



PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

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Abstract:

The importance of MSME has been recognized in recent years in both developed and developing countries for its significant contribution in gratifying various socio-economic objectives such as higher growth of employment, output, promotion of exports and fostering entrepreneurship. They play a crucial role in the industrial development of any country. The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy. The present paper is an attempt to focus the present status of performance of MSMEs in India in terms of growth of number of units, growth of employment, Market value of fixed assets and Gross Value of output of MSME Manufacturing sector. It also examined the contribution of MSMEs to Gross Domestic Product in India and various internal and External Problems faced by MSMEs. It is concluded that this sector is contributing significantly to manufacturing output, employment and to the GDP of the country. MSMEs in India face a number of problems such as absence of adequate and timely banking finance, non-availability of suitable technology, ineffective marketing due to limited resources and non availability of skilled manpower.

Keywords: MSMEs, Employments; Manufacturing; Service; Growth.

Introduction:

Micro, Small and Medium Enterprises (MSME) 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 this sector contributes enormously to the socio-economic development of the country.

Definition of MSMEs:

The Government of India has received the definition of small scale industries over the years, presently as per the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under in table 1.

Table-1
Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

Enterprises	Manufacturing	Services
Micro	Upto Rs. 25 lakhs	Upto Rs. 10 lakhs
Small	Between Rs. 25 lakhs to Rs. 5 crores	Between Rs. 10 lakhs to Rs. 2 crores
Medium	Between Rs. 5 crores to Rs.10 crores	Between Rs. 2 crores to Rs. 5 crores

Source: Ministry of MSME

Development and Administration of MSMEs:

The president under Notification dated 9th May 2007 has amended the Government of India (Allocation of Business) Rules, 1961. Pursuant to this amendment, Ministry of Agro and Rural Industries (Krishi Evam Gramin Udyog Mantralaya) and Ministry of Small Scale Industries (Laghu Udyog Mantralaya) have been merged into a single Ministry, namely, “MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES (SUKSHMA LAGHU AUR MAADHYA UDYAM MANTRALAYA)”. The administration of the MSME sector falls under the jurisdiction of the Ministry of Micro, Small and Medium Enterprises (sukshma Laghu Aur Madhyam Udyam Mantralaya), of the Government of India. It designs and implements policies and programmes through its field organisations and attached offices for promotion and growth of MSME sector. The Officer of Development Commissioner (MSME) functions as the nodal Development Agency under the Ministry of Micro, Small and Medium Enterprises (MSMEs). It is the apex body to advise, coordinate and formulate policies and programmes for the development and promotion of the MSME Sector. The office also maintains liaison with Central Ministries and other Central/State Government agencies/organisations financial institutions.

Review of Literature:

Kansal et al. (2009) in their study, an attempt has been made to analyze the impact of globalization on the growth of small scale industries. The comparative analysis of growth pattern of key parameters between Pre- and Post – Globalization periods reveals that the “globalization” had a negative impact on the growth of small scale sector measured in terms of number of units, production, employment and exports. It shows that globalization had a negative impact on the growth of SSI.

Venkatesh and Muthiah (2012) found that the role of small & medium enterprises (SMEs) in the industrial sector is growing rapidly and they have become a thrust area for future growth. They emphasized that nurturing SME sector is essential for the economic well-being of the nation. The above literature highlights the various aspects viz. performance, growth & problems of MSMEs in Indian economy and induces for continuous research in this field.

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

Objectives of the Study:

The main objectives of the present study are:

- To examine the growth and performance MSMEs,
- To know the contribution of MSMEs to the growth of the GDP and
- To understand the various problems of MSMEs and give conclusion.

Data and Methodology:

The Data required for the study has been collected from secondary sources. The Data Collection includes (i) Annual Reports of Ministry of Micro, Small and Medium Enterprises, Government of India, (ii) Various Websites connected with the relevant topics of MSMEs (iii) Journal papers (iv) Articles and (v) other relevant sources for MSMEs. Data collected for a period of seven years from 2006-07 to 2013-14 for which the relationship tested. The relevant data of MSMEs' growth and performance collected and presented, which belongs to the after the introduction of MSMED act, 2006 only.

