

IMPACT OF GOVERNMENT POLICIES IN PROMOTING ENTREPRENEURIAL ENVIRONMENT AMONGST EXPORTING MSME'S

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Abstract :

In the current competitive scenario, every country's government is taking utmost care to encourage its MSMEs (Micro, Small and Medium Enterprises) via providing various assistance schemes including broad spectrum of programs like facilities for efficient product marketing, quality production, availability of easy credit, market research analysis, export facilitation, etc. India too, is consciously administering several such schemes to the aid of MSMEs, for fostering their production both in domestic and foreign markets. The current study aims to investigate the impact of some such schemes on the performance of select exporting MSME units. The sample for the study is constituted by exporting MSMEs belonging to Gujarat state of India. The findings reveal that these schemes are proving useful for strengthening the MSMEs in global markets; however, rigorous hard work needs to be directed at enhancing their capacity in production of quality items, along with supportive policy measures and sufficient infrastructure.

Keywords : *Micro, Small and Medium Enterprises, Governmental Assistance, Export Performance*

Introduction

In the current competitive scenario, every country's government is taking utmost care to encourage its MSMEs (Micro, Small and Medium Enterprises) via providing various assistance schemes including broad spectrum of programs like facilities for efficient product marketing, quality production, availability of easy credit, market research analysis, export facilitation, etc. India too, is consciously administering several such schemes to the aid of MSMEs, for fostering their production both in domestic and foreign markets. In the recent past, India's trade deficit has risen continuously, with growth in imports constantly outpacing the

growth of exports. The trade deficit during 2012-13 was a staggering 191 billion USD . Under such circumstances, accelerating the growth of exports thus becomes a necessity and urgency for calming down the big gap between value of net exports and imports.

The potential of Indian MSMEs to compete in international markets is reflected in their share of about 34% in national exports. In case of items like readymade garments, leather goods, processed foods, engineering items, the performance has been commendable both in terms of value and their share within the MSME sector while in some cases like sports goods they account for 100% share to the total exports



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of the sector. The Union Commerce Ministry, Government of India announces its 'Foreign Trade Policy' (FTP) in every five years. Earlier this was known as the 'EXIM policy' or 'Export-Import Policy'. The current FTP (Foreign Trade Policy) 2009-14, provides a motivating environment via a mix of helpful measures like fiscal incentives, institutional aids, and efforts for higher foreign market penetration, etc.

The current study aims to investigate the impact of some such schemes on the performance of select exporting MSME units. The sample for the study is constituted by exporting MSMEs belonging to Gujarat state of India. The findings reveal that these schemes are proving useful for strengthening the MSMEs in global markets; however, rigorous hard work needs to be directed at enhancing their capacity in production of quality items, along with supportive policy measures and sufficient infrastructure.

Literature Review :

The evolution of Government of India's export facilitation measures towards small sector industries can be broadly grouped into three periods :

(I) From 1948-1991: In this period MSMEs got the recognition as tool for expanding employment opportunities, ensuring equitable distribution of the national income and facilitating effective mobilization of private sector resources of capital and skills. The era provided the supportive measures that were required to nurture MSMEs, in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the Priority Sector Lending Programme of commercial banks, excise exemption, reservation under the Government Purchase Programme and 15% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial

and skill development.

(II) From 1991-1999: This was also the period of liberalization, privatization and globalization for the Indian economy. The new policy for MSMEs in this period was created to replace protection with competitiveness to infuse more vitality and growth to small sector in the face of foreign competition. Supportive measures concentrated on improving infrastructure, technology and quality.

(III) From 1999 onwards: The Ministry of MSME [earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI)] came into being from 1999 to provide focused attention to the development and promotion of the sector. Some of the crucial aspects looked at in this period include: Market Development Assistance Scheme, Credit provision, Technical Assistance Scheme, Quality Management Standards (QMS) and Quality Technology Tools (QTT), Encouragement of Information & Communication Tools (ICT), etc.

The current foreign trade policy of the country aims at making India a major player in the world trade by 2020, and assuming a leading role in the international trade organizations (Ram and Garg, 2013). In this direction, the role of huge MSME sector of India is un-ignorable. Hence, the government is facilitating the small sector with a variety of schemes / programs to enhance their competitive position in the global markets. This study uses four of these important schemes as its independent variable used in the statistical analyses later, they are:

1. Marketing Development Assistance : It is under operation through the department of commerce to support activities viz. enhancing export from the small/ micro manufacturing enterprises; encouraging small & micro exporters in their efforts at tapping and developing overseas markets; increasing participation of representatives of small/ micro manufacturing enterprises

under MSME India stall at International Trade Fairs / exhibitions; and popularising the adoption of bar coding on a large scale

