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Growth and Performance of MSMEs in India

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Abstract:

Micro, Small and Medium enterprises (MSMEs) play a key role in the development of economies with their effective, efficient, flexible and pioneering entrepreneurial spirit. In terms of value, the sector accounts for about 45% of the manufacturing production and 40% of the total exports of India. This sector contributes 8 percent to GDP of India. This sector employs about 60 million persons in over 26 million units throughout the country. In this research study, an attempt is made to analyze the growth and performance of Micro, Small and Medium enterprises (MSMEs) in India during the study period of 2002-03 to 2011-12. The study adopts exploratory research design. The study uses secondary data which is collected from ministry of MSMEs, Journals, Books, reports of Governments, etc. The collected data is analyzed by mean and growth rates. The analysis reveals that the growth in total working enterprises, employment created, market value of fixed assets and gross output of MSMEs is significant. Therefore, it is concluded that increasing number of MSMEs and their fixed assets will enhance their gross output if the government provide support such as infrastructure, skill development, technology up gradation, supplying low cost of capital and marketing facility. Expanding MSMEs will enhance employment, exports and GDP of the Indian economy.

Key words: Gross output, Employment, Exports, Fixed Assets and GDP

1. Introduction

MSMEs play a significant role in the global economy as well as in the domestic economy, with a high revenue and employment generation coming from them, particularly in emerging economies. In OECD economies, MSMEs account for over 95% of the firms, 60-70% of employment, 55% of GDP and generate the largest share of new jobs. In developing countries, more than 90% of all firms, outside the agricultural sector, are MSMEs, generating a significant portion of GDP. Globally, MSMEs employ one-third of the working population. East Asia and the Pacific have the highest ratio of MSME employment to total employment, with percentage in China being as high as 80% and Indian MSME sector has about 36 million working enterprises and 80 million employment throughout the country. It has been continuously growing at a rate of 12-13% per annum, far above the large sector. The MSME sector contributes about 45 per cent of the manufacturing output and 43 percent of the total exports of the country, and 8.72 per cent of the country's GDP. therefore, highlighting the importance of MSMEs to the global economy and their importance in terms of the role they play in the Global Value Chain.

Countries across the globe use various definitions to define small and medium enterprises. The parameters on which SME sector is generally defined are:

- Capital investment on plant and machinery;
- Number of workers employed; and
- Volume of production or turnover of business.

The SME Chamber Of India defined the Micro, Small and Medium Enterprises in manufacturing and services as follows:

2. Definition of MSMEs

The units in India are classified under the MSME (Micro, Small and Medium Enterprise) category on the basis of their investment size. Manufacturing enterprises are classified with respect to their investment in plant and machinery, while the classification of service enterprises is based on investment in equipment.

Description	INR	USD(\$)
Micro Enterprises	upto Rs. 25Lakh	upto \$ 62,500
Small Enterprises	above Rs. 25 Lakh & upto Rs. 5 Crore	above \$ 62,500 & upto \$ 1.25 million
Medium Enterprises	above Rs. 5 Crore & upto Rs. 10 Crore	above \$ 1.25 million & upto \$ 2.5 million

Table 1: Manufacturing Enterprises – Investment in Plant & Machinery
Source: http://www.smechamberofindia.com/About_MSMEs.aspx

Description	INR	USD(\$)
Micro Enterprises	upto Rs. 10Lakh	upto \$ 25,000
Small Enterprises	above Rs. 10 Lakh & upto Rs 2 Crore	above \$ 25,000 & upto \$ 0.5 million
Medium Enterprises	above Rs. 2 Crore & upto Rs. 5 Crore	above \$ 0.5 million & upto \$ 1.5 million

Table 2: Service Enterprises – Investment in Equipments
Source: http://www.smechamberofindia.com/About_MSMEs.aspx

3. Importance of MSMEs in India

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 deprived groups, which show how MSMEs contribute to improve the entrepreneurial skills and economic empowerment. MSMEs feed local consumer markets and international value chains.

