



Research Paper

## Growth and Performance of Micro Small and Medium Enterprises in India

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### Abstract

Micro, small, and medium enterprises are a strong segment of the country's industrial development. These industries have performed well with multi-dimensional aspects of socio-economic aspects. The growth and progress of MSMEs in India is an emerging aspect that is directly related to sustainable development in the country. This article focuses on the growth and performance of micro, small, and medium enterprises in India with reference to MSMEs in India.

**Key words:** MSMEs, Growth, Performance, GDP, Economic Development

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### I. Introduction

In most developing countries, micro, small and medium enterprises (MSMEs) form the bulk of the industrial base and contribute significantly to their exports as well as their GDP or GNP (Kharbanda, V. P., 2001). Small and medium enterprises are said to be the lifeblood of any vibrant economy and are known to be silent drivers of the national economy (Monika, S., et. al., 2010). Most people living in rural areas derive their livelihood from agriculture and related industries. However, to sustain the growth of the Indian economy in an inclusive manner, the growth and balanced development of other sectors such as industry and services is also necessary.

The Government of India seeks to improve the economic and social conditions of the rural population and the non-agricultural sector through a number of measures, including the creation of productive employment opportunities based on the optimal use of local raw materials and skills, as well as the implementation of interventions aimed at improving the supply chain; skill enhancement; upgrading technology; expanding markets and building the capacities of entrepreneurs/artisans and their groups/collectives. For example, India has more than 31.15 million SMEs, which account for nearly 50 percent of industrial production and 42 percent of India's total exports. Next to agriculture, it is the most important sector creating employment and is an effective tool for supporting balanced regional development. It provides employment opportunity to more than 73.22 million people (MSME Annual Report 2011-12). New opportunities emerging in the country every day create a need for jobs and an insatiable appetite for new entrepreneurial talent. The priority must be to unify the various units of SMEs under an organized structure and integrate their operations into the operations of large global firms (Sivakumar, V., & Daniel, F., 2009). Thus, an attempt was made to study the growth and performance of MSMEs and their contribution to national economic development.

### II. Need for the Study

MSMEs account for the largest number of firms and contribute significantly to both job creation and gross domestic product (GDP) generation (AESMEC, 1998; Peres & Stumpo, 2002). Micro, Small and Medium Enterprises (MSMEs), including khadi and village/rural enterprises, form an important segment of the Indian economy in terms of their contribution to the country's industrial production, exports, employment and creation of the business base (MSME, 2012-13). A growing SME sector results in decentralized industrial development, better distribution of wealth and investment, and entrepreneurial talent. The government has launched several policies for the growth and development of small and medium enterprises. MSMEs in India act as the force and spirit of economic growth in the 21st century (Nalla, B.K.K., & Sardar, G., 2012). New opportunities emerging

in the country every day create a need for jobs as well as an insatiable appetite for new entrepreneurial talent (Sivakumar, V., & Daniel, F., 2009). This study will therefore look at the growth and performance of SMEs and opportunities for business development.

### **III. Role and performance of Entrepreneurship on the MSMEs sector in India**

Despite being very young, "India has made a name for itself on the global business scene. Indian nationals (such as Sunil Mittal and Naresh Goyal) have made a name for themselves as world-class entrepreneurs" (Koveos., & Peter, E. 2007). The priority must be to unify the various units of SMEs under an organized structure and integrate their operations into the operations of large global firms (Sivakumar, V., & Daniel, F., 2009). Entrepreneurship support among SMEs is broadly addressed through a combination of public and private sector organizations in different countries. Entrepreneurship development within small and medium enterprises has been part of the development action plan at the national level in India as well (Asian Productivity Organization, 2011). Despite differences in definitions, there is general agreement that entrepreneurship is the driving force behind SMEs. Available evidence suggests that entrepreneurship can make a significant contribution to achieving key policy goals. Business is an effective means of achieving some political goals, but not all, and at least in the short term, there are trade-offs that must be acknowledged. Entrepreneurs are the driving force behind SMEs, and SMEs play an important structural and dynamic role in all economies. The main areas where increased levels of business activity can make a significant contribution to specific policy outcomes are:

