

ROLE AND PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES

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ABSTRACT

The current research presents a conceptual overview of the role and performance of Micro, Small and Medium Enterprises. It also posits how MSME had forward linkages to furthering of GDP, rise of output, production and consumption, besides employment generation, reduction of poverty, managing regional imbalances and increase in number of registered units. This paper also attempted to analyze the key challenges prevailing the sector. It was found from the study that government has to continue paying attention for the growth and development of MSMEs by initiating various schemes relating the sector thus boosting the economy on a whole.

Keywords: Micro, Small and Medium Enterprises, Gross Domestic Product, Employment generation, Poverty, Growth and Development.

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1. INTRODUCTION

Micro, Small and Medium Enterprises (MSME) occupy a dominant place and had surfaced to great heights in the Indian economy from the past decades. It had added significantly to the industrial development of the nation by providing employment to various talents thus called as a largest employment generator just next to agriculture. Moreover, Shri. Manmohan Singh ji, former prime minister of India, once announced that the success of the enterprise depends on how able the enterprise utilizes the potential of skilled force for them (Selvaraj, 2005).

1.1. Contribution of MSME to GDP of India

The contribution of Micro, Small and Medium Enterprises (MSME) with regards to manufacturing sector was approximated to 7.04% in 2012-13. In addition, the contribution of MSME in service firms was recorded at a maximum of 30.5% in the same year. And, the gross contribution of Micro, Small and Medium Enterprises towards GDP was registered as 37.54% in the year 2012-13. MSMEs continued to grow further and had observed a boon in Indian economy since it recorded a whopping share of 42.38% during 2.13-14, when the quantum of exports in the country was considered. These observations prompts Government of India to held responsible for the establishment of industries that require huge capital thus providing employment to the prospects. In order to gain balanced economic growth of the country like India, constant efforts have to be made to overcome unemployment of the younger generations.

Furthermore, government should also attempt to establish industries farther from the populated areas like metropolis. It means industries should also take functioning in urban, semi-urban and rural areas as well. To present the statistical findings pertaining to Micro, Small and Medium Enterprises, annual reports of published by ministry of micro, small and medium enterprises and handbook of statistics about Indian economy and RBI was reviewed.

2. LITERATURE REVIEW

Extent literature was reviewed to develop further understanding on the growth and performance of MSME in manufacturing, services, agriculture, trade, and other services sector.

Larimo (2015) analyzed the impact of firm, firm's manager and export on performance of export. The empirical work suggested a significant relationship between exogenous variables like firm, its management and exports on endogenous variable like exports performance. The study applied survey method and thus collected the data from 2,856 firms. It was found that traditional exporters and internationally hailed companies influence on the performance of exports in MSME sector.

Mohan and Savithri (2013) observed the role of small scale industries to the development of the economy. The scholarly work of the authors concluded that the establishment of SSIs resulted in employment generation, growth of exports, facilitating rural industrialization and rise of production. The article showed that the manufacturing industries contribute to a larger extent to employment generation succeeding agriculture.

Usha and Raghavendra (2013) revealed that MSME in India had experienced a rapid growth in the past decade. The contribution of MSME in manufacturing sector had attained an increasing pace and became a challenging sector for industrial growth. The contribution of MSME includes general rise of industrial productivity, growth of exports, employment opportunity, and a rise in share of GDP. Financial support has to be given top priority thus resulting in overall growth of MSME. Respective Governments has to held the responsibility of shifting MSME sector by providing a challenging environment as it helps production and distribution of goods and services.

Garg and Walia (2012) conducted a research to examine the performance of MSMEs in India. The study was carried out by using secondary sources of data, particularly from the annual reports published by Ministry of Micro, Small and Medium Enterprises, India. The statistical data was presented from the time period 2001-02 to 2010-11. The study applied new models like cluster approach despite using traditional models.

