



PERFORMANCE OF THE INDIAN MSMEs IN THE ERA OF GLOBALISATION

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Abstract

India is a developing nation with scarce capital resources and widespread unemployment. Small scale industries play a pivotal role in overcoming this problem by their scarce use of capital and more use of labor. Small scale industries play a big role in fighting scarcity of capital in a capital scarce economy like ours. In a labor surplus underdeveloped economy like ours small scale industries are like a boon providing employment to the large scale unemployed. The role of small scale industries is thus even more important in an underdeveloped economy like ours compared to large scale industries. This sector produces as good as 45% of the total manufacturing output and 40% of the total exports. The sector gives employment to about 69 million people in the country. There are over 6000 items ranging from traditional to high tech being manufactured by this country. Small scale sector is said to be providing highest employment after the agriculture sector in the country. The importance of the small scale industries is mainly also because of its contribution to the total industrial production and GDP of India. Looking at the pivotal role that is played by this sector Government has provided protection and support to this sector. In this era of globalization much more of the support and technological help would be welcome step. In India Small Scale Industrial Sector includes Micro, Small and Medium Enterprises.

Introduction

Micro, Small and Medium Scale Enterprises are like a financial lifeline of the Indian Economy which is highly laborintensive. The industry has risen from "small" to "medium" and has also included the service sector into it. The MSMEs are said to be employing as good as four persons for the same amount of capital in which one is employed in the large scale industrial sector. It stands to be a real support mechanism in terms of manufacturing parts, subparts, machinery, etc to the large scale industrial sector and that too at a low cost of capital. It also provides a wide variety of products and sub products apart from having a wide and skilful service sector. Services of various types are provided by this sector. The contribution to GDP of the sector is also very good in terms of the capital employed in it. Since some years the sector encounters globalisation which has made certain changes in the results achieved earlier and those received now, which will also be a matter of study in the following paper.

Globalisation is a result of internationalisation and liberalisation. In order to give more importance to the small scale industrial sector a separate policy statement was announced on 6th August 1991 for the small, tiny and village enterprises. This was a leapforward as this was the first time that the Government had announced a separate statement for the small and the decentralised sector. This policy statement proposed some path-breaking measures to mitigate the handicaps that were faced up by small enterprises in respect. Government of India introduced a large number of innovative promotional measures to uplift the growth of small scale sector. Major features of the Small Industrial policy of 1991:

- Emphasis to shift from cheap credit to adequate credit.
- Equity participation by other undertakings (both domestic and foreign) upto 24 percent.
- Introducing of factoring services by banks.
- Marketing of mass consumption goods under common brand name.
- Setting up of sub- contracting exchanges.
- Establishment of technology development cell.
- Opening of quality counselling and technology information centres.
- New technology up gradation programmes.



Definition

In the Indian context, micro, small and medium enterprises as per the Micro Small and Medium Enterprises (MSME) Development Act, 2006 are defined based on their investment in plant and machinery for manufacturing enterprises and on equipments for enterprises providing or rendering services.

According to the Micro, Small and Medium Enterprises (MSME) Development Act of 2006, (India) a micro enterprise is where the investment in plant and machinery does not exceed twenty five lakh rupees. A small enterprise is where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees. A medium enterprise is where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees.

In the case of the enterprises engaged in providing or rendering of services, a micro enterprise is where the investment in equipment does not exceed ten lakh rupees. A small enterprise is where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees. A medium enterprise is where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

Data Sources

The paper is mainly based on secondary data collected from RBI Bulletin , Annual Reports of MSMEs (Micro , Small and Medium Enterprises) and papers published in various journals. For the purpose of calculation we have used Annual Average Growth Rate.