1. Create opportunities – creating jobs, careers and new products/services
2. Economic growth, increasing productivity and innovation
3. Poverty alleviation and social opportunities
4. Create new customers and open new markets

Over the past two decades, there has been a shift towards promoting greater "social entrepreneurship" as a means of alleviating poverty, increasing employment opportunities and empowering disadvantaged or underrepresented groups, particularly in rural areas. Awareness of the potential that business can offer to promote social inclusion is growing worldwide. Much of this emphasis by governments is on helping target groups to start microenterprises, usually through the provision of low-cost microfinance. This policy, implemented in many developing economies, has proven remarkably effective by some criteria and is well illustrated by the success of the Grameen Bank.

### **IV. Objectives and Methodology of the Study**

- To learn the role of MSMEs in economic development
- To understand the performance of MSMEs
- Measure the growth of the SME sector
- Provide avenues for business development

This study is empirical in nature. To achieve this, the study relied on secondary time series data for India from annual reports published by the Government of India, Ministry of Micro, Small and Medium Enterprises. The data used for the study covers 10 years from 2001-02 to 2010-11. For the purposes of the study, the number of working firms, employment provided by the sector, fixed investment and output of the sector are selected as variables for measuring growth and performance. The study uses growth rates to examine the growth and performance of SMEs in India.

### **V. Government Policies and Support Measures**

#### ***Micro, Small and Medium Enterprises Development Act, 2006.***

The Micro, Small and Medium Enterprises Development (MSMED) Act of 2006 seeks to facilitate the development of these enterprises and also increase their competitiveness. It provides the first ever legal framework for the recognition of the term "enterprise", which includes both manufacturing and service entities. It defines medium-sized enterprises for the first time and tries to integrate the three levels of these enterprises, namely micro-enterprises, small enterprises and medium-sized enterprises. The law also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of businesses; and with a wide range of advisory functions. Establishing special funds to support, develop and increase the competitiveness of these enterprises, announcing schemes/programs for this purpose, progressive credit policy and practice, prioritizing government contracts over products and services of micro and small enterprises, more effective mechanisms to alleviate the problems of late payments to micro and small enterprises to businesses and providing a regime to facilitate the termination of business by such businesses are some of the other elements of the law.

## VI. MSMEs in India:

In India, businesses have been broadly classified into two categories: (i) Manufacturing; and (ii) those engaged in the provision/provision of services. Under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, both categories of enterprises were further classified into micro, small and medium enterprises based on their investment in machinery and machinery (for manufacturing enterprises) or in equipment (in the case of enterprises providing or providing services). The current cap on investment in plant, machinery or equipment is as follows:

**Table 1 Distribution of Enterprises based on the Investment Ceiling**

Type	Nature	Manufacturing	Service
Micro		Upto Rs.25 lakh (\$50,000)	Upto Rs.10 lakh (\$20,000)
Small		Rs.25 lakh (\$50,000) to Rs.5 crore (\$1 million)	Rs.10 lakh (\$20,000) to Rs.2 crore (\$0.40 million)
Medium		Rs.5 crore (\$1 million) to Rs.10 crore (\$2 million)	Rs.2 crore (\$0.40 million) to Rs.5 crore (\$1 million)

