An Analysis of Benefits Related to Cluster Manufacturing Approach on Indian MSME Sector

Dr. Abhishek Tripathi
Assistant Professor
Marketing Management
Prestige Institute of Management
Dewas – India

Abstract: Over the next decade, India is expected to become one of the world's leading economies given the country's positive political and economic situation. It is expected that the segment of micro, small and medium enterprises (MSME) plays an important role in the development of productive capacity in the Indian economy. The objective of this study is to examine the relationship between the Cluster manufacturing centers and the growth of the MSME manufacturing sector in India. It is an attempt to obtain an overview of the Indian MSMEs and analyze the main potential benefits of the Cluster manufacturing process. It has been recognized that there is a close link between the cluster manufacturing centers and the development of the MSME manufacturing sector. Policymakers and other stakeholders should develop strategies to promote sector growth through cluster development approaches.

Keywords: MSME Manufacturing sector, Cluster manufacturing.

I. INTRODUCTION

International Trade is an economic exchange or transaction involving the movement of goods, services and knowledge from the geographical boundaries of one country or territory to another country (Jones and Martin, 2015). In this study the focus is on the export marketing performance of Small and medium Enterprises (SME’s) of Dewas Industrial Area located in Madhya Pradesh, India. The factors of Export Marketing Performance (EMP) are: size, age, international experience, resources, barriers, & Export Marketing Strategy (EMS) (Prasertsakul, 2013; Denicolai, Zucchella, Strange, 2014). Nowadays, small and medium-sized enterprises (SMEs & MSME’s) play a vital role in the economies of developing countries (Karpak and Topcu, 2010). Meanwhile, the SMEs that are more active in international markets are because of upgrade ment in information technology and globalization (Knight, 2001).

There is huge demand and scope for such organizations in international area so a large number of SMEs goes from domestic markets to international markets, there is an increasing interest in the research field of the internationalization of SMEs (Anderson, 2000; Holmlund and Kock, 1998). The research of SMEs internationalization process and export marketing performance is mainly on the developed countries (Singh, 2009). Only a few studies are conducted in this field in developing countries (Borgersen, 2006). While in many developing countries, with an increase in competition in the internal markets, organizations/firms, especially SMEs, continue to rely on exports and international trade for success and survival. There has been a huge interest on the value of exporting for international business researchers with an interest in developing countries so the research on the SMEs export marketing performance in developing countries increased these years.

When it comes to measures of export Marketing performance, there is still no agreement on how to measure export
marketing performance, though several broad approaches have been suggested (Cavusgil and Zou, 1994; Schlegelmilch and Ross, 1987 & Julian, 2011). After analyzing the previous studies and research work (Zou and Stan, 1998) pointed out all measures of export marketing performance are engaged into diverse categories like sales, profit, growth, success, satisfaction, goal accomplishment and composites scale. After analyzing the study of (Julian, 2011) the specific marketing factors and their importance to export marketing performance i.e. product, place price and promotion are also added in composite evaluation scale. These categories represent financial, non financial and composite scales.

Sales and Profit are incorporated in the financial procedures. Success, Satisfaction and Goal achievement are the measures added to the non financial measures and product related, price specific, promotion related; place specific factors are on behalf of marketing performance attribute. Composite scales details to measures which are based on in general scores of a range of Export marketing performance measures. Among these categories, export sales, profits, and composite scales are almost certainly the most regularly used measures of export marketing performance.

II. INDIAN ECONOMY

The Economy of India is the seventh-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). The country classified as newly industrialized country, one of the G-20 major economies, a member of BRICS and a developing economy with approximately 7% average growth rate for the last two decades. India's economy became the world's fastest growing major economy from the last quarter of 2014, replacing the People's Republic of China. The long-term growth prospective of the Indian economy is moderately positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy. The Indian economy has the potential to become the world's 3rd-largest economy by the next decade, and one of the largest economies by mid-century & the outlook for short-term growth is also good as according to the IMF, the Indian economy is the "bright spot" in the global landscape. India also topped the World Bank’s growth outlook for 2015-16 for the first time with the economy having grown 7.3% in 2014-15 and expected to grow 7.5-8.3% in 2015-16.

Micro, Small and Medium Enterprises (MSME):

This sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units.

Definition of SME in India: In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

- **Manufacturing Enterprises**: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of Investment in Plant & Machinery.