As per information obtained from the annual report of MSME 2012-13, MSMEs account for a large share of industrial units which can be seen from the fact that in the year 2011-12, the total number of enterprises in MSME Sector was 447.73 lakhs with total employment of 1012.59 lakhs. MSMEs are accordingly also effective vehicles of employment generation. The estimated numbers of enterprises and employment have increased at an annual compound growth rate of 28.02% and 26.42% respectively. MSMEs contribution to rural development can be observed from the fact that 200.19 lakhs of the working enterprises were located in rural areas, which accounted for 55.34% of the total working enterprises in MSME sector; whereas 161.57 lakhs (44.66%) of the working enterprises were located in urban areas. The sector currently produces more than 6,000 quality products, ranging from handloom sarees, carpets and soaps to pickles, auto and machine parts targeting both domestic and international markets. Provided necessary support, MSMEs are likely to experience a high growth path, and the share of MSMEs in the country's GDP is expected to touch double-digits by the end of this decade, from current 11 per cent .

4. Review of Literature

The comprehensive literature demonstrates that MSMEs are necessary for sustained economic growth and development of any economy including India. To justify the need of present study, following literature has been reviewed:

- **UNIDO (1969)** in a study based on evidence from a number of developing countries indicated that small enterprises with a lower level of investment per worker tend to achieve a higher productivity of capital than do the larger, more capital intensive enterprises.
- **Mali (1998)** observed that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up gradation.
- Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighboring countries. Data bank on industries to guide the prospective entrepreneurs including investors from abroad is also needed.
- **Bala Subrahmanya (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 GDP, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study found 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.
- **Dixit and Pandey (2011)** applied co-integration analysis to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the positive causality between SMEs output and India's GDP.
- **Singh et al. (2012)** analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

- **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.

Very few studies conducted on growth and performance of MSMEs in India .They did not concentrate on performance of MSMEs in terms of productivity and impact of MSMEs performance on the growth of India.Hence, the present study is attempted.

5. Objectives of the Study

To analyze the growth and performance of MSMEs in India

6. Research Methodology

The period of study is confined to 2001-02 to 2011-12. The data for the study were compiled from the Annual Report of MSMEs published by the Ministry of micro, small and medium enterprises, India. The study uses exploratory research design .Exploratory research is one, which largely interprets the already available information, and it lays particular emphasis on analysis and interpretation of the existing and available information and it makes use of secondary data. The growth rates in total working enterprises, Invested Capital (Market Value of Fixed Assets), Gross Output produced, employment generated and Exports are calculated. The contribution of MSMEs in Indias exports is analyzed.

6.1. Tools applied for analysis

The collected data is analyzed by applying Average, percentages and Growth rates.

7. Analysis of the Study

Year	Total Working Enterprises (In lakhs)	Growth rate (%) in TWE	Employment (lakh persons)	Growth rate (%) in Employment	Market Value of Fixed Assets	Growth rate (%) in MVFA	Gross Output (GO) (In Rs. Crore)	Growth rate (%) in GO
					(MVFA) (in Rs. Crore)			
2001-02	105.21	-	249.33	-	154349	-	282270	-
2002-03	109.49	4.06	260.21	10.88	162317	5.16	314850	11.54
2003-04	113.95	4.07	271.42	4.31	170219	4.87	364547	17.61
2004-05	118.59	4.07	282.57	4.11	178699	4.98	429796	15.18
2005-06	123.42	4.073	294.91	4.55	188113	5.27	497842	15.83
2006-07	361.76	193	805.23	173.04	868543.79	361.71	1351383.5	171.45
2007-08	377.37	4.32	842.23	4.59	917437.46	5.63	1435179.3	6.2
2008-09	393.7	4.33	881.14	4.62	971407.49	5.88	1524234.8	6.21
2009-10	410.82	4.35	922.19	4.66	1029331.5	5.96	1619355.5	6.24
2010-11	428.77	4.37	965.69	4.72	1094893.4	6.37	1721553.4	6.31
2011-12	447.73	4.42	1012.59	4.86	1176939.4	7.49	1834332.1	6.55
Mean	271.89	23.11	617.05	22.03	628386.4	41.33	1034122	26.31

Table 3: Growth and Performance of MSME
Source: Annual of MSMEs, New Delhi -2012-13

The table 3 reveals that the trend in total number of working enterprises in MSME sector of India has been increasing since 2001-02. In the year 2001-02, the total working enterprises in MSME sector were 105.21 lakhs and it increased to 447.73 lakhs of enterprises in MSMEs during period of 2011-12. The growth in the total working enterprises in MSME sector is increased from 4.6 percent in 2002-03 to 193 % in 2006 -07 and then decreased to 4.32 percent in 2007-08 and later it is in increasing trend and increased to 4.42 percent in 2011-12. On whole the trend in the growth of total number of working enterprises in MSME sector has been increasing since 2001-02 except in 2007-08. The highest growth rate in total working enterprises under MSME sector is 196 % in the year 2006-07 this may due to government policy support. The average growth rate attained in total working enterprises under MSMEs during the study period from 2001-02 to 2011-12 is 23.11 % only.