Review of literature

SUBRAMANYA BALA M. H. (2004)

The researcher highlighted the impact of globalization small scale sector of India. Because of globalization and liberalization an environment favorable to heavy Foreign Direct Investment is built up in the country posing a danger to the small scale sector of the country. The formation of WTO has also scaled down the restrictions of imports for its member countries including India. The protection policy of SSI sector has also been loosened, unprotecting the SSI sector in India. All these have exposed the SSI sector to globalization to which India does not seem yet to be ready. The researcher has used key variables like number of units, production , employment and exports to study the impact of globalization .The study found that the rate of growth was high in the pre-liberalization period compared to the post-liberalization period . Finally researcher concludes that India would have to make itself ready to face globalization. Though globalization initially weakens the SSIs but once the enterprises get immune and ready to globalisation the same thing would reap benefits, the only thing to be done is to upgrade ourselves and work hard to put ourselves to ultimate level.

SONIA AND KANSAL RAJEEV (2009)

Researchers have examined the impact of globalization on SSI sector of India by comparing the growth of the sector in pre and post liberalization periods. For this purpose, the performance of the SSI sector was examined in depth on the basis of different parameters such as number of units, production, employment and exports. Though the numbers in all the above parameters has increased but the Annual Average Growth Rate (AAGR) has decreased to a great extent in post –liberalisation period compared to the pre-liberalization period. The study revealed that comparative analysis of growth pattern of above key parameters between pre and post liberalization periods revealed that ‘globalization’ had a negative impact on growth of small scale sector in India. Researchers highlighted that overall impact of globalization on small scale sector was negative which is a serious matter of concern for the planners.

MISHRA SHIVANI (2012)

The researcher has highlighted the various aspects through which the SSI sector has contributed to the growth of the Indian economy. SSI sector produces almost everything from traditional to state of the art articles and provides employment to almost all the sections of the society increasing national income. The study showed that though the growth rate has retarded to some extent in the post liberalization period compared to the pre liberalization period, the contribution of the SSI sector is immense and unignorable. The researcher concludes that the schemes for the upliftment of SSIs fail to a certain extent because of lack of awareness and lack of accessibility factor. Looking at the vibrancy of the sector planners must plan better accessible plans to make the sector more productive.

GAUTAM RAJKUMAR AND SINGH RAGHBIR (2012)

Researchers conducted a survey on 200 SSI units of Punjab covering textiles, bicycle and bicycle parts, leather and leather products, food products and beverages regarding the impact of globalization on them. The study was conducted in Punjab. The study revealed that SSIs were affected in the liberalized era and were finding a lot of problems to run their businesses. The surveyed units believed that liberalization has resulted into more



competition, increased quality consciousness, difficulty in marketing, dumping of cheaper goods by other countries, reduction in profit margin and raised levels of customer satisfaction. Some units also believed that globalization had also opened new opportunities for them. The main reason for difficulties was lack of infrastructure and operation facilities in comparison with large, medium and foreign companies. Other reasons for difficulties were lack of clear marketing policies, financial limitations, lack of international quality certification, lack of advertising, financial and operational difficulties and technological obsolescence. It was suggested in the study to the Govt. to help the SSIs in their ventures by providing technological upgradation, financial support, marketing access and proper management access for the development of SSI sector.

RAJAN K (2013)

The researcher has made an attempt to examine the performance of small scale industries with an emphasis on pre-reform and post-reform periods. The performance was analysed in terms of number of units, production, employment and exports. The analysis showed that performance of SSIs in terms all the above indicators was better in the pre-reform period in comparison to the post-reform period. The major reasons for this indicated in the research were stiff competition faced by the SSIs during the post reform period owing to the withdrawal of special concessions like reservation of items, exemption from excise duties and withdrawal of protection granted to the sector due to the liberalization, privatization and globalization (LPG) policies. The paper indicates the need for granting special care to accelerate the performance of this sector in generating employment, increasing production and increasing exports.

