

GROWTH COMPONENTS OF MSMEs: A TREND ANALYSIS IN POST LIBERALIZATION ERA IN INDIA

Chandrima Chatterjee*

Abstract –

The Micro, Medium and Small scale enterprises (MSME) are considered to be the engine of growth vis-a-vis development in an over-populated developing country like India. The small and medium scale industries not only meet the varying consumption demand of Indians but also create huge employment opportunities for both unskilled and semi skilled workforce. Those industries are also considered as complementary to Large Scale Industries (LSI) since small and medium scale industries are supposed to be the suppliers of intermediate goods for LSIs. However, during the post reform period, several attempts were made by government to increase the number of units as well as the production of MSMEs. Annual survey report on MSMEs shows their performance yearly on the basis of certain parameters like number of units, employment, fixed investment, productivity, exports, organization structure and performance etc. This research work attempts to examine the growth performance of MSMEs in the post reform period in the yardstick of four major parameters – number of total units, employment, fixed assets or investment and production. Not only that, the main thrust of this research work is to initiate a comparative study on these four parameters in order to find out which one has performed better than others in the post liberalization period. The study is based upon both of these two survey studies-‘Annual Report on MSME’ prepared by Ministry of Micro, medium and small scale industries and ‘Fourth All India Census on MSME 2006-07’, also prepared by Ministry of Micro, medium and small scale industries. Finally the paper concludes with some interesting results on growth performance of MSMEs, drawn from the secondary data analysis.

Keyword: MSMEs, Post-liberalization, Annual Survey Report

* Research Scholar, Dept. Of Humanities and Social Science, IIT Kharagpur

I. INTRODUCTION

The Micro, Medium and Small scale enterprises (MSME) is a kind of industry which requires low capital investment with high rate of absorption of manpower. So the economic role of MSMEs is very crucial in the context of labour-abundant developing country like India. Government of India has defined MSMEs on the basis of investment ceiling through the MSMED Act of 2006. According to the MSMED Act 2006, the MSMEs are classified in the following way:

Table 1.: Classification of MSMEs on the basis of MSMED Act, 2006

Different types of Enterprises	Manufacturing Sector (Investment in Lakh and Crore)		Service Sector (Investment in Lakh and Score)	
	Lower limit	Upper limit	Lower limit	Upper Limit
Micro Enterprises	-	25 lacs	-	10 lakh
Small Enterprises	25 lakh	5 crore	10 lakh	2 crore
Medium Enterprises	5 crore	10 crore	2 crore	5 crore

Source : MSMED Act, 2006

With the enactment of MSMED Act, 2006, the area of operation of MSME enterprises has been widened. In the post liberalization period, the number of MSMEs has increased substantially. Moreover, with the introduction of new MSME Act 2006, the Govt. has tried to resolve some major issues related to the MSMEs like complicated bureaucratic registration procedures, lack of finance, lack of managerial skills etc. In the post liberalization period the MSMED Act was introduced with some specific intentions such as greater employment generation, ensuring flow of foreign capital, enhancing customer satisfaction, removal of regional disparities, lessening govt intervention, ensuring better performance of MSMEs and many more (Lahiri 2012). But inspite of having several policy considerations on part of the Government, MSMEs still faces some major constraints. Those are lack of financial strength, lack of industrial work culture, lack of quality consciousness, backward technology, extreme competition etc. (Uma 2013). But one noticeable fact about Indian MSMEs is that Indian MSMEs are organizing themselves in to clusters. Such clusters will help the MSMEs for easy access of better technical assistance, to get innovative ideas and to adopt better marketing methods. (Naser 2013).

II. OBJECTIVE OF THE STUDY

The research work has following objectives:

1. To know the post-liberalization status of MSMEs in India through extensive literature survey
2. To analyse the trend of different growth components of MSMEs, based on Annual survey Data on MSMEs.

