

A Study on Sustainable Trends of MSME in India

D.Balamuniswamy

Department of Economics, Rayalaseema University, Kurnool -518002, India

Abstract

Micro, Small and Medium Enterprises (MSME) sector have been playing a momentous role in overall development of the economy of a country like India where millions of people are unemployed and facing the problems of poverty. This has been considered as the dynamic and vibrant sector of Indian economy as it provides large number of employment to rural as well as urban segment. The small scale sector forms a dominant part of Indian industry and contributing to a significant proportion of production, exports and employment. The main theme of the paper is to evaluate the trends of MSMEs in the aspect of Working Enterprises, Employment Generation and Fixed Investment conditions. The period of the study is 2001-02 to 2012-2013 and based on secondary information. This study can be end with in recent years particularly after MSME Act 2006 policy; the MSME sector has consistently established the large number of working enterprises and generating more number of direct and indirect employment opportunities in rural and urban areas.

KEYWORDS: Trends, Enterprises, Employment Generation, Fixed Investment

INTRODUCTION

The Micro, Small and Medium Enterprises 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 and contribute enormously to the socio-economic development of the country. Fast changing global economic scenario has thrown up various opportunities and challenges to the MSMEs in India. While on the one hand, many opportunities have opened up for this sector to enhance productivity and look for new markets at national and international level, it has also, on the other hand, put an obligation to upgrade their competencies in various fields like marketing, finance, business development, operations, technology etc. The Micro, Small and Medium Enterprises (MSME) or Small and Medium enterprises (SMEs) or also known as small scale industries (SSIs) are defined on the basis of their investment in plant and machinery (for manufacturing enterprise) as well as in equipment for service enterprises.

The Ministry of Micro, Small and Medium Enterprises, Government of India imposed the Micro, Small and Medium Enterprises Development (MSMED) Act in 2006 which defines MSME for both manufacturing and service sector. In case of manufacturing sector, micro enterprise is where the investment in plant and machinery does not exceed twenty five lakh rupees; small enterprise is that enterprise in which the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees; medium enterprise is that having

investment in plant and machinery more than five crore rupees but does not exceed ten crore rupees. In case of the enterprises engaged in providing or rendering of services, micro enterprise is that one in which the investment in equipment does not exceed ten lakh rupees; small enterprise is where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; medium enterprise is where the investment in equipment is ranging between two crore rupees and five crore rupees. The ceilings on investment for the micro, small and medium enterprises both in manufacturing sector and service sector can be summarized in the following table no.1

Classification of MSMEs based on Investments and Equipments

| Manufacturing Enterprises | |
|----------------------------------|---|
| Enterprises | Investment in Plant & Machinery |
| Micro | Upto Rs. 25 lakhs |
| Small | More than Rs. 25 lakhs and upto Rs. 5 crores |
| Medium | More than Rs. 5 crores and upto Rs. 10 crores |
| Service Enterprises | |
| Enterprises | Investment in Equipments |
| Micro | Micro Upto Rs. 10 lakhs |
| Small | More than Rs. 10 lakhs and upto Rs. 2 crores |
| Medium | More than Rs. 2 crores and upto Rs. 5 crores |

Source: Micro, Small & Medium Enterprises Development Act, 2006

The Micro, Small and Medium enterprise sector has recorded a high growth rate since independence in spite of stiff competition from the large sector and not so encouraging support from the government. Presently, the proportion of micro, small and medium enterprises are 94.94 per cent, 4.89 per cent and 0.17 per cent respectively. It was also expressed that around 60.22 per cent units have been located in rural areas, whereas 39.78 per cent of the units established and run in urban areas. At present India having 12.50 million micro small and medium enterprises which facilitate: Employ 30 million people Contributes approx. 50 per cent of Industrial Production, Contribute approx. 40 per cent of Export. This comprises of 52.59 per cent manufacturing enterprises, 6.19 percent repair and maintenance and 41.22 per cent services enterprises. MSMEs are producing wide range of products, from simple traditional crafts and consumer goods to

highly sophisticated products like micro-processors, mini computers, electronic components, electro-medical devices, etc.

REVIEW OF LITERATURE

The comprehensive literature demonstrates that Trends and Performance of Micro Small and Medium Enterprises in India. To justify the need of present study, following literature has been studied.

Valsamma Antony (2002), in her study titled “Prospects and Growth of SSIs in India: An Overview”, observes that adequate and timely availability of working capital and marketing avenues for the SSI products should be ensured for improving their competitive strength in the domestic and global markets. There is the need for providing better information and efficiency networking for the SSIs besides development of quality infrastructural facilities.

Subrahmanya bala, M.H. (2004) highlighted the impact of globalization and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output and exports. The Researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. He suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

Bargal et.al. (2009) examined the causal relationship among the three variables Gross Domestic Product, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study identified that the annual average growth rate of different parameters of SSIs have declined in the period of nineties vis-à-vis the pre-reform years. There is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.