The trend in total employment generated by MSME sector of India has been increasing since 2001-02. In the year 2001-02, the total employment generated by MSME sector were 249.33 lakhs and it increased to 1012.59 lakhs in the year 2011-12. The average employment generated by MSME sector during the study period of 2001-02 to 2011-12 is 617.05 lakhs . The growth in

the total employment by MSME sector is increased from 10.88 percent in 2002-03 to 173.04 % in 2006 -07 and then decreased to 4.59 percent in 2007-08 and later it is in increasing trend and increased to 4.86 percent in 2011-12. On whole there is a mixed trend in the growth of total employment generated by MSME sector during the study .The highest growth rate in employment generated by MSME sector is 173.04 % in the year 2006-07.The average growth rate attained in total employment generated by MSMEs during the study period from 2001-02 to 2011-12 is 22.03 % only.

.The trend in Market Value of Fixed Assets (Capital Invested) in units of MSME sector of India has been increasing since 2001-02. In the year 2001-02, the total Capital invested (Fixed Investment) in units of MSME sector were Rs 154349 crores and it increased to Rs.1176939.4 Crores in units of MSMEs during period of 2011-12. The average capital invested(Market value of Fixed Assets) in units of MSME sector is Rs 628386.4 crores during the study period of 2001-02 to 2011-12.The growth in the capital invested in units of MSME sector is increased from 5.16 percent in 2002-03 to 361.71 % in 2006 -07 and then decreased to 5.63 percent in 2007-08 and later it is in increasing trend and increased to 7.49 percent in 2011-12. On whole there is a mixed trend in the growth of total invested capital in units of MSME sector during the study from 2002-03 to 2011-12.The highest growth rate in total capital invested in the units of MSME sector is 361.71% in the year 2006-07.The average growth rate attained in total invested capital in the units of MSMEs during the study period from 2001-02 to 2011-12 is 41.33 % only.

The trend in Gross Output produced by units of MSME sector of India has been increasing since 2001-02. In the year 2001-02, the total output produced by units of MSME sector were Rs 282270 crores and it increased to Rs. 1834332.1 Crores in 2011-12. The average total output produced by units of MSME sector is Rs 1034122 crores during the study period of 2001-02 to 2011-12.The growth in the total output produced by units of MSME sector is increased from 11.54 % in 2002-03 to 171.45 % in 2006 -07 and then decreased to 6.2 percent in 2007-08 and later it is in increasing trend and increased to 6.55 percent in 2011-12. On whole the trend in the growth of total output produced by MSME sector in increasing trend from 2001-02 to 2011-12 except in the year 2007-08. The highest growth rate in total output produced by the units of MSME sector is 171.45 % in the year 2006-07 which is due to merging micro enterprises with small and medium enterprises by government. The average growth rate in gross output produced by the units of MSMEs during the study period from 2001-02 to 2011-12 is 26.31 % only.

The growth rate in total employment is more than growth rate in total working enterprises during the study from 2001-02 to 2011-12 except in the 2006-07.The average growth rate in total working enterprises is more than the average employment of MSMEs of India. The growth rate in total output produced by MSMEs is more than the growth rate in except in the 2006-07.The average growth rate in capital invested is more than the average growth in total output over the study period. The growth rate in total output is more than growth rate in total capital invested over the study period except in 2006-07, 2010-11 and 2011-12.

