

# Analytical Study On Micro, Small And Medium Enterprises

“Inculcate a deep-seated culture of entrepreneurship in MSMEs”

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## ABSTRACT

*The Micro, Small and Medium Enterprises Act, 2006 is intended to boost up the Micro Small and Medium Enterprises (MSME) sector which has become an engine in manufacturing sector for economic growth and development of India. The Micro, Small and Medium Enterprises sector has constituted 30 million in the country and provides employment to 75 million people, of which the registered and non-registered segment is accounted for 6 per cent and 94 per cent. This supporting trend has given ample scope to the growth and development of country's economy. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession. The Micro, Small and Medium Enterprises sector along with ancillary enterprises is complementary to large industries adding enormously to the status of socio-economic development. Therefore, industrialization is sine-quo-non of economic development. This paper analyzes on the role and performance of Micro, Small and Medium Enterprises in Indian economy and problems.*

*Keywords: Agility, dynamism, innovativeness, symbiotic, Industrialisation and Start Up*

## INTRODUCTION

Industrialization is sine-quo-non of economic development. The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy during the past decades as it 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 and backward areas,

thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. This sector along with ancillary units is complementary to large industries in contributing enormously to the development of socio-economic status. The Micro, Small and Medium Enterprises aim is job creator instead of being job fostering entrepreneurship innovation by creating a congenial ecosystem for growth of Start-Ups with motto of job-creators instead of job- seekers. The paper focuses on the role and performance of Micro, Small and Medium Enterprises in Indian economy.

The Micro, Small and Medium Enterprises sector consists of any enterprises, whether proprietorship, Hindu Undivided Family, association of persons, cooperative society, partnership or undertaking or any other legal entity, by whatever name called, engaged in production of goods pertaining to any industry specified in the first schedule of Industries Development and regulation Act, 1951 and other enterprises engaged in production and rendering services.

## START UPS

The Prime Minister of India, Sri Narendra Modi had launched on January 16, 2016 the Start-ups fostering entrepreneurship and promoting innovation through creating a strong eco-system to drive sustainable economic growth and generate large scale employment opportunities with the objective that India must become a nation of job creators instead of being a nation of job seekers. More than 2000 Young Indian Entrepreneurs attended have embarked on the journey of entrepreneurship through Start-ups. Clusters are geographic concentrations of interconnected companies,

specialized suppliers, service providers, and associated institutions which have specific field are present in a nation or region. They increase the productivity with which companies can compete. Development initiatives in clusters are an important new direction in economic policy and reduce in cost of doing business.

Start-up means an entity, incorporated or registered in India with annual turnover not exceeding ₹ 25 crore in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property. The major players in Micro, Small and Medium Enterprises are Textiles and Paper, Service Industries, Automotive Components, Food and Beverages, Tobacco and Wood/Furniture, Pharmaceuticals, Electronics and Agriculture.

The benefits of Start-up Scheme that accrue are (i) No tax on income from Start-ups, (ii) Capital Gains, (iii) incorporation in 1 day, (iv) Skilling India, (v) MUDRA scheme, (vi) Presumptive taxation scheme, (vii) Small Companies Service Tax exemption and (viii) ₹ 500 crore to support SC/ST, women entrepreneurs.

All start-ups in India have a bright future, but 60 per cent of them may fail owing to the lack of market and other interconnected factors. The former director of the Infosys Ltd., said that India has about 30000 start-ups employing about 3.5 – 4.0 lakh people and every year about 5000 – 6000 such ventures are sprouting. Today, all the start-ups have created about \$95 billion of value products/services. Indian Start-ups policy coupled with the policies of various Provincial Governments, IT initiatives, success of Flick kart and others are enthused more people.

#### DEFINITION OF MSME

The Micro, Small and Medium Enterprises (MSME) Act, 2006 addresses the policy issues on the coverage and investment in Micro, Small and Medium Enterprises. The MSME Act facilitates the development of the start-up enterprises and enhances their competitiveness in the market nationally and globally. According to the Act, Micro, Small and Medium Enterprises are broadly grouped into two sectors and defined in terms of

investment in equipment. The classification of the Micro, Small and Medium Enterprises are given in Table 1.