III. LITERATURE REVIEW

An extensive literature review has been made in order to have a clear idea about the already existing scenario in case of MSMEs in India after the period of Globalization. Kumar, Gugloth (2012) identifies the impact of globalization on MSMEs in India. It also has made a comparison between pre and post liberalization period in terms of performance of MSMEs. The paper concludes that in the post-liberalization period MSMEs has played a crucial role in bringing foreign investment and thereby creating huge employment opportunity which in turn helps to reduce the intensity of poverty in the country.

Uma (2013) highlights the role of medium and small scale industries in economic development of India. Moreover the paper envisages the role of MSMEs in developing the entrepreneurship in developing countries like India. Analyzing the performance of MSMEs in both pre and post liberalization era, the paper finds out strengths and weakness of MSMEs in India. Finally the paper suggests that India has to fulfil the standards set by the global giant, operating in India.

Garg, Walia (2012) analyses the growth performance of Indian MSMEs in terms of employment, export, production etc. The paper finds the potential of MSME sector to be served as engine of growth. Finally the paper suggests some policy implications- increasing efficiency and competitiveness, improving productivity and quality, reducing cost, innovation etc.

Gupta, Ranjan (2014) conducted a study to identify whether an increase in the number of small scale industrial units in the post reform period has proportionately contributed to the growth of employment, productions, and exports of the same. The study found that although employment

has shown considerable growth over the period but production and export has not reached up to the desired level. Both production and export have shown fluctuating growth over the period.

Pujar (2014) has considered MSMEs as one of the vital sectors that generate huge employment opportunity. Using secondary data, the study tried to assess the role of MSMEs in creating employment in India. The study has identified the micro sector to be very important in terms of number of enterprises and generating employment.

Shastri, Tripathi and Ali (2011) have identified the impact of liberalization on the small scale industries. They found that, in the era of globalization, the small scale industries have both opportunities and challenges to face. The paper rendered some good policy implications such as investment in R&D, effective marketing, improved credit flow, human resource development, expansion of market etc.

Sanjeevan (2012) has used the fourth all India Census on MSME data to assess the present status of MSMEs in India. This study is purely empirical. Apart from assessing the state-wise status of MSMEs, the paper has also discussed about the conceptual issues on MSME sector following the international standard of defining MSME.

Mishra (2012) has focused on the role of MSMEs in social uplifting of poor and vulnerable group. The paper also depicted the status of MSMEs in the post globalization period. The study felt the need of special strategies to be adopted by MSMEs for 'striving and thriving' in the era of globalization.

IV. GROWTH COMPONENTS : TREND ANALYSIS

In order to examine the growth performance of MSMEs in the post globalization era, four components are chosen for data analysis- number of enterprises, employment, production and fixed assets (Investment).

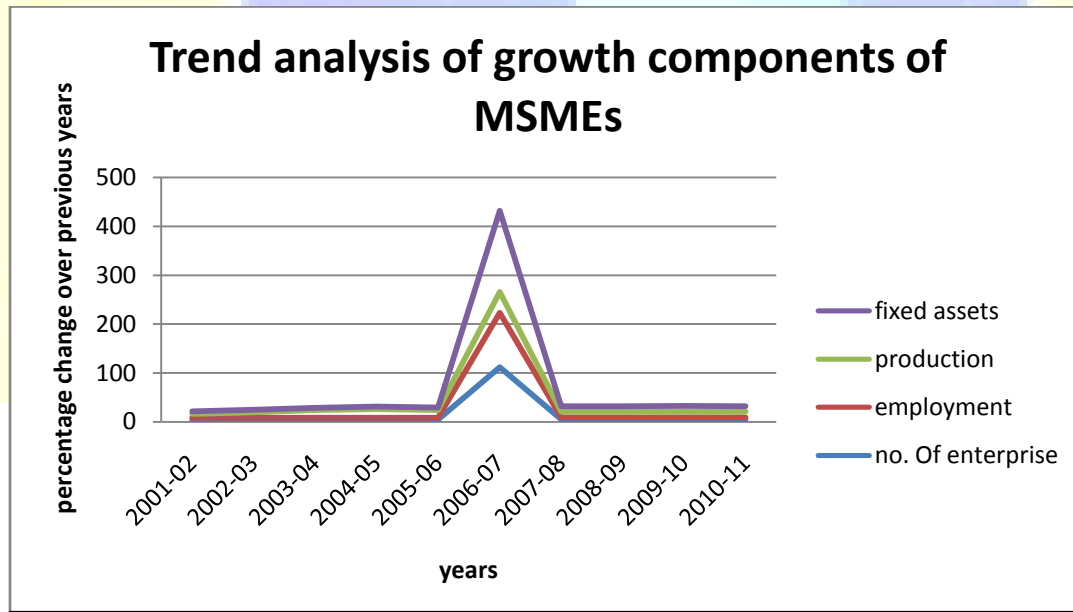
These components are chosen for performance analysis because these have the most significant role on the economic development of the country. Table1 shows the year wise rate of increase of these four components.