MSME (2011) this report was reveals that in the last decade, the growth rate of MSMEs has been consistently higher than the overall growth rate of the industrial sector, crossing the 12% mark in the terminal year of the Tenth Plan.

Singh et.al. (2012) analysed the performance of small scale industry in India and focused on policy changes which have opened new avenues for this sector. Their study ended that small scale business has made good progress in terms of number of SSI units, production and employment levels. The study was suggested that the emergence of technology up-gradation and strengthening of financial infrastructure to boost SSI and to achieve growth target.

OBJECTIVES OF THE STUDY

The broad objective of the study is to examine the Trends of MSME in India: An

Empirical Study.

1. To study the Employment Opportunities created by MSMEs.
2. To evaluates the Working Enterprises, Fixed Investment and Average Production of MSMEs.
3. To identify the obstacles faced by MSMEs.

The present study is exclusively based on secondary data which has been collected from the various issues and annual reports on MSMEs and Handbook of Statistics on the Indian Economy published by Reserve Bank of India, News Papers, Journals, Magazine and Books etc. The scope of this study is limited. The secondary data has been taken which is available on internet, annual reports and some online published conferences. The period of the study is 2001-02 to 2012-2013.

RESULTS AND DISCUSSIONS

Table No.2

Trends of MSMEs Working Enterprises

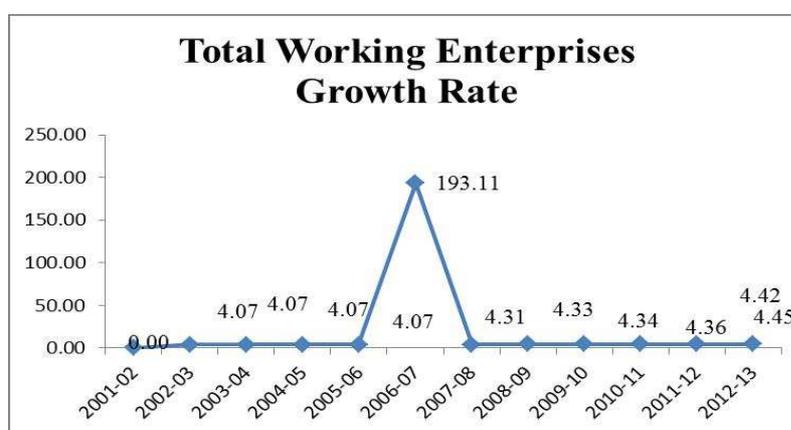
| Year | Total Working Enterprises (Rs. In Lakh) | Growth Rate |
|----------------|--|------------------------|
| 2001-02 | 105.21 | 0 |
| 2002-03 | 109.49 | 4.07 |
| 2003-04 | 113.95 | 4.07 |
| 2004-05 | 118.59 | 4.07 |
| 2005-06 | 123.42 | 4.07 |
| 2006-07 | 361.76 | 193.11 |
| 2007-08 | 377.36 | 4.31 |
| 2008-09 | 393.70 | 4.33 |
| 2009-10 | 410.80 | 4.34 |
| 2010-11 | 428.73 | 4.36 |

| | | |
|----------------|--------|------|
| 2011-12 | 447.66 | 4.42 |
| 2012-13 | 467.56 | 4.45 |

Source: MSMEs

The above table no. 2 highlights the growth performance of MSME sector during 2001-02 to 2012-13. It is cleared that the total numbers of MSMEs have increased from Rs.105.21 lakh in 2001-02 to Rs.467.56 lakh in 2012-13.

Chart No.1



Source: Secondary Data

A major point to be noted here that is the explosive growth of MSMEs in the year 2006-07. Despite, the global meltdown, MSME sector registered a considerable growth rate in terms of units, production, and investment etc.

Table No.3

Trends of Employment Generation through MSMEs

| Year | Employment Generation (Rs. In Lakh) | Growth Rate |
|----------------|--|------------------------|
| 2001-02 | 249.33 | 0 |
| 2002-03 | 260.21 | 4.36 |
| 2003-04 | 271.42 | 4.31 |
| 2004-05 | 282.57 | 4.11 |