Singh et al., (2012) performed a research and their study revealed that growth of SSIs implies rise in number of SSI units, employment generated and increase in production. The

study was carried out by analyzing the policies related to the sector. The study suggested the procurement of financial infrastructure and technology innovations were the key drivers that help in growth of the sector.

3. OBJECTIVES

The objectives of the study were listed below:

- To understand the role of MSME in Indian economy.
- To analyze the performance of MSME sector.
- To analyze the significance of employment generated by MSME sector.
- To present the key challenges and prevailing opportunities related to MSME sector.

4. MSME – BACKBONE OF INDIAN ECONOMY

The Micro, Small and Medium Enterprises Development (MSMED) Act was declared in the year 2006 in order to understand and solve the key issues faced by the sector in terms of investment and its coverage. The key objective of the act – as it helps the enterprise to further its development and gain competitive advantage.

4.1 Operational Definitions of Micro, Small and Medium Enterprises

As per MSMED Act, 2006, Micro, Small and Medium Enterprises (MSME) were further classified as:

Table 4.1 Classification of MSME in India

Manufacturing Sector	
Enterprise Category	Investment in Plant and Machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

Service Sector	
Enterprise Category	Investment in Plant and Machinery
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Source: Annual Report published by Micro, Small and Medium Enterprises, Government of India, 2017-18.

The governing bodies of the representing state have to borne responsibility for the promotion and development of MSMEs. The central government supports the state governments by initiating several policies and schemes thus fostering growth and development of the sector. The responsibility of Ministry of MSME is to assist and guide the respective state governments to promote employment, entrepreneurship and improve standards of living besides strengthening competitive edge of MSME in the changing market economy.

4.1.1 Role of MSMEs in Indian Economy in terms of its contribution to GVA and GDP

The Micro, Small and Medium Enterprises occupy a significant role for its contribution to substantial rise of entrepreneurial avenues and as a result of generating employment to younger generations of India. The growth of MSMEs could be witnessed through the number of units across the sectors and are able to serve domestic and global markets as well.

The contribution of MSME towards country's Gross Value Added (GVA) and Gross Domestic Product (GDP) were summarized below:

Table 4.2: Contribution of MSME to GVA and GDP

Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (%)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Source: Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation

The share of MSME in manufacturing sector in terms of total GVO (Gross Value Output) was recorded as 33% at current prices. It mean one third during 2011-12 and 2015-16 accounting period.

4.1.2 Performance of MSME

The performance of Micro, Small and Medium Enterprises in India could be acknowledged from the statistical data presented by these sources (For eg., National Sample Survey, Economic Census conducted by Central Statistics Office, All India Census carried by Micro, Small and Medium Enterprises, Entrepreneur Memorandum, MSME Data Bank).

The statistical information about the estimated number of MSMEs in India provided by National Sample Survey during the sample period 2015-16 were 633.88 lakh. Among these units 196.65 lakh units were engaged in manufacturing activities, other 230.35 lakh units in trade services and other services were approximated to 206.84 lakh units and the remaining 0.03 lakh units were into non-captive electricity generation and transmission.

Table 4.3: Estimated number of MSMEs

Activity category	Estimated number of Enterprises (in Lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
Electricity*	0.03	0.01	0.03	0
All	324.88	309.00	633.88	100

Electricity* indicate non-captive electricity generation and transmission

Source: Annual Report published by Micro, Small and Medium Enterprises, Government of India, 2017-18.

It was noted from table 4.3 that a maximum share of 36% were engaged in trade, other services were remained at 33% and 31% were into manufacturing activity. According to rural and urban share, the number of units established in rural areas were high (recorded at 51.25%) than the units established at urban sites (estimated to 48.75%) which was depicted in figure 2.1.