8. MSMEs contribution in Exports

The MSME sector contributes about 45 per cent of the manufacturing output and 43 percent of the total exports of the country, and 8.72 per cent of the country's GDP. The table 4 indicates that the trend in exports of MSMEs has been increasing since 2001-02, the average exports by MSMEs in the study period of 2001-02 to 2011-12 is Rs 212 382.80 Crores and MSME exports have expanded at an annual average growth rate of 11.0% during 2007 to 2011.The trend in the growth rate of exports by MSMEs is in fluctuating during study from 2001-02 to 2011-12. MSME exports mainly consists of pearls, precious stones, metals, electrical, electronic equipment, pharmaceutical products, organic chemicals, articles of iron & steel etc. As per the information received from the ministry of MSME, for the year 2011-12, MSME exports are estimated at US \$ 131 billion(Rs.672667 crores) constituting 43% of total exports of the country. The average annual growth rate attained in the exports of MSMEs is 29.11% during the study period from 2001-02 to 2012. .Participation in exports gives MSMEs exposure to global trends, and stimulates innovative ideas and designs.

	Total Exports of MSMEs(in Crores)	Growth rate in Exports of MSMEs (%)	GDP (%) of India	MSMEs contribution to GDP of India (%)
Year				
2001-02	71244.00	--	5.81	5.77
2002-03	86013.00	20.73	3.84	5.91
2003-04	97644.00	13.52	8.52	5.79
2004-05	124417.00	27.42	7.6	5.84
2005-06	150242.00	20.76	9.49	5.83
2006-07	182538.00	21.50	9.6	7.20
2007-08	202017.00	10.67	9.3	8.00
2008-09	224238.87*	11.00	6.7	8.72
2009-10	248905.15*	11.00	8.6	8.75
2010-11	276284.72*	11.00	9.3	11
2011-12	672667*	143.47	6.2	22*

Mean	212382.80	29.11	7.87	8.62
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Table 4: Exports of MSMEs Sector

Source: http://www.business-standard.com/article/sme/msme-share-in-exports-was-43-in-2011-12- 113060300986_1.html & *Projected value

The trend in GDP of India has been fluctuating since 2001-02. The GDP of India is highest in the year 2006-07 to the extent of 9.6 percent and it is lowest in 2002-03 with 3.84 percent. The GDP of India is increased from 5.81 percent in year 2001-02 to 6.2 percent in 2011-12. The growth rate in total working enterprises in MSME sector, total output, employment and fixed investment is highest in the year 2006-07 which leads to highest GDP of India. The trend in contribution of MSMEs towards GDP of India is fluctuating during the study period from 2001-02 to 2011-12. The contribution of MSMEs is increased from 5.77 percent in the year 2001-02 to 11 percent in 2010-11 and expected to increase to 22 percent in 2011-12. Therefore MSMEs are facing stiff competition from global players and large scale domestic firms of India. The contribution of MSMEs is commendable and significant to the growth of Indian economy. There should be proper policy support from the government to encourage the growth and performance of MSMEs.

9. Implications and Conclusion

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 deprived groups, which show how MSMEs contribute to improve the entrepreneurial skills and economic empowerment. MSMEs feed local consumer markets and international value chains.

From the data analysis it is clear that the trend in total number of working enterprises, total output generated, employment created, capital invested and exports in MSME sector of India has been increasing since 2001-02. MSMEs providing employment for 80 million people, hence this sector is the effective vehicles of employment generation. MSMEs contribution to rural development can be observed from the fact that 200.19 lakhs of the working enterprises were located in rural areas, which accounted for 55.34% of the total working enterprises in MSME sector; whereas 161.57 lakhs (44.66%) of the working enterprises were located in urban areas. The growth in number of working enterprises, Capital Invested, Total employment, Total output produced and total exports of MSMEs is significant. The growth rate in total employment is more than growth rate in total working enterprises during the study from 2001-02 to 2011-12 except in the 2006-07. The average growth rate in total working enterprises is more than the average employment of MSMEs of India. The growth rate in total output produced by MSMEs is more than the growth rate in except in the 2006-07. The average growth rate in capital invested is more than the average growth in total output over the study period. The growth rate in total output is more than growth rate in total capital invested over the study period except in 2006-07, 2010-11 and 2011-12.

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The sector currently produces more than 6,000 quality products, ranging from handloom sarees, carpets and soaps to pickles, auto and machine parts targeting both domestic and international markets. Provided necessary support, MSMEs are likely to experience a high growth path, and the share of MSMEs in the country's GDP is expected to touch double-digits by the end of this decade, from the current 11 per cent.

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