- **Service Enterprises**: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment. The limit for investment in plant and Machinery / Equipment for Manufacturing / Service Enterprises, as notified, vide S.O. 1642(E) dt.d.29-09-2006 are as under:
III. MSMEs in India

The Micro, Small and Medium Enterprise (MSME) sector is crucial to India’s economy as there are as many as 29.8 million enterprises covering various industries and employing almost 69 million people. The sector includes 2.2 million women driven enterprises (approximately 7.4% of total) and approximately 15.4 million rural enterprises (51.8%). In all, the MSME sector accounts for 45% of Indian industrial output and 36% of Indian exports. Although 94% of MSMEs are unregistered, the contribution of the sector to India’s GDP has been growing consistently at 11.5% a year, which is higher than the overall GDP growth of 8%. However, the sector has a varied contribution and growth story for different states of the country. MSMEs contribute significantly to employment generation and development of rural areas. MSME sector is one of the key drivers for India’s transition from an agrarian economy to an industrialized economy. Around 50% of MSMEs in India are owned by underprivileged groups, which show how MSMEs contribute to improve the entrepreneurial skills and economic empowerment. MSMEs feed local consumer markets and international value chains.

**MSMEs in Indian Exports**

The share of MSME in India's total exports was estimated to be around 43 per cent in 2011-12. The share of Micro, Small and Medium Enterprises (MSME) in Indias Exports is expected to increase up to 50 per cent in India’s total exports in the 12th Plan. At current level it is 36 %

| Table 2: MSME’s and Their Contribution In Indian Exports : At A Glance |
|--------------------------|---------------------------|
| S. NO.                   | Product Category          | % OF EXPORT In Total Exports |
| 1                        | Sports Goods              | 100                         |
| 2                        | Ready made Garments       | 90                          |
| 3                        | Wollen Garments, Knitwear | 35                          |
| 4                        | Processed Food            | 65                          |
| 5                        | Marine products           | 29                          |
| 6                        | Leather Products          | 80                          |
| 7                        | Plastic Products          | 45                          |
| 8                        | Cosmetics, Basic Chemicals & Pharmaceutical products | 55 |
| 9                        | Engineering Goods         | 30                          |

Source: Annual report, 2017-18, National Small Industries Corporation of India

**Definition Of Clusters In The Indian Context**

Conglomerates can be defined as the sectoral and geographical concentration of companies, especially small and medium-sized enterprises (SMEs) facing shared opportunities and risks that:

- Involvement of external economies (eg specialized suppliers of raw materials, components and machinery, sector-specific skills, etc.);
Promoting the emergence of specialized technical, administrative and financial services;

Create a fertile ground for the development of cooperation and specialization of enterprises as well as cooperation between local public and private institutions to promote local production, innovation and collective learning.

According to UNIDO (United Nations Industrial Development Organization), clusters are defined as "geographical concentrations of interconnected companies and associated institutions facing shared challenges and opportunities." UNIDO defines conglomerates as a sectoral and geographic concentration of companies that have a number of related or complementary producing and selling products and therefore facing common challenges and opportunities, which can lead to external savings, such as the emergence of specialized commodity and component suppliers, or the growth of a particular group, and the development of expertise in the technical, administrative, and technical fields. Financial Networks are groups of companies that work together, complement and specialize in a joint development project to overcome common problems to achieve collective effectiveness and penetrate markets beyond their individual reach. Networks formed by SMEs are referred to as horizontal only to distinguish them from those involving one or more large vertical companies. Whether horizontal or vertical, networks can be developed in or independently of clusters.

Possible benefits of the cluster approach

An increasing volume of literature, both in advanced and developing countries, suggests that cluster companies want to achieve some of the following benefits:

- Reduced transaction costs.
- Innovation and technological development resulting from local interactions (externalities and releases of knowledge).
- Cost savings through learning through imitation and imitation.
- Localized external economies such as specialized labor market, specialization through a stronger local division of labor and the existence of competent specialized suppliers.
- Benefits associated with customer-centric organization and product diversification.

The joint action of local producer’s cooperation between companies or groups of companies that associate associations or consortia of forces, among other things, that the units that cooperate together to reap the economies of scale and scope in the action where work as complementary and complementary producers. The predominant advantages, however, are:

The Cluster Helps Isolated SMEs to Overcome Growth Barriers Clusters are particularly promising environments for SME development. Due to their small size, SMEs often can not achieve economies of scale and therefore have difficulty exploiting market opportunities that require delivery of standardized product inventories or compliance with international standards. They also have limited bargaining power in purchasing inputs, lack the resources to acquire specialized support services, and have little leverage in defining policies and support services. The very existence of a cluster does not automatically guarantee that entrepreneurship thrives or that companies generate sustainable returns. Even if they are part of a group, small and medium-sized enterprises (SMEs) face growth barriers.