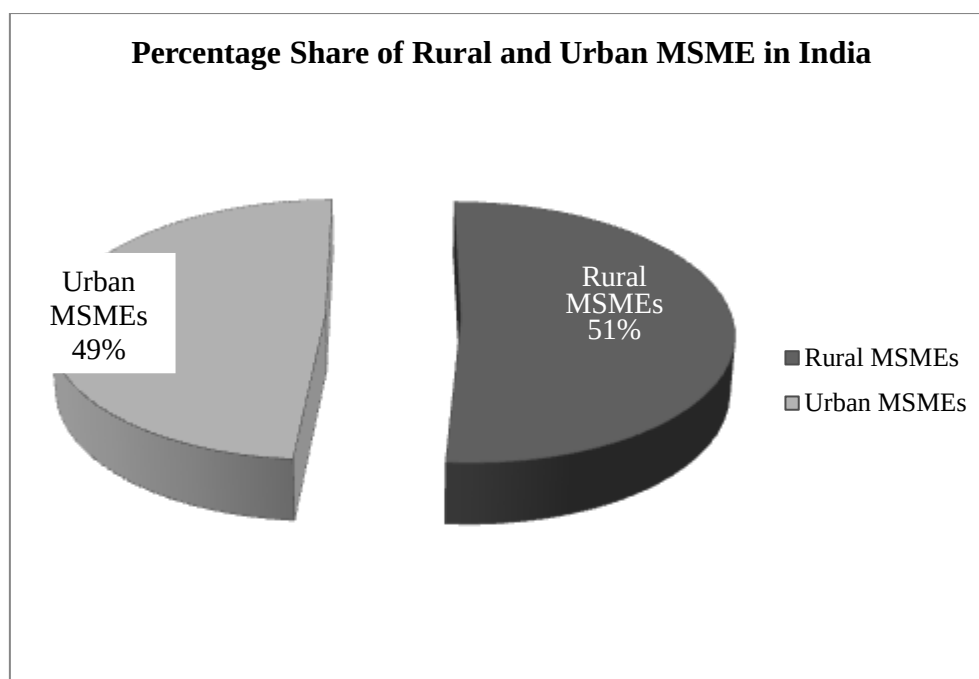


Figure 2.1: Percentage share of Rural and Urban MSME in India

4.1.3 Contribution of MSME towards Employment Generation

MSMEs generate huge employment opportunities for younger generations of the country since the growing number of units year on year and the prevailing amount of untapped human potential. According to the reports published by Ministry of MSME, India, 362 lakh working enterprises provided employment opportunity to 805 lakh workforce in the year 2006-07.

Table 4.4: MSMEs and Employment Generation

Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)
2006-07	361.76	805.23
2007-08	377.36	842
2008-09	393.7	880.84
2009-10	410.8	921.89
2010-11	428.73	965.15
2011-12	447.64	1011.69
2012-13	447.54	1061.4
2013-14	488.46	1114.29
2014-15	510.57	1171.32

Source: Annual Report published by Micro, Small and Medium Enterprises, Government of India, 2015-16.

