NMCP)–

- (a) Marketing Assistance Scheme: (b) Procurement and Marketing Support Scheme (P&MS) :

5. **Inadequate Working Capital**

- (a) Interest Subsidy Eligibility Certificate (ISEC)

6. **Lack of Upgradation in Technology**

- (a) National Manufacturing Competitiveness Program (NMCP) (b) Financial Support in certification in ZED.

7. **Problems in Export**

National Manufacturing Competitiveness Program (NMCP)

- 8. **Delayed Payments (from the customers)** – Recently our Finance Minister Smt. Nirmala Sitharaman has urged the PSUs to ensure that their payments to the SSI sector are not delayed.

9. **Low Innovation and Entrepreneurship Development**

National Manufacturing Competitiveness Program (NMCP)–

- (a) Entrepreneurial and Managerial Development of

SMEs through Incubators (b) ASPIRE (c) Entrepreneurship and Skill development Programs.

10. **Multiplicity of Laws, Rules**

The government is trying to reduce the permissions / documentation needed. It is trying to put an end to the so-called 'permit raj'.

For e.g. the recent introduction of The Goods and Service Tax (GST), simplification is attempted by the government, yet some teething troubles are seen, which are being sorted out by the concerned authorities.

11. **Inability to Meet Environmental Standards**

National Manufacturing Competitiveness Program (NMCP)

- 12. **Concentration of SSI or Non-Dispersal:** In spite of the attempts to distribute the industrial activities over the geographical area, some concentration is still observed.

- 13. **Poor Industrial Relations** – Due to the inherent lower wages, less stability, there is a friction between the management and the workers- most of whom are uneducated, unskilled.

- 14. **Power Supply problems:** though this problem has been considerably reduced, still in some non-urban areas, the government needs to ensure uninterrupted power supply.

15. **Lack of Training :**

Micro and Small Enterprises – Cluster Development Program (MSE-CDP)

- 16. **Risk of becoming a Sick Unit :** There could be many possible causes: Mismanagement; Technological changes; Diseconomies of Scale; Lack of Demand;

The Govt. of India has come out with The Insolvency and Bankruptcy Code; Sick Industrial Companies (Special Provisions) Act (1st Dec. 2016). Still some more reforms may be necessary.

8. **What can we learn from other countries?**

In Germany, (Arbeitslosenversicherung and ALG II or Hartz IV) the employees and employer contribute 1.5% of the employee's gross income towards unemployment compensation scheme. Again in Germany, the government places lot of emphasis on the vocational, skills-oriented training during the education

period.

France has a very extensive social security system. The NHS (National Health Service) model of the UK is said to be one of the best in the world. (Aggarwal S.C. et al 2019)

Indian Government can certainly think in the above guidelines of other countries.

9. Conclusion

Overall, as it has been seen above, it can be said that if the difficulties of the SSIs are addressed, they can certainly be channelized to expedite the achievement the 'inclusive growth'.

10. Future Scope

One way to actually trace the IDI every year, find what improvement has taken place, and also where or what is lacking, so that corrective action can be initiated. Second, is to have a track on how much benefit is achieved for each policy of the Government.

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