**TABLE 1  
INVESTMENT**

Enterprise	In Plant & Machinery (Manufacturing)	In Equipment (Services)
Micro	Up to ₹ 25	Up to ₹ 10 lakh
Small	Above ₹ 5 crore up to ₹ 5 crore	Above ₹ 10 lakh up to ₹ 2 crore
Medium	Above ₹ 10 crore up to ₹ 10 crore	Above ₹ 2 crore up to ₹ 5 crore

The Cabinet meeting of the Central Government held on March 25, 2015 has approved the proposal of the Ministry for introduction of a Bill, namely, Micro, Small and Medium Enterprises Development (Amendment) Bill, 2015, in Parliament to amend the Micro, Small and Medium Enterprises Development Act, 2006 with the following objectives.

- To enhance the existing limit for investment in plant and machinery as per price index and cost of inputs
- To include the enterprises of micro or tiny or village enterprises as medium enterprises enabling them to avail the benefits/incentives and become competitive
- To empower the Central Government to revise the existing limit for investment considering the inflation and dynamic market situation

#### REVIEW OF LITERATURE

In the diversified economy, the Micro, Small and Medium Enterprises sector provides employment opportunities to absorb new workforce and offer exciting career opportunities is the observation of Sudan. [1] Saxena H.M [2] is of the opinion that understanding the market participants' behaviour due to market dynamics, developing market and improving efficiency could be strategized.

Keynes J.M. [3] propounds the quantum of entrepreneurship offer of employment by creating maximize output and profitability. The study on the current situation of Micro, Small and Medium Enterprises by the Export-Import Bank of India [4] explained thus: “The objective was to increase employment opportunities and equitable distribution of national income, has, now, to make this sector a more competitive in the face of liberalisation for development and promotion by addressing the challenges pertaining to credit, infrastructure, marketing and technology; and the Micro, Small and Medium Enterprises sector must have access to alternative sources of capital, need of legislature to tone up to handle insolvencies and bankruptcies”.

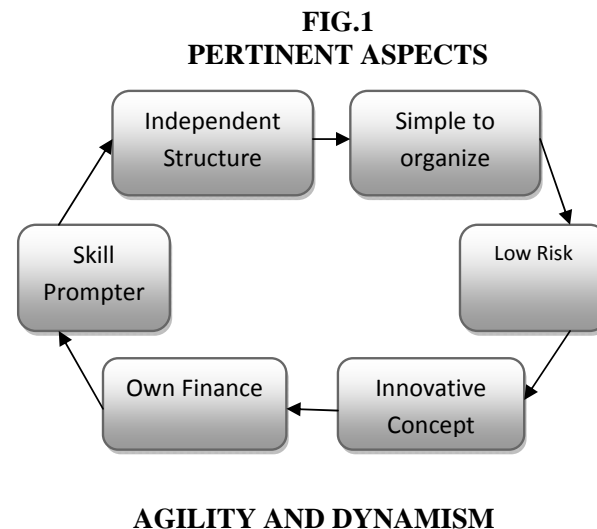
A detailed study conducted by Grimsholm and Pobleto [5] on the external and internal factors hampering the growth of small and medium enterprises in Thailand and observed as: “The significant factors hampering growth are lack of access to finance, competition, barriers to trade, management competence, lack of skilled labour, low investment in R & D and new technology.”

Abdul Nasser V [6] has critically evaluated the contribution of micro, small and medium enterprises in the balanced growth of economy. He said this: “55 per cent of the total enterprises operating in the rural areas promote the inclusive growth and regional equity; and play an important role in employment generation and add a commendable portion to the Gross Domestic Product, industrial production and export of the country”. In the study on the performance and economic contribution of micro, small and medium enterprises by Srinivas K.T. [7] is concluded that “the role Micro, Small and Medium Enterprises sector is a significant in inclusive growth of economy”. “The relationship between the total export and the Small Scale Industries export has become stronger in liberalization period due to the drastic change in composition of SSI export items from traditional to non-traditional” is the opinion of Subrahmanya Bala. [8] Acknowledging the Micro, Small and Medium Enterprises sector contribution to the Indian economy and industry, the then Commerce Minister Anand Sharma says that “the Government is working to ensure the sector as pride of place in the economy. The Government

has taken measures like cutting down red-tape and invoking a provision for the first time to remove multiple-level approvals required. [9]

### IS MSME MORE ADOPTABLE?

Yes! Vibrant set of enterprises prestigiously is known as Micro, Small and Medium Enterprises and is playing dominant role to scale up their operations in Indian economy. Their role is widely acknowledged for the prosperous aspects of interlinkages. The niche of aspects of Micro, Small and Medium Enterprises is given in Fig. 1.