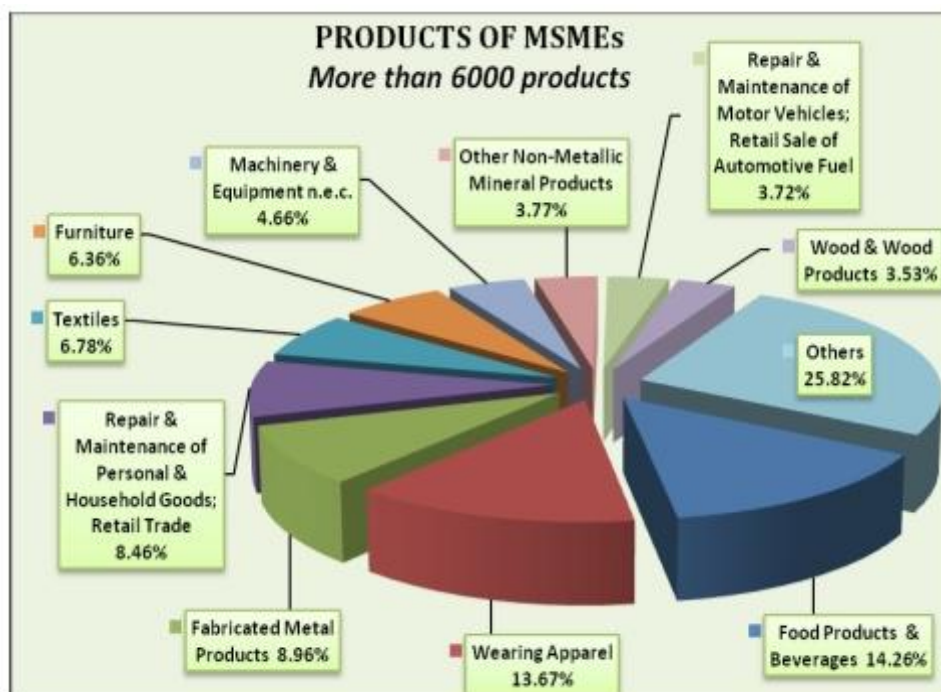
Source: Ministry of MSME, GOI

### 6.1 Micro and Small Enterprises Cluster Development Program

The Micro and Small Enterprise Cluster Development Program (MSECDP) is implemented for the holistic development of SME clusters. The program envisages measures for capacity building, skill development, technological gradation of enterprises, better provision of credit, marketing support, establishment of joint facility centers, etc. based on diagnostic studies conducted in consultation with cluster units and their collectives and management of the entire cluster's facilities by the cluster collectives.

### 6.2 Product-Wise Performance of MSMEs

The Micro, Small and Medium Enterprises (MSME) sector contributes significantly to the country's manufacturing output, employment and exports. In terms of value, the sector is estimated to account for about 45 percent of manufacturing output and 40 percent of the country's total exports. It is estimated that the sector employs about 735 million people in more than 312 thousand businesses across the country. Furthermore, this sector consistently shows a higher growth rate than the rest of the industrial sector. There are more than 6000 products ranging from traditional to high-tech products manufactured by MSMEs in India. It is well known that MSMEs provide good opportunities for both self-employment and wage employment.



Source: - Final Report of the Fourth All India Census of Micro, Small & Medium Enterprises 2006-07: Registered Sector.

## VII. Result and Discussion

This section discusses the growth and performance of MSMEs for the period 2011 to 2011, data obtained from secondary sources. Data related to small and medium enterprises has been collected or compiled from 2006–07 onwards and therefore includes both manufacturing and service sectors; previously data was available only for small-scale industry.

### 7.1 Performance of MSMEs

Performance of the sector will help to understand the present condition of the sector. Total working MSMEs, No. of employment generated, level of fixed investment, total production at current price will be provided.

**Table-2**  
**Performance of MSMEs from 2001-02 to 2010-11**

S.No.	Year	Total Working MSMEs (Lakhs)	Employment (Lakhs)	Fixed Investment (Prices in cr.)	Production (Prices in cr.)
1	2001-02	105.21	249.33	154349	282270
2	2002-03	109.49	260.21	162317	314850
3	2003-04	113.95	271.42	170219	364547
4	2004-05	118.59	282.57	178699	429796
5	2005-06	123.42	294.91	188113	497842
6	2006-07	261.12	595.66	500758	709398
7	2007-08	272.79	626.34	558190	790759
8	2008-09	285.16	659.35	621753	880805
9	2009-10	298.08	695.38	693835	982919
10	2010-11	311.52	732.17	773487	1095758

Source: Annual Report 2010-11, Govt. of India, Ministry of MSMEs

Table 2 shows that throughout the study period there is a constant increase in all the elements which are all chosen for the study. It shows that the 311.52 lakh firms generate 732.17 lakh employment opportunity for people and productivity of the sector is nearly Rs.11 lakh crores. Table-3 discusses about the growth of the MSME sector. Study on growth of the sector help to understand the economic contribution of the sector.