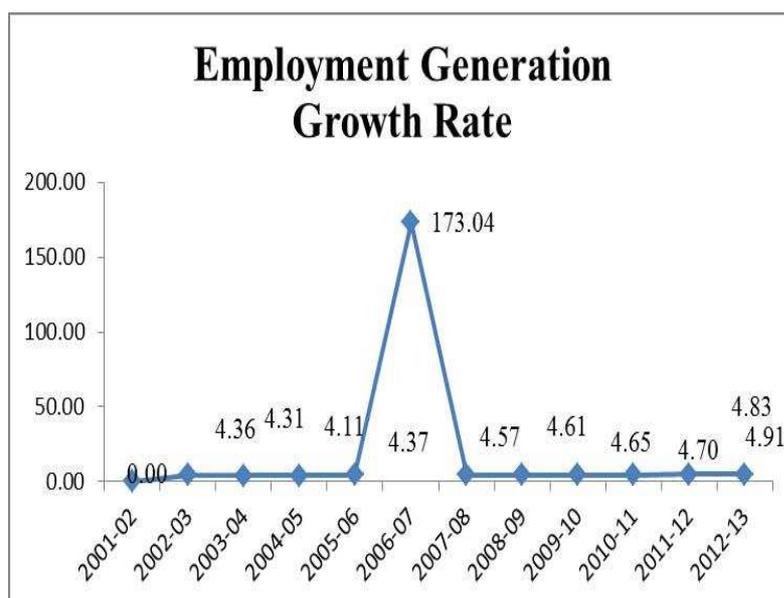
| | | |
|----------------|---------|--------|
| 2005-06 | 294.91 | 4.37 |
| 2006-07 | 805.23 | 173.04 |
| 2007-08 | 842.00 | 4.57 |
| 2008-09 | 880.84 | 4.61 |
| 2009-10 | 921.79 | 4.65 |
| 2010-11 | 965.15 | 4.70 |
| 2011-12 | 1011.80 | 4.83 |
| 2012-13 | 1061.52 | 4.91 |

Source: MSMEs

The table no.3 clearly depicts the critical role of MSMEs in employment generation and in Indian exports during 2001-02 to 2012-13. The number of persons employed in this sector stood at Rs.249.33 lakh in 2001-02 and reached to Rs.1061.52 lakh in 2012-13. Besides, the growth rate of employment achieved by this sector in 2006-07 was more than hundred per cent.

Similarly, the contribution of MSMEs in exports is quite significant. However, export-oriented MSMEs are impacted from imminent global slowdown; as a result percentage increase in employment generation through new MSMEs act in 2006.

Chart No.2



Source: Secondary Data

The table no.4 highlights the growth performance of MSME sector during 2001-02 to 2012-13. It is cleared that the fixed investment in this sector have also raised in a considerable manner from Rs.154349 crore in 2001-02 to Rs.1269338.02 crore in 2012-13 with a significant improvement.

Table No.4: Trends of Market Value of Fixed Assets- MSMEs

| Year | Market Value of Fixed Assets | Growth Rate |
|----------------|-------------------------------------|--------------------|
| 2001-02 | 154349.00 | 0.00 |
| 2002-03 | 162317.00 | 5.16 |
| 2003-04 | 170219.00 | 4.87 |
| 2004-05 | 178699.00 | 4.98 |
| 2005-06 | 188113.00 | 5.27 |
| 2006-07 | 868543.79 | 361.71 |
| 2007-08 | 920459.84 | 5.98 |
| 2008-09 | 977114.72 | 6.16 |
| 2009-10 | 1038546.08 | 6.29 |
| 2010-11 | 1105934.09 | 6.49 |
| 2011-12 | 1183332.00 | 7.00 |
| 2012-13 | 1269338.02 | 7.27 |

Source: MSMEs

Chart No.3



Source: Secondary Data

A major point to be noted here that is the explosive growth of MSMEs in the year 2006-07. Despite, the global meltdown, MSMEs slab rate policy to enrich to establish the large number of new units and employment opportunities.

CHALLENGES FOR MSMEs IN INDIA

The MSMEs in India, which constitute more than 90% of the total number of industrial enterprises, form the backbone of industrial development. But most of the SMEs have limited regional geographic presence or limited customer base with majority of them supplying to a few customers.

1. Lack of financial resources which can affect investment in new products or process.
2. Owner not delegating, and trying to control every aspect of the business: can impede employees, motivation, teamwork and involvement.
3. Improper and inadequate systems and procedures can affect efficiency and will result in dissatisfaction from employees.
4. Lack of skills and knowledge which can affect staff development and training.
5. Difficulty in accessing technology and maintaining competitiveness

FINDINGS AND CONCLUSION

1. A major point to be noted here that is the explosive growth of MSMEs in the year 2006-07. Despite, the global meltdown, MSMEs slab rate policy to enrich to

establish the large number of new units and employment opportunities.

2. Lack of financial resources which can affect investment in new products or process.
3. The fixed investment in this sector have also raised in a considerable manner from Rs.154349 crore in 2001-02 to Rs.1269338.02 crore in 2012-13 with a significant improvement.
4. The number of persons employed in this sector stood at 249.33 lakh in 2001-02 and reached to 1061.52 lakh in 2012-13.
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The major advantage of MSMEs is to generate employment potential at low capital cost. The labour intensity of the MSMEs sector is much higher than that of large enterprises. The MSMEs constitute over 90 per cent of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India, MSMEs play a vital role in the overall industrial economy of country. In recent years particularly after MSME Act 2006 policy, the MSME sector has consistently established the large number of working enterprises and generating more number of direct and indirect employment opportunities in rural and urban areas.

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