The Micro Small Medium Enterprises have constituted 36 million, as of today and provide employment to over 80 million peoples; of whom the registered and non-registered segments are worked out to 6 per cent and 94 per cent respectively. The sector through more than 6000 products contributes about 8 per cent of Indian Gross Domestic Product besides 45 per cent of the manufacturing output and 40 per cent of the exports. As potential, the Micro, Small and Medium Enterprises sector has spread the industrial growth across the country and can be a major partner in the process of inclusive growth. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

The distribution of enterprises and employment in the rural and urban areas are accounted for 55 per cent of 8.57 lakh of working enterprises and employment of 60.45 per cent of 56.27 lakh persons in the urban while in rural the figures are 45 per cent of 7.07 lakh and 39.55 per cent of 36.82 lakh persons respectively. More than 55 per cent of enterprises are in six States viz., Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka. Data on the contribution of MSME sector in Gross Domestic Product and output is presented in Table 2.

Table 2 discloses the contributing position of the Micro, Small and Medium Enterprises sector. The Micro, Small and Medium Enterprises sector manufacturing of total output value is accounted for ₹1198818 crore in 2006-07 which gradually increased to ₹ 1898100 crore in 2016-17, thus registered a tremendous increase of ₹ 699282 crore or 58.33 per cent. This increase is worked out 42.02 per cent and 43.44 per cent in 2006-07 and 2016-17 respectively. The Micro, Small and Medium Enterprises sector share in total Gross Domestic Product is accounted for 7.73 per cent, 27.40 per cent and 35.13 per cent of manufacturing sector, services sector and total respectively in 2006-07 while the figures in 2016-17 are 8.02 per cent, 33.13 per cent and 39.25 per cent. It is evidence to the deduction from Table 1 that the MSME has increased in terms of value but decreased in terms of volume. The Micro, Small and Medium Enterprises overall position has increased in its contribution to Gross Domestic Product which is an obvious fact.

### **PROMOTION AND DEVELOPMENT OF MSME**

On amendment of (Allocation of Business) Rules, 1961, the erstwhile Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries were merged on May 9, 2007 to form the Ministry of Micro, Small and Medium Enterprises. The Micro, Small and Medium Enterprises Promotion and development is a primary responsibility of the State Governments. The Ministry of Micro, Small and Medium Enterprises assists the States in their efforts to

encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of Micro, Small and Medium Enterprises in every-changing economic scenario. Now, it designs the policy and facilitative programmes, projects and monitors their implementation with a view to render help to Micro, Small and Medium Enterprises for scaling up.

The measures are as:

- Adequate credit flow from financial institutions/banks
- Technology support to entrepreneurship development and skill up gradation
- Building up integrated infrastructural facilities
- Modern testing facilities and quality certification
- Support for product development, design intervention and packaging
- Welfare of artisans and workers
- Assistance for better access to domestic and export markets
- Promote capacity-building and empowerment of the units

Data on the performance of MSMEs in terms of number, investment in fixed investment, production, employment and exports is presented in Table 3.

Table 3 unflinchingly discloses that the number of Micro, Small and Medium Enterprises is increased to 625.85 lakh in 2017-18 over 261.01 lakh in 2006-07 implies on an average growth during this period is accounted for 12.21 per cent. The Micro, Small and Medium Enterprises fixed investment is accounted for ₹ 500758 crore in 2006-07 and ₹ 1211725 crore in 2017-17 registering an annual growth rise of 14.62 per cent. The sector produced ₹ 709398 crore 2006-07 while it is ₹ 1261530 crore in 2017-18, the increase is accounted for 12.73 per cent. Employment generation is motto of the Micro, Small and Medium Enterprises sector which is 805.23 lakh persons got employed in 2006-07 whereas in 2017-18 the figure is 13150.75 lakh. The annual growth is worked out at 31.15 per cent. Export of production is an add value feature of the Micro, Small and Medium

Enterprises sector for which ₹ 182538 crore in 2006-07 and ₹ 442082 crore in 2017-18 achieved. This achievement is terms of annual growth; it is worked at 13.76 per cent. It is understood that the Micro, Small and Medium Enterprises sector could generated better employment, better export of output and better production. The feature is laudable in working of the sector Micro, Small and Medium Enterprises. The Micro, Small and Medium Enterprises sector has the following experiences.