Table 1. Rate of growth of various components of MSMEs

Year	No. Of enterprises	Employment	Production	Fixed assets
2001-02	4.07	4.44	8.03	5.11
2002-03	4.07	4.36	11.54	5.16
2003-04	4.07	4.31	15.78	4.87
2004-05	4.07	4.11	17.9	4.98
2005-06	4.07	4.37	15.83	5.27
2006-07	111.481	101.62	42.49	166.20
2007-08	4.51	5.34	11.47	11.47
2008-09	4.53	5.35	11.39	11.39
2009-10	4.53	5.47	11.59	11.59
2010-11	4.51	5.29	11.48	11.48

Source : Annual Report (MSME) 2011-12

Figure 1. Trend Analysis of Growth Components of MSMEs



Source : Annual Report (MSME), 2011-12

In the above diagram, the horizontal axes measures percentage change over previous year and the vertical axes measures the years. The violet line shows the rate of growth of fixed assets, the green line shows the rate of growth of production, the red line shows the rate of growth of employment and the blue line shows the rate of growth of no. of enterprises. Almost all the four factors are seen to be grown at more or less similar rate, only the component fixed rate (investment) growing at little higher rate compared to others. But, as seen from the diagram, 2006-07 seems to be the exceptional year for all the four components. Even the fixed investment also has reached the highest peak during this period. The reason is that in the year 2006, Govt. Of India has enacted MSMED Act, 2006. It is the most crucial act for the development of MSMEs. Under the MSMED Act, 2006, government has defined the concepts of micro, small and medium scale industries. In table 1, the data upto the period 2005-06 is comprised of only Small Scale Industries (SSI). But from the period 2006-07, the joint data of Micro, Small and Medium Scale enterprises (MSME) are compiled. So, the year 2006 is considered to be the beginning of a new era in case of MSMEs. MSMED Act 2006 has a considerable bearing upon fixed investment because after 2006, it has drastically increased although production has not shown satisfactory performance. The other two indicators-numbers of enterprises and employment-has also grown at a higher rate compared to pre-MSMED Act period.

V. CONCLUSION

It is widely accepted that Micro, Small and Medium enterprises has emerged as engine of growth in the country as MSMEs have contributed significantly in generating employment, production, exports and many other economic issues. But globalization brings new challenges before MSMEs. It has to compete now within foreign enterprises with similar characteristics. Internal weakness should not be ignored as well. Obsolete technology and poor adaptability of new technology seem

to be the primary reason of sickness of MSMEs. Moreover, credit flow is not also regular. Being a labour-intensive sector, it has a high capacity to absorb labour. But absorption of unskilled labour will further aggravate the problem of sickness. Till date, though investment bottlenecks can be overcome, but production is still low among MSMEs. Regular credit flow, skilled labour, access to international market, technological advancement—those are some factors which can ensure sustain growth of these enterprises.

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