2. **Technical Assistance :** Under this scheme National laboratories, SIS (Small Industries Service Institutes), National Test House, etc. are working towards providing technical guidance to the exporters for manufacturing export products to specifications and standards as desired by overseas buyers. For instance, the Pilot Test House (PTH) at Mumbai offers technological support to the exporting units. Other incentives in this regard include, automatic approval by RBI (Reserve Bank of India) to all industries for foreign technology agreements within prescribed monetary limits, easy hiring of foreign technicians, availability of foreign exchange for testing of indigenous raw materials, etc.
3. **Export Finance Services :** This scheme covers export loans and other export facilities provided by specialized institutions like Export-Import Bank (EXIM), Industrial Finance Corporation of India (IFCI), Small Industries Development Bank of India (SIDBI), etc. to the exporters. They also provide support and assistance to small and medium exporters to identify opportunities for technology transfer, joint ventures, new project exports, acquiring new technologies and to understand new markets, etc.,
4. **Special Focus Schemes :** These Schemes cover special markets and products for the purpose of exporting. Under this special initiative for specific group of countries is being undertaken viz. FOCUS LAC (Latin American Countries), FOCUS AFRICA, FOCUS CIS (Common wealth of Independent States), etc.

All such schemes are expected to exert a positive influence on the performance of the exporting MSMEs. Export performance in this context can be defined as “the extent to which a firm’s objectives (both economic and strategic) for exporting a product into a foreign market are achieved through the planning and execution of export strategy” (Cavusgil and Zou, 1994). The export performance of a firm constitutes the key dependent variable in this study and represents an important stream of research in international business. Firms’ survival and expansion, and the consequent economic growth of many countries, is strongly dependent on a better understanding of the determinants that influence their export performance. With the steady increase in global business, an understanding of the determinants of export performance has become predominantly important in today’s business environment; both for the purpose of theory building by academicians as well as for attaining sustainable competitive advantage by firms in the real world (Katsikeas et al, 2000; Sousa 2004). Given a large number of different export performance measures, a few selected ones are frequently utilized, such as export intensity (Axinn, 1988), export sales growth (Madsen, 1987), export profitability (Johnson and Arunthanes, 1995), export market share (Shoham, 1998), satisfaction with the export venture (Zou, Taylor and Osland, 1998), and perceived export success (Styles and Ambler, 1994). This study adopts export profitability as a measure of success in export performance. The variable has been measured subjectively on a five-point Likert scale.

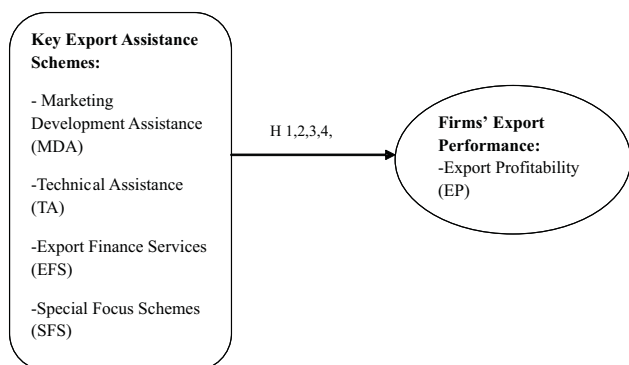
Research Methodology:

Research Model:

The study aims to analyse the impact of key export assistance schemes operational by the government (used as independent variables) on

the export profitability of the sample MSMEs (used as dependent variable). The research model can be framed as under:

Figure 1 - The Research Model



Accordingly the following hypotheses have been formed:

1. *H1: Marketing Development Assistance (MDA) scheme is positively impacting firms' Export Profitability (EP).*
2. *H2: Technical Assistance (TA) scheme is positively impacting firms' Export Profitability (EP).*
3. *H3: Export Finance Services (EFS) scheme is positively impacting firms' Export Profitability (EP).*

4. *H4: Special Focus Schemes (SFS) is positively impacting firms' Export Profitability (EP).*

Data Collection Procedure :

The research setting is Gujarat State of India with data drawn from small and medium sized exporters belonging to drugs and pharmaceutical industry of Ahmedabad city. A cross-sectional single source design is used where the unit of analysis is firm's latest export activity. Data was collected from the individual responsible for international marketing activities in the firm, namely the export manager or the owner. The sample size used in the study includes 72 firms. Characteristics of the firms included in the sample are described in Table 1. The firms were separated into three groups on the basis of the limits in investment on plant and machinery defined by the Reserve Bank of India. These groups are micro, small and medium-sized firms. In total, 53.19 per cent of firms were found to be small-sized enterprises; 40.42 per cent of firms have been involved in international operations for six to ten years and 57.44 per cent of firms were exporting to two to three countries. Table 2 shows the reliability test statistics of the scales used in the study.