Globalisation in India

Globalization refers to the process of integration of the world into one huge market. It provides several things to several people with removal of all trade barriers among countries. Globalization happens through three channels: trade in goods & services, movement of capital and flow of finance. Globalization in India is generally taken to mean 'integrating' the economy of the country with the world economy. The real thrust to the globalization process was provided by the new economic policy introduced by the Government of India in July 1991 at the behest of the IMF and the World Bank. Globalization has led to an 'Unequal Competition'- a competition between 'giant MNC's and dwarf Indian enterprises'. The small scale sector is a vital constituent of overall industrial sector of the country (Sonia and Kansal 2009).

Globalization happened in India since 1991 because of following reasons:

- Liberalization of investment regimes in 1990s, favouring foreign direct investment (FDI) at international level, particularly in socialistic and developing countries.
- The formation of the WTO (World Trade Organisation) in 1995 forcing its member countries (including India) to drastically scale down the quantitative and non-quantitative restrictions on imports.
- Domestic reforms done by Govt. of India.

The small scale industry thus confronted globalization since 1991 because of above reasons. The cumulative effect of all these is a remarkable transformation of the economic environment in which the small industry operates implying that the sector has no option but to 'compete or perish' (Subramanya Bala MH 2004). While globalization is a large scale phenomenon, small scale enterprises are a local phenomenon but having effects of dimensions as large as it is global 'friend and foe'. Friend- because both globalization and small scale industries are the two wheels of the vehicle of economic growth and prosperity; globalization is said to bring in new opportunities of business, bring in new technology and capital and generate employment and increase the national income. Foe- because some argue that given the developing nation that India is, Small Scale Industries (SSIs) can suffer and strangle to death by the fierce competition put up by globalization, the large scale industries and foreign firms can perish the small industries by their economies of scale and large scale networking.

Importance of Small Scale Industrial Sector In India:

The MSME sector is a breeding ground of entrepreneurship after driven by individual creativity and innovations. This sector contributes 8 percent of the country GDP, 45 percent of the manufactured output and 40 percent of its exports. The sector is estimated to employ about 805 lakh persons in over 361 lakh enterprises 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 MSMEs provide good opportunities for both self employment and wage employment.

India is developing country and hence it is extreme need to have source of livelihood. Since MSME it is labour intensive in character helps immensely in job creations. Above data shows a positive and phenomenal growth in MSME sector. SSI Sector in India creates largest employment opportunities for the Indian populace, next only to agriculture. It has been estimated that a lakh rupees of investment in fixed assets in the small scale sector



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generates employment for four persons. Small Enterprises play a very significant role in terms of balanced and sustainable growth of the economy by way of employment generation, development of entrepreneurial skills and contribution to export earnings. These units produce a wide range of items employing traditional to state-of-the-art technology

MSME Contribution to GDP

Year	Contribution of MSEs (%) at 1999-2000 prices in	
	Total Industrial Production	Gross Domestic Product (GDP)
04-05	38.62	5.84
05-06	38.56	5.83
06-07	45.62	7.20
07-08	45.24	8.00
08-09	44.86	8.72

Source: Annual Report 2011-2012, Ministry of MSME

The MSE sector has maintained a higher rate of growth vis-à-vis the overall industrial sector. Since independence, the small scale industries have rendered a major contribution to the gross domestic product of the country. They play a vital role in changing the industrial scenario and strengthening the industrial sector tremendously. They assist the utilization of assets for productive purposes with minimal initial resources. If we have closer look about the export performance of the MSME it is found that this sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is contributed by SSI Sector. Direct exports from the SSI Sector account for nearly 35% of total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. Hence such exercise helps in said country gross domestic product too.

Growth Perspective of the MSMEs in the Pre and Post Globalisation Periods:

MSMEs stand to be one of the economic lifelines of the country. Performance of MSMEs has been compared in terms of number of units, in terms of employment, in terms of production and in terms of exports in the pre and post globalization periods. Analysis of the same has also been given below it. Annual Average Growth Rate or Exponential Rate has been used as the criteria for comparison between pre and post globalization periods. Pre globalization period is said to be from 1973-74 to 1989-90 and post globalization period is said from 1990-91 to 2006-07. 1991 is the year from which financial reforms were introduced in India.