1. Lack of required capital to establish and operate the entities. The 95% borrowings are from the non-institutional sources like family, friends, relatives etc., and the institutional channels like trade credit, chit funds and moneylenders which are expensive and charging interest rates ranging from 25% to 40%. The sector relies on debt finance. Smaller the entity greater is the reliance on debt as a primary source of finance. Debt gap works as a huge barrier in establishment and operation of Micro, Small and Medium Enterprises. The sector of Micro, Small and Medium Enterprises is unable to market their products and disadvantage in expansion. Eventually, the sector finds in the market primarily on the quality of their products and contacts. To market food products, media campaigns are used and to market intermediate products distributors are assigned.
2. Lack of Infrastructure highly affects exporting companies as the Indian railway freight and handling charges are very high and services very slow as compared to other countries which put Indian Micro, Small and Medium Enterprises at a competitive disadvantage.
3. The sector of Micro, Small and Medium Enterprises is low competitiveness in terms of knowledge, innovation, prudent investment, business operation, and good management, which are important factors required to elevate the quality level. They

are unable to do such extensive marketing due to shortage of finance which renders them less competitive.

The Start Ups have bright future, adding that those who work well succeed. There will be one lakh active start ups in India by 2025 employing about 32 lakh people. The morality rate is very high. Though about 60 per cent of start ups fail due to the nature of the industry, the believes that most start ups may not scale up or get a market as there are all started by first time entrepreneurs. First time entrepreneurs may not know how to tackle the business but the good news is that even if they fail the experience they get from building a business or becoming a problem solver is enormous.

### **CONCLUSION**

Indian Micro, Small and Medium Enterprises have been facing limited access to credit, difficulty in procurement of raw materials at a competitive cost, storage, designing, packaging and product display, inadequate infrastructure facilities including power, water, roads, etc. The Government should encourage higher investments for innovative and knowledge based ventures and should also initiate measures for creating an overall enabling environment using appropriate legal and fiscal instrument to incentivize the transition of Micro, Small and Medium Enterprises from the unorganized to the organized sector. To conclude that the Government shall (a) advocate for a culture of entrepreneurship among citizens, (b) facilitate development of market demand driven training in entrepreneurship and (c) facilitate entrepreneurship training among young citizens.

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**TABLE 2**  
**MSME CONTRIBUTION**

Year	MEME Gross Value output (₹ crore)	Share of MSME Sector to total GDP (%)			MSME output in manufacturing output (%)
		Manu. sector	Service sector	Total	
2006-07	1198818	7.73	27.40	35.13	42.02
2007-08	1322777	7.82	7.60	35.41	41.98
2008-09	1375589	7.52	28.60	36.12	40.79
2009-10	1488352	7.45	28.60	36.05	39.63
2010-11	1653622	7.39	29.30	36.69	38.50
2011-12	1788584	7.27	30.70	37.97	37.47
2012-13	1809976	7.04	30.50	37.54	37.3
2013-14	1831622	7.51	31.42	37.10	40.02
2014-15	1853524	7.89	32.06	38.03	41.14
2015-16	1875680	7.93	32.84	38.85	42.64
2016-17*	1898100	8.02	33.13	39.25	43.44

Source: Annual Survey of Industries CS) MoSPI

\*Projected

**TABLE 3**  
**PERFORMANCE OF MSME**

Year	MSMEs (in lakh)	Fixed investment (₹ crore)	Production (₹ crore)	Employment (lakh person)	Exports (₹ crore)
2006-07	261.01	500758	709398	805.23	182538
2007-08	272.79	558190	790759	842.00	202017
2008-09	285.16	621753	880805	880.84	223562
2009-10	298.08	693835	982919	921.79	247403
2010-11	311.52	773487	1092064	965.15	264588
2011-12	324.64	862280	1181194	1011.69	282967
2012-13	349.08	951266	1194254	1061.40	303544
2013-14	388.46	1019435	1207458	1114.29	326257
2014-15	427.98	1072490	1220808	1171.32	352146
2015-16	487.36	1118305	1234306	1230.26	380089
2016-17	556.67	1164078	1247844	12960.95	410249
2017-18*	625.85	1211725	1261530	13150.75	442802
Average increase	382.38	878866	1083611	3009.64	301513
Annual growth	12.21	14.62	12.73	31.15	13.76

Source: Various Annual Reports, Ministry of MSME

\*Projected