Analysis of Data:

Performance of Micro, Small and Medium Enterprises Sector:

Performance of Micro, Small & Medium Enterprises (MSME) sector is assessed by conduct of periodic All India Census of the Sector. The latest census conducted was Fourth All India Census of MSME. The Census was conducted with reference year 2006- 07, wherein the data was collected till 2009 and results published in 2013-14. The scope and coverage of the MSME sector was broadened significantly under the MSMED Act, 2006, which recognized the concept of "enterprise" and to include both manufacturing and services sector, besides defining the medium enterprises under MSME sector. It is clear from the table no. 2 that number of enterprises, employment, investment in fixed assets and gross output of MSME units in India show an increasing trend over the eleven years. From FY 2006-07, figures includes activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) for which data were extracted Economic Census 2005, Central Statistics Office, M/o SPI. Number of enterprises registered an annual growth of (CAGR) 4.38%. The

growth of employment in MSMEs has registered a compound growth rate of 4.75 percent. On average 419.52 lakh enterprises generating 950.59 lakh jobs. The value of fixed assets and output witnessed a growth of 6.66 percent. Whereas the gross value of output of MSME Manufacturing sector has increased with a CAGR of 7.11 percent.

Table - 2
Performance of MSMEs

Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (Rs. In Crore)	Gross Value of output of MSME Manufacturing sector (Rs. Crore)
2006-07	361.76	805.23	868543.79	1198818
2007-08	377.37	842.23	917437.46	1322777
2008-09	393.70	881.14	971407.49	1375589
2009-10	410.82	922.19	1029331.46	1488352
2010-11	428.77	965.69	1094893.42	1653622
2011-12	447.73	1012.59	1176939.36	1788584
2012-13	447.54	1061.40	1268763.67	1809976
2013-14	488.46	1114.29	1363700.54	NA
Average	419.52	950.59	1086377.15	1519668.86
CAGR	4.38	4.75	6.66	7.11

Source: Annual Report FY 2014-15, Ministry of MSME, Government of India.

Contribution of MSME Sector in Total GDP:

It can be witnessed from the table 3 that the MSME contribution to total GDP has been increased to 35.13 to 37.33 percent during the study period. The average contribution of MSME in total GDP is 37.75 percent in which manufacturing sector contribution is 7.46 percent and the service sector (MSME) contribution is 28.96 percent. This indicates that the service sector contribution is more than the manufacturing sector of MSME in total GDP contribution.

Table -3
Contribution of MSME Sector in Total Gross Domestic Product

Year	Manufacturing Sector MSME	Service Sector MSME	Total
2006-07	7.73	27.40	35.13
2007-08	7.81	27.60	35.41
2008-09	7.52	28.60	40.79
2009-10	7.45	28.60	39.63
2010-11	7.39	29.30	38.50
2011-12	7.27	30.70	37.47
2012-13	7.04	30.50	37.33
2013-14	NA	NA	NA
Average	7.46	28.96	37.75
CAGR	-1.55	1.80	1.02

Source: Annual Report FY 2014-15, Ministry of MSME, Government of India.

Problems Faced By MSMEs:

The MSME problems could be broadly classified into internal and external. The internal problems are those which are the outcome of internal course of management of an enterprise and are related to a single unit whereas external problems are those which are generally faced by all enterprises in the industry and are beyond their control (Desai, V. 2006). The internal and external problems as assessed from different studies are shown below in Table 4.

Table-4
The internal External Problems of MSMEs

Problems	External	Internal
Finance	Non availability of finance Access to finance Excessive collateral security	High cost of borrowings Inadequate finance Recovery from debtors Low promoters contribution
Managerial	Locational disadvantage Government price controls.	Lack of technical know-how Absence of long term planning Lack of management skills
Marketing	Market saturation. Weak market demand Competitive environment of market	Lack of sales promotion Limited local market Price of the product is high Dependency on large scale industries Lack of marketing research
Raw material	Raw material not available Imports are difficult	Poor inventory management
Technological	Delay in delivery of machines	Obsolete Plant and Machinery Poor capacity utilization. Inadequate maintenance Transport bottleneck
Labour	Unavailability of skilled Labour	Labour Absenteeism / turnover High rates of wages / salaries Inefficient handling of labour problems

Source: Ministry of MSME

Conclusions:

The Micro, Small and Medium Enterprises have been playing an increasing role in the development of developed and developing countries. This could be assessed from their enormous contribution in terms of GDP, employment, output, turnover, and exports. Indian economy which was lagging at the time of independence, could gain sufficient momentum on account of the increasingly role of MSMEs. The present study revealed that there is a continuous growth of number of MSMEs units. The growth story of these sectors has contributed significantly to the employment of the country, manufacturing output and Market value of Fixed Assets. MSMEs in India are contributing significantly to the Gross Domestic Product. In India MSMEs are facing a number of problems such as absence of adequate and timely banking finance, non-availability of suitable technology, ineffective marketing due to limited resources and non availability of skilled manpower. It can be concluded that the Government must initiate more steps for encouragement and development of the MSME sector, as they generate more employment and contribute to the GDP.

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