Performance of MSMEs in terms of number of units:

The working number of units in small scale sector in Pre and Post Globalization Period in India is show in the following table:

Year	Units	% of Increase to previous year	Upward/Downward trend	Year	Units	% of increase to previous year	Upward/Downward trend
1973-74	0.42	N.A.		1990-91	6.79	273.08	Upward
1974-75	0.50	19.05	Upward	1991-92	7.06	3.98	Downward
1975-76	0.55	10.00	Downward	1992-93	7.35	4.11	Upward
1976-77	0.59	7.27	Downward	1993-94	7.65	4.08	Downward
1977-78	0.67	13.56	Upward	1994-95	7.96	4.05	Downward
1978-79	0.73	8.96	Downward	1995-96	8.28	4.02	Downward
1979-80	0.81	10.96	Upward	1996-97	8.62	4.11	Upward
1980-81	0.87	7.41	Downward	1997-98	8.97	4.06	Downward
1981-82	0.96	10.34	Upward	1998-99	9.34	4.12	Upward
1982-83	1.06	10.42	Upward	1999-00	9.72	4.07	Downward
1983-84	1.16	9.43	Downward	2000-01	10.11	4.01	Downward
1984-85	1.24	6.90	Downward	2001-02	10.52	4.06	Upward
1985-86	1.35	8.87	Upward	2002-03	10.95	4.09	Upward
1986-87	1.46	8.15	Downward	2003-04	11.40	4.11	Upward
1987-88	1.58	8.22	Upward	2004-05	11.86	4.04	Downward
1988-89	1.71	8.23	Upward	2005-06	12.34	4.05	Upward
1989-90	1.82	6.43	Downward	2006-07	12.84	4.05	Steady
AAGR		9.36		AAGR		4.07	



The AAGR was 9.36 in the pre-globalisation period i.e.1973-90 and the AAGR was 4.07 in the post-globalisation period . This shows that although the number of units have increased but the Annual Average Growth Rate i.e. the rate of growth in comparison to the previous year has decreased in the post-globalisation period compared to the pre-globalisation period.

Performance of MSMEs in terms of Production:

The following data would give information about the performance of MSMEs in terms of Production.

Performance of MSMEs in Terms of Production:

Year	Production (current prices)	% of Increase to previous year	Upward/ Downward trend	Year	Production (current prices)	% of increase to previous year	Upward/ Downward trend
1973-74	7200	N.A.		1990-91	78802	-40.44	Downward
1974-75	9200	27.78	Upward	1991-92	80615	2.30	Upward
1975-76	11000	19.57	Downward	1992-93	84413	4.71	Upward
1976-77	12400	12.73	Downward	1993-94	98796	17.04	Upward
1977-78	14300	15.32	Upward	1994-95	122154	23.64	Upward
1978-79	15800	10.49	Downward	1995-96	147712	20.92	Downward
1979-80	21600	36.71	Upward	1996-97	167805	13.60	Downward
1980-81	28100	30.09	Downward	1997-98	187217	11.57	Downward
1981-82	32600	16.01	Downward	1998-99	210454	12.41	Upward
1982-83	35000	7.36	Downward	1999-00	233760	11.07	Downward
1983-84	41600	18.86	Upward	2000-01	261297	11.78	Upward
1984-85	50500	21.39	Upward	2001-02	282270	8.03	Downward
1985-86	61200	21.19	Downward	2002-03	314850	11.54	Upward
1986-87	72300	18.14	Downward	2003-04	364547	15.78	Upward
1987-88	87300	20.75	Upward	2004-05	429796	17.90	Upward
1988-89	106400	21.88	Upward	2005-06	497842	15.83	Downward
1989-90	132300	24.34	Upward	2006-07	585112	17.53	Upward
AAGR		19.45		AAGR		13.57	

(Source: Ministry Of MSMEs, GOI)

The above table shows that the AAGR of the pre-liberalisation period is 19.45 i.e. from 1973-74 to 1889-90, and that of the post-liberalisation period is 13.57 i.e. from 1990-91 to 2006-07. Although the production has increased in crores of rupees but the annual average growth rate has decreased. The production was increasing the post liberalized period but the average and the yearly growth rate was higher in pre-liberalised period compared to the post-liberalised period.