**Table-3 Growth of MSMEs in India**

S.No.	Year	Total Working MSMEs	Employment	Fixed Investment	Production
1	2001-02	4.07	4.44	5.11	8.03
2	2002-03	4.07	4.36	5.16	11.54
3	2003-04	4.07	4.87	15.78	13.52
4	2004-05	4.07	4.11	4.98	17.90
5	2005-06	4.07	4.37	5.27	15.83
6	2006-07	111.57	101.98	166.20	42.49
7	2007-08	4.47	5.15	11.47	11.47
8	2008-09	4.53	5.27	11.39	11.39
9	2009-10	4.53	5.46	11.59	11.59
10	2010-11	4.51	5.29	11.48	11.48
<b>Overall Growth</b>		196.09	193.66	401.13	288.19

Source: Computed from secondary data

Result shows that the sector has constantly grown throughout the study period. There is no fluctuation in the growth scenario of the MSMEs, it indicates that MSMEs are the evergreen sector and positively contribute to the economic growth of the nation. Compound growth rate helps to know the overall growth of the sector in a specific period. Table-4 discusses about the compound growth rate of the MSMEs sector. It is divided into two compounds like 2001-02 to 2005-06 (Small Scale Industries) and 2006-07 to 2010-11 (MSMEs) due to policy changes in the sector.

**Table-4 Compound Growth Rate**

Year	Total Working MSMEs	Employment	Fixed Investment	Production
2001-02 to 2005-06	17.31	18.28	21.87	76.37
2006-07 to 2010-11	19.3	22.92	54.46	54.46
2001-02 to 2010-11	196.09	193.66	401.13	288.19

Source: Computed from secondary data.

The result shows that nearly two fold growth in the total working MSMEs (196.09) and Employment (193.66) generated by the MSMEs. Productivity of the sector achieved nearly threefold (288.19) increase in the study period. Fixed investment (401.13) of the sector increased more than fourfold, this shows that the entrepreneurial growth in the sector and effectiveness of the government policies and programmes towards MSMEs. Gross Domestic Product (GDP) is a major determinant of nation's economic growth and development. Table-5 discusses about the contribution of the sector towards the total industrial production and GDP for the period of three years from 2006-07 to 2008-09 respectively.

**Table-5 Contribution of MSMEs in GDP**

Year	Contribution of MSMEs (%)	
	Total industrial Production	Gross Domestic Product (GDP)
2006-07	45.62	7.20
2007-08	45.24	8.00
2008-09	44.86	8.72

Source: MSMEs Annual Report 2012-12

For the period of three years MSMEs have contribute more than two fifth of the total industrial production of the nation. MSMEs contribution towards the GDP shows increasing trend in every year.

### **7.2 Opportunities for New Entrant**

- Less capital intensive
- Extensive promotion and support from the government
- Reservation for exclusive production by small scale industry
- Project profiles
- Funding – finance and subsidies
- Procurement of machines
- Purchase of raw materials
- Workforce training
- Technical and managerial skills
- Tool support and testing
- Reservation for exclusive purchase by the Government
- Export support
- Growth in demand for the size of the domestic market due to the overall economy grow
- Increasing export potential for Indian products
- Growth in requirements for auxiliary units due to increase in numbers
- green field units emerging in the large sector

### **VIII. Suggestions**

- 1) An entrepreneurial-oriented educational system should be introduced at the school level itself
- 2) The initiative for this is being developed by both government bodies and educational institutions
- 3) organize information camps about available schemes among the grassroots level
- 4) Industrial workshops should be created to help SMEs in times of need and sick units
- 5) Special subsidy schemes should be introduced for manually operated SMEs
- 6) Provide marketing assistance and space for introducing SME products to the market a service is required

### **IX. Conclusion**

The SME sector has performed exceptionally well and has enabled our country to achieve a wide range of industrial growth and employment. The sector is less capital intensive and has high labor absorption. An investment of 1 million rupees is estimated to create four jobs in the SME sector. The huge growth of the SME sector generates more employment opportunities, supports large industries, half of industrial output and a significant portion of export earnings. At the same time, there is a significant increase in sick MSMEs in India. Future field-level studies will provide strategies to overcome challenges related to human resource management, production process, financing and marketing activities to help SMEs achieve success and contribute to the country's sustainable economic development.

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