Although these barriers are often considered businesses, an additional inspection often shows that they are more focused on isolation. In low-yielding clusters, these limitations often manifest themselves in unhealthy competition, based on lower wages, the abandonment of workers' wealth, the minimization of technological investments and the depletion of natural resources. This form of competition leads to stagnant clusters, with little benefit for local actors. On the contrary, data from high-performance clusters show that KKMU can achieve high growth through continuous improvements in quality and added value while complying with environmental, social and labor standards.
Spatial proximity and shared strategic interests provide businesses and their support organizations with shared benefits by organizing common business-to-business initiatives (such as bulk purchasing or joint advertising), or the sharing of equipment) and between enterprises and their support facilities (eg provision of technical assistance by professional organizations or investment in public sector infrastructure). The advantage of grouping such collective efforts is known as collective efficiency. There are indications that the willingness of entrepreneurs to participate in joint actions is a key success factor in unlocking their growth potential. Despite the potential benefits of common measures, employers often choose an individual strategy. Several factors can hinder cooperation between companies, including: (i) transaction costs; (ii) coordination costs; iii) unfavorable commercial culture. There may also be barriers to cooperation between companies and support organizations. While physical proximity may reduce the cost of collaboration between companies and institutions, other barriers need to be addressed in order to make a cluster dynamic and growth-oriented. UNIDO’s cluster development approach focuses on removing barriers to joint action to promote collective action. The result chain or intervention logic behind the focus is shown on the right.

V. CLUSTER DEVELOPMENT FOR INCLUSIVE GROWTH

The idea of inclusive growth has gained momentum recently, and in India in particular, the concept of inclusive growth has even found its place in the official document. Inclusive growth refers to a process of growth in which all parts of society contribute and benefit from growth. The primary objective of UNIDO’s cluster development approach is to promote growth driven by poverty and led by the private sector, defined as a model of economic growth that creates opportunities for the poor and lays the foundation for these opportunities. Cluster growth growth lies not only in its ability to stimulate high growth rates, but also in the enabling environment it offers to promote broad and inclusive development. This is partly because clusters are socioeconomic systems in which the corporate population often overlaps communities that live and work in a particular area or area. Employers and workers in clusters often share similar social, cultural and political backgrounds and practice reciprocity and mutual aid. This tends to lead to growth patterns that may be more inclusive than in most other economic contexts. Based on theoretical and practical lessons, the UNIDO sector initiatives provide technical assistance to facilitate the implementation of joint actions between companies and support institutions. The basic idea of this approach is that the cluster actors can overcome the limitations and exploit the opportunities that are beyond their individual reach through joint action. The bottlenecks that limit the growth of small businesses are eliminated, resulting in improvements in economic, social and environmental performance. A strong private sector will become a growth engine for the local economy, creating benefits and opportunities for the participation of the poor. UNIDO is applying an approach to cluster development aimed at addressing the root causes of cluster stagnation and unlocking its growth potential. Support will be provided for the formulation, implementation, monitoring and evaluation of cluster development initiatives to local organizations in countries and regions where clusters have been selected for support. Emphasis is placed on initiatives that encourage companies and institutions in these clusters to take joint actions that can ultimately benefit the cluster as a whole and the communities in which it is integrated. The trip requires a strategic approach. A large majority of empirical studies have shown that grouped companies are more innovative than isolated companies. These clusters open efficiencies rarely achieved by individual firms. These efficiency gains are due to the competitive advantage resulting from local external economies and joint actions. This is true not only for the industrialized countries but also for the developing countries. As a result, clusters are now common in several countries and sectors. In addition, they have helped small businesses overcome known barriers to growth and commercialization. However, the growth experiments were multiple. On the one hand, there are art groups with little dynamic and low power of innovation. On the other hand, there are groups with a greater division of labor between companies, better competitiveness and penetration in the international market. Isolated companies generally face additional challenges in the era of liberalization and globalization, which require higher quality products, higher quality production and regular supply. This limits their ability to improve efficiency and productivity, as well as to adapt to changing market conditions and be flexible, including difficulties related to
 VI. CONCLUSION

Micro, small and medium-sized enterprises (MSMEs) are very important social cohesion because of their role in economic growth, export promotion, job creation, regional and local development and industrialized countries. The importance of ISS / MSMEs in developing countries is also due to the fact that entrepreneurship and a vibrant SME sector are important for the restructuring of national economies and the fight against poverty. According to UNCTAD, SMEs in the Asian economies account for between 40% and 60% of capital investment, employ more than 60% of the workforce, and generate 50% and 35% of revenue and exports, respectively each. In the OECD economies, SMEs account for more than 95% of industrial units and 60-70% of jobs. In India, the MSME sector has been developing into a dynamic and dynamic sector for more than five decades. Currently, this sector accounts for about 95% of industrial units, contributing about 40% to value added in manufacturing, almost 80% to manufacturing and about 35% to exports. The present study notes a very significant relationship between the shutdown of MSME poles in production and the growth of MSMEs. The 21 states and UTs that have MIPYME manufacturing groups from 35 states and UTs across the country account for 96% of the country's total MSME production. This means that the development and growth of KKMU may go hand in hand without the clusters of MSMEs, but that much of the industry's growth in the past came from MSME groups. The existence of a strong correlation between the number of MSME groups in a state and their share of total MSME production supports our conclusions. The study therefore concludes that the development of conglomerates with appropriate policies for the development of the MSME production sector in the country can be of great help. The adoption of the UNIDO approach to cluster development to promote the development of the MSME manufacturing sector in India will be a positive step.

References

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