**Performance of MSMEs in terms of Employment:**

India is a country which has labour in abundance and capital which is scarce. MSMEs prove to be a boon for a country like India which can produce maximum labour opportunities with the least of capital. Performance of the MSMEs in the pre and post liberalization periods shall be assessed by the following data.

Performance of MSMEs in terms of Employment: (in lakhs)

Year	Employment	% of Increase to previous year	Upward/ Downward trend	Year	Employment	% of increase to previous year	Upward/ Downward trend
1973-74	3.97	N.A.		1990-91	15.83	32.36	Upward
1974-75	4.04	1.76	Upward	1991-92	16.60	4.86	Downward
1975-76	4.59	13.61	Upward	1992-93	17.48	5.30	Upward
1976-77	4.98	8.50	Downward	1993-94	18.26	4.46	Downward
1977-78	5.40	8.43	Downward	1994-95	19.14	4.82	Upward
1978-79	6.38	18.15	Upward	1995-96	19.79	3.40	Downward
1979-80	6.70	5.02	Downward	1996-97	20.59	4.04	Upward
1980-81	7.10	5.97	Upward	1997-98	21.32	3.55	Downward
1981-82	7.50	5.63	Downward	1998-99	22.06	3.47	Downward
1982-83	7.90	5.33	Downward	1999-00	22.91	3.85	Upward
1983-84	8.42	6.58	Upward	2000-01	24.09	5.15	Upward
1984-85	9.00	6.89	Upward	2001-02	25.23	4.73	Downward
1985-86	9.60	6.67	Downward	2002-03	26.37	4.52	Downward
1986-87	10.14	5.63	Downward	2003-04	27.53	4.40	Downward
1987-88	10.70	5.52	Downward	2004-05	28.76	4.47	Upward
1988-89	11.30	5.61	Upward	2005-06	29.99	4.28	Downward
1989-90	11.96	5.84	Upward	2006-07	31.25	4.20	Downward
AAGR		7.25		AAGR		4.26	

(Source: Ministry of Micro, Small and Medium Enterprises, GOI.)

AAGR= Annual Average Growth Rate or Exponential Growth Rate.

The Average Annual Growth Rate of the pre-liberalisation period was 7.25 and that of the post-liberalisation period was 4.26. Though the number of people who got employment in the post-liberalisation period was more but the average annual growth rate comparing the previous year to the present was less compared to the pre-liberalisation period.

Performance of MSMEs in terms of Exports:

Performance of MSMEs in terms of exports can be evaluated by the following table:

(Exports= Million Nos.)



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Year	Exports	% of Increase to previous year	Upward/ Downward trend	Year	Exports	% of increase to previous year	Upward/ Downward trend
1973-74	400	N.A.		1990-91	9664	27.16	Downward
1974-75	500	25.00	Upward	1991-92	13883	43.66	Upward
1975-76	500	0	Steady	1992-93	17784	28.10	Downward
1976-77	800	60.00	Upward	1993-94	25307	42.30	Upward
1977-78	800	0	Steady	1994-95	29068	14.86	Downward
1978-79	1100	37.50	Upward	1995-96	36470	25.46	Upward
1979-80	1200	9.09	Downward	1996-97	39248	7.62	Downward
1980-81	1600	33.33	Upward	1997-98	44442	13.23	Upward
1981-82	2100	31.25	Downward	1998-99	48979	10.21	Downward
1982-83	2000	-4.26	Downward	1999-00	54200	10.66	Upward
1983-84	2200	10.00	Upward	2000-01	69797	28.78	Upward
1984-85	2500	13.64	Upward	2001-02	71244	2.07	Downward
1985-86	2800	12.00	Downward	2002-03	86013	20.73	Upward
1986-87	3600	28.57	Upward	2003-04	97644	13.52	Downward
1987-88	4400	22.22	Downward	2004-05	124417	27.42	Upward
1988-89	5500	25.00	Upward	2005-06	150242	20.76	Downward
1989-90	7600	38.18	Upward	2006-07	-----	-----	
AAGR		18.66		AAGR		17.56	

