The Impact of Globalization on Development of MSMEs: An Entrepreneurial Analysis

Rama Mohana Rao Katta, AP State Council of Higher Education, Government of Andhra Pradesh, India
Chandra Sekhar Patro, Department of Management Studies, Gayatri Vidya Parishad College of Engineering (Autonomous), India

https://orcid.org/0000-0002-8950-9289

ABSTRACT

Globalization has been a significant force in the development of the market and economic environments. The micro, small, and medium enterprises (MSMEs) need to focus on technological capabilities to face the competition in the globalized market. They have to analyze the market opportunities in the rapidly growing economy as well as emerging markets. The aids of a globalized and digital economy depends to an excessive extent on favourable business environments and healthy competition. The performance of MSMEs depends on accessibility to various strategic resources like abilities, technical know-how, innovativeness, and finance. Thus, it is imperative to consider the factors influencing work conditions firm level, and the strategies formulated at the national level are organized to local business perspectives. This paper examines the global scenario of MSMEs, the impact of globalization, the role of MSMEs in India, the growth perspectives of MSMEs during the pre-and post-globalization period, the critical challenges, and the role of the government in encouraging and developing MSMEs.

KEYWORDS

Economy, Enterprises, Entrepreneurship, Globalization, Innovation, Performance

INTRODUCTION

The growth of the Micro, Small and Medium Enterprises (MSMEs) is vital for both developed and developing economies. MSMEs are one of the sources of creating employment opportunities, economic dynamism, and innovation, as the enterprises inspire the entrepreneurial spirit and the diffusion of skills (Panitchpakdi, 2006). The MSME sector helps in promoting competition and entrepreneurial culture among the nations for economic development. As the contribution of MSMEs to the national income, employment generation and the development of different regions across the country including rural areas is significant, it is necessary to protect and promote this sector. Contributions from intellectuals pave the way for SMEs to reach their potential.

DOI: 10.4018/IJEGCC.2021010104

Copyright © 2021, IGI Global. Copying or distributing in print or electronic forms without written permission of IGI Global is prohibited.
MSMEs proved that they can upscale activities from a humble beginning to extremely greater heights. The business enterprises such as Microsoft and Apple are the live examples proving that MSMEs can grow to a global level when proper resources are provided with good market conditions. The Indian business enterprises like Infosys that was established with an investment of USD 250 has generated revenues of USD 4 billion over a while and has also been listed on NASDAQ in the USA. The emergence of online business also provides ample evidence that risks also prosper for new MSMEs that pursue innovative business models (UNESCAP, 2006). MSMEs, by number, dominate the business scenario of the world. The approximations advocate that more than 95 per cent of business enterprises all over the globe are MSMEs. It is estimated that 60 per cent of the MSMEs are of the private sector approximately (Ayyagari et al., 2011).

Amid the industrialized countries across the world, Japan has the maximum share of MSMEs of total enterprises across the world (EIU, 2010). Bestowing to the Ministry of MSMEs, India had 633.88 lakh Micro, Small and Medium Enterprises during 2016. This is equal to 80 per cent of all the nation’s businesses (MSME, 2018). Similarly, it is assessed that 91 per cent of the formal business enterprises in South Africa are MSMEs (Abor & Quartey, 2010). The approximate statistics related to the 27 nations of the European Union (the EU-27) exemplify the significance of MSMEs. These countries account for about 99.8 per cent of the total business enterprises, hire 67 per cent of the total employees and also contribute 58 per cent of the gross value added (GVA).

In developing countries, more than 90 per cent of all business enterprises are MSMEs contributing a majority share to the GDP. In Morocco, 93 per cent of industry-related enterprises are MSMEs. The estimates state that these enterprises account for 38 per cent of production, 32 per cent of the investment and 30 per cent of the exports. The contribution of MSMEs to the South Africa economy is considerably higher compared to other nations. Similarly, Ghana is well-known for MSMEs accounting for about 92 per cent and contributing more than 70 per cent to the nation’s GDP (Abor & Quartey, 2010).

MSMEs are highly employee concentrated businesses and these enterprises can offer an extensive contribution towards employability at the macro level. The World Bank’s study across 99 nations with 47,745 business enterprises stated that the enterprises having employees between five to 250 account for about 67 per cent of the total full-time employment (Ayyagari et al., 2011). However, the major number of employment generated by the MSMEs are comparatively more than the large business enterprises (de Kok et al., 2011). The main objective of the study is to examine the impact of globalization on MSMEs in India, the growth perspectives of MSMEs during the pre and post-globalization period, the critical challenges faced by the MSMEs in the market, and the role of the Government in encouraging and developing MSMEs.

**Review of Literature**

Dikova et al., (2016) found that a diversified export strategy is positively related to performance in terms of market, intensity and product despite being with decreasing returns. Ghosh (2017) identified that the banking sectors are exposed to reduce economic growth and that overseas banks condensed private credit flows in host nations. It indicates that the overseas banks experiencing informational holdups that prevent them from lending money to a huge population of would-be client-base in host markets in which many SMEs would fall. Ezcurra & Rodriguez-Pose (2013) found a positive significant association between the magnitude of the regional disparities and economic globalization. Regional inequality is more distinct in nations with a greater degree of economic integration compared to the rest of the world. Moreover, the spatial effect of economic globalization is more in lower and middle revenue-generating nations with sophisticated regional inequalities than in higher-income nations.

Globalization has brought about competitiveness in markets, which have reduced monopoly profits and incentive by enabling the business to find cost-reducing innovations. Globalization has also unlocked capital markets allowing the developing nations to borrow funds that cover the gap in domestic investments (Ocloo, et al., 2014). Aris (2007) stated that globalization has brought many