Table 1 - Characteristics of firms in the sample

	N	(%)
Firm Size (Investment in plant and machinery)		
1. Micro (less than 25 Lakh rupees)	20	27.65
2. Small (more than 25 Lakh but does not exceed 2 crore rupees)	38	53.19
3. Medium (more than 2crore but does not exceed 5 crore rupees)	14	19.14
Years of International Operation		
1. Less than 1 year	08	10.63
2. 2-5 years	14	19.14
3. 6-10 years	29	40.42
4. 10 and more years	21	29.78
Number of countries operated in		
1. One country	08	10.63
2. Two-three countries	41	57.44
3. Four-Six countries	12	17.02
4. Six and more countries	11	14.89

Source: Obtained from primary data collected for the study

Table 2 - Reliability Test Statistics

Variables used in the questionnaire	Internal Reliability
Dependent Variable: Export Profitability (EP): Executive’s perception of earnings from export relative to the firm’s total earnings.	0.70
Independent Variables: Marketing Development Assistance (MDA) Technical Assistance (TA) Export finance Services (EFS) Special Focus Schemes (SFS)	0.81 0.72 0.77 0.69

Note: Export Profitability (EP) is measured on five point Likert scale anchored by “strongly disagree” and “strongly agree”; Independent Variables are measured on a five-point benefit scale anchored by “highly beneficial” and “not beneficial at all”; internal reliability is measured by Cronbach’s alpha {value of 0.70 and above indicates strong construct reliability (Nunnally, 1988)}.

Data Analysis:

For testing the earlier proposed hypotheses, a series of regression analyses were run using the above-mentioned dependent and independent variables. The results of the analyses are depicted in Table 3.

Table 3 - Regression Analyses Results

Hypothesis	IV	DV	β (t- value)	Adjusted R ²	Sig. F Change
H 1	MDA	EP	0.810*** (10.817)	0.619	0.000
H 2	TA	EP	0.226 (1.501)	0.101	0.050
H 3	EFS	EP	0.429* (2.000)	0.231	0.021
H 4	SFS	EP	0.547*** (6.690)	0.391	0.000

Where, IV=Independent Variable and DV=Dependent Variable; β is the standardised regression coefficient; *p <0.05; **p <0.01; and ***p <0.001

The results of regression analyses reveal that the use of export assistance schemes is exerting a positive influence on firm’s export profitability. All the schemes except TA (Technical Assistance) showed a significant positive relation with export profitability. The positive effect of export assistance schemes’ usage on export performance strengthens the assertion that the governmental export assistance is a vital resource for constructing knowledge and building experience necessary for successful foreign market participation by MSMEs. This implies that with the use of such schemes firms can gain both informational and experiential

knowledge. Here, 'Informational Knowledge' is related to the 'how-to-export assistance' viz. workshops, and seminars, whereas the 'Experiential Knowledge' is imparted via the marketing development assistance, financial and technical assistance, or participation in international trade fairs and market research. Such programs help to create a central inventory for market information and trade leads and provides an easy access to the target firms enabling them to save on time and money. Moreover, firms may enjoy financial help i.e., finances on subsidised rates via preferential lending from commercial banks and other export development assistance from specialised institutions, such as abridged bulk rates on rental spaces for trade shows, special refunds like VAT (Value Added Tax), etc., enabling them to cut over the operating costs and being more profitable.

CONCLUSION:

Export facilitation constitutes an imperative channel of economic growth in developing countries and also acts as an instrument for strengthening the competitive position of local businesses globally. That is why, irrespective of the level of economic growth, type of business environment, and scopes in developed and developing countries, export promotion programs constitute an essential component of a government's foreign trade policy. Policies of Indian Government for the development of MSMEs are gaining regular momentum. The government has moved away, though not fully, from its role of direct interventions to that of a friend and facilitator. The insight is that direct protection in the form of reservation could be replaced by better methods viz., easy access to credit, capital, technology, training and development, so as to integrate the MSMEs more firmly with the domestic and international economy. These specific target areas are now

being pursued by the Ministry of MSME in the form of broad spectrum of facilitation programs offered in the country's foreign trade policy.

Limitations of the Study:

The study however, entails certain limitations which must be taken into account while considering the above results and implications. These limitations have been stated as under:

1. The study is restricted to a single region, Ahmedabad. This limits the generalization of the results across different states within India.
2. Use of cross-sectional design against longitudinal design is due to time constraint. To make more accurate statements about causation, longitudinal research is suggested.
3. The units of the study comprises of firms from pharmaceutical sector only. Hence, generalization of the results across other industries may be limited.

Owing to the above-mentioned limitations the generalization of the results is restricted, and could be further researched to include longitudinal data, and comparisons between different regions which need considerable time, resources and continued effort in this regard.

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