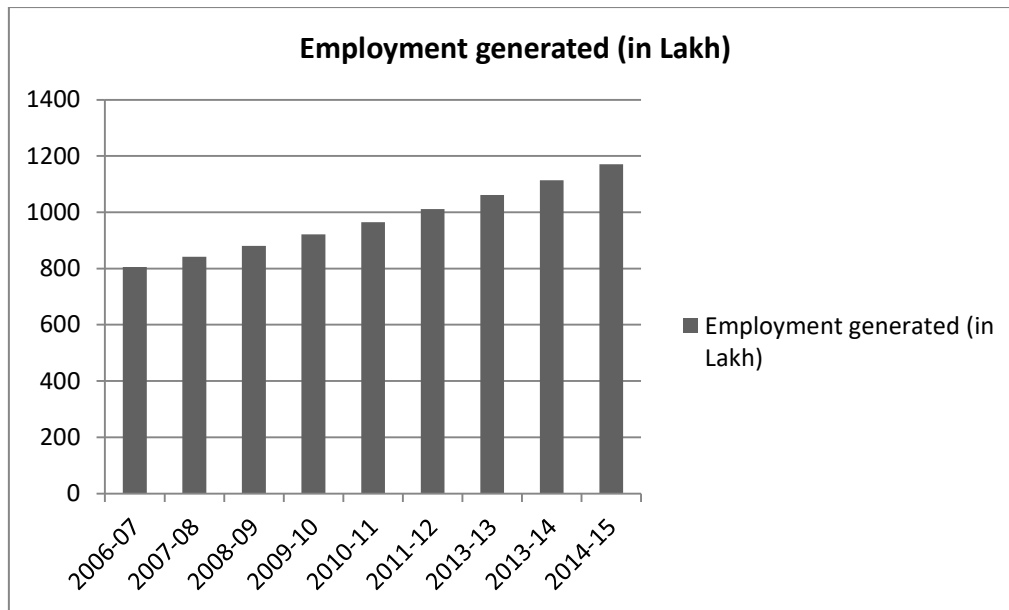


Figure 2.2: Contribution of MSME to generation of Employment

It had witnessed a gradual increase to 510 lakh working enterprises thus contributing to an increase of 41% resulting to an employment generation to 1171 lakh people in the year 2014-15 (rise in employment generation was 45.5% compared to 2006-07).

4.2 Challenges prevailing MSME Sector

In order to strengthen MSME for the contribution of growth and development of Indian Economy, the following key challenges need to be addressed.

4.2.1. Technology and environment: The competitive edge of MSME could be evaluated based on how efficiently and effectively the allocated resources were used for production, communicated to users and how goodness of delivery of value in the entire chain process. It should be effective in terms of cost minimization and adaptability of latest developments (technology) thus helps in providing employment to untapped potential. Since India is populous country for its younger generation, businesses have to use these potential thus contributing to overall GDP of the nation.

4.2.2. Access to markets: In order to gain competitive edge, the establishments need to address domestic and global needs as well. Better access to market need to be provided since it leads to increase in production, output, employment generation and exports. It should also focus on rebuilding of network resources thus resulting in better reach of clientele. Another finding was that Ministry of MSME has to concentrate on SSIs because of large amount of revenue generation; although it heavily depends on traditional ways of communicating through newspapers, telephone and alike.

4.2.3. Mentoring and advocacy: The entrepreneurs establish business units thus providing employment and generate revenue, or otherwise output in terms of credibility and productivity. Once in a while entrepreneurs be supported and guided by mentors who are where mentoring comes in the process. Mentoring is an act of guiding, supporting, providing motivational cues to the entrepreneurs in order to outperform thus leading to revenue generation and fulfilment of employment opportunities. For example, Small Industry Development Corporation (SIDO) seeks to provide promotional support along with advocacy and mobilization of resources.

4.2.4. Lack of Infrastructure: It could be one of the critical issues faced by majority MSMEs in India due to lack of finance, intellectual support, technological incapability, non-adaptive skill set, hence hinder it could strongly impact on flow of production, distribution, communication, consumption of finished goods. Therefore, MSMEs continue to hold the responsibility of collaborating with the registered MSMEs to carry out the projects in a functioning manner thus resulting in strengthening of GDP and gross output of the economy.

5. CONCLUSION

The MSMEs in India have a very important role to play where in the output could be measured in tangible and intangible ways as well. It could also be thought that MSMEs occupy a pivotal role post liberalisation. The introduction of MSME in India had contributed to GDP, GVA (Gross Value Added), employment opportunities, exports, number of units. It could otherwise be considered as MSME reduced poverty and provided the way to utilize human potential to the fullest. It had also contributed to service enterprises beside manufacturing and agriculture. In the context of MSME growth and development, manufacturing enterprises are succeeded by agriculture when generation of employment is concerned. In a nutshell, government should continue to provide financial support, infrastructural support, encourage collective bargaining, as it leads to strengthen the GDP of the economy along with other measurable criteria.

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