The annual average growth rate of exports was 18.66 in the period of 1973-74 to 1989-90 i.e. the pre-liberalisation period which decreased to 17.56 in the post-liberalisation period i.e. from 1990-91 to 2006-07. This shows that despite the number of exports was increasing the the annual average growth rate was decreasing. This showed that globalization did not have a very positive impact on the exports of the country.

Conclusion

India is a labor surplus economy with scarce capital resources. In such a situation micro, small and medium enterprises (MSMEs) prove to be a boon which provide widespread employment with very less capital. The results of the above tables show that despite the small and medium scale industrial sector has shown some improvement in the recent years but the average growth rate has been in the descending trend compared to the pre liberalization period if we compare the post liberalization period. A fall in the growth of number of units, employment figures, production figures and exports in the post liberalization period in comparison to the pre liberalization period is a serious matter of concern for the planners and the Government.

The reason behind this fall can be the sudden attack of the superior foreign firms on the incompetent Indian firms in the newly liberalized markets of the country. Also, the shield of quantitative and non quantitative restrictions was removed to a great extent from the sector which exposed the sector directly to the foreign firms, leading to an initial set back to the dwarf Indian firms.



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The results definitely show that liberalization is the reason behind the failure on the growth front of the MSMEs but as everything on earth first rebels a change and then accepts it and learns to survive with change so will the Indian MSMEs. The only thing needed to do is to help them survive and confront the ongoing changes. For this the Government needs to go deep into the reasons behind the failure of the MSMEs and make a move to remove them step by step. Though this seems to be a challenging task but can be well accomplished if MSMEs and the Government come forward willingly to accomplish it. The small scale sector has been contributing enormously to the growth of the country since independence. India being a laborintensive country the importance of small scale industries is very high since it provides four times the employment to capital employed in comparison to the large scale economies. Again India has also got the problem of unskilled labour compared to developed countries, which can be well absorbed into the small and medium scale industrial sector.

The Government has been taking steps definitely to solve the problem of capital employed by establishing special banks for the small and medium scale sector like SIDBI, etc, providing loans with discounted rates of interest, offering special schemes of loans for the sector yet efforts should be made to make the loans reach those who actually need them and to see whether the loans are being properly utilized or not.

The Government has also made efforts for providing training to the unskilled labour of the MSMEs. The Govt. has also provided training to the entrepreneurs wishing to establish their own units by organizing special training programmes. Training has also been provided to the backward classes, scheduled caste and scheduled tribes and women and also those who need them by organizing special programmes at either no fees or very nominal fees. Moreover supervision must be done and corrective programmes must also be established to see whether the training imparted is being implemented correctly or not. Special training must be provided to special labour to make them more competitive and make them survive the foreign trade attack. MSMEs must be competitive enough to survive the foreign attack and also to rebel it and find new borders for itself.

Last but not the least let the whole arena i.e. the Government, the MSMEs, the labour side and the consumers that is us needs to take some time so that we can resist the foreign attack and combat it to survive the times to come. Liberalisation has definitely brought down the upward trend of pre-liberalised period in the post liberalization period by the reforms introduced by the liberalization. But with time when we would resist the change we would also prosper to spread our boundaries. So we should strive hard to resist and combat the changes of globalization.

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