

Micro, Small, and Medium Enterprises (MSMEs) : The Current Scenario

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Abstract

Micro, small and medium enterprises have contributed significantly to the industrial development in the country, particularly in the rural sphere. They have added distinctly to the output and also to the employment generation in our country. The country is endowed with abundant natural, mineral, and agro-based resources, which have potential for industrial development, particularly small scale industrial development. In the MSME sector, a majority of the small units are facing sickness. In spite of many efforts made to boost industrial development, there has not been as much industrialization as desired. In order to build a proper and effective strategy for the development of our country's economy through the MSME sector, some of the important strategies could be motivating and changing of the mindset and attitude of the local youth for taking up various entrepreneurial ventures. The present study reviewed the growth and development of MSMEs in the country in general and Andhra Pradesh in particular. It also examined the development of MSMEs during the Five - Year Plans. The study also suggested feasible measures for effective functioning of MSMEs in the country with particular reference to the state of Andhra Pradesh. The study was based upon secondary data. The analysis of the data and application of appropriate statistical tools helped largely in drawing meaningful and useful inferences.

Keywords: micro small and medium enterprises, growth, development industrialization, output, and economy

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The MSMEs have played a stupendous role in the industrial development of India. Their contribution to the economy is unique in terms of output and employment. The government and other agencies have been doing a commendable job in the development of MSMEs. The Five-Year Plans have been instrumental in the vigorous growth of MSMEs. The MSMEs hold great promise for the economy in providing employment to the people, especially in the rural areas. Due to the flow of adequate funds under different schemes and programmes, the MSMEs have registered significant growth in terms of industrial production and employment exports.

Under the Micro, Small and Medium Enterprises Act, 2006, the MSME enterprises are broadly classified in terms of activity such as enterprises engaged in the manufacturing/production and enterprises engaged in service activities. While the manufacturing enterprises are defined in terms of investments in plant and machinery, the service enterprises are defined in terms of investment in equipments. Medium-scale enterprises have also been acting under the Act. The investment limits of these enterprises are depicted in the Table 1.

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Table 1. Investment Limit of MSMEs

Sl. No.	Enterprise	Micro Enterprises	Small Enterprises	Medium Enterprises
1.	Manufacturing	Upto 25 Lakhs	>25 Lakh and < 5 Crore	> 5 Crore and < 10 Crore
2.	Service	Upto 10 lakhs	> 10 Lakh and < 2 Crore	> 2 Crore and < ₹ 5 Crore

Source: MSME Act, 2006.

Literature Review

The literature review concerns the following studies :

Jayachandran, Vijaya Lakshmi, and Himachalam (1984) in their study analyzed the socioeconomic backdrop and motivational factors of the entrepreneurs and their role in the development of entrepreneurship in the small-scale industrial units in the Tirupati Industrial Estate. They found that entrepreneurship development and industrial development are like two sides of the same coin. In fact, development of the small - scale industries directly promotes entrepreneurship. Their role in the economy cannot be undermined.

Saikia (2011) traced out the reasons which are rendered for the slow growth rate of the MSME sector. Also, he addressed the need to build a proper and effective strategy for the development of our economy through the MSME sector by motivating and changing the mindset and attitude of the local youth for taking up various entrepreneurial ventures, improving the infrastructural facilities by providing continuous research and development efforts and product innovations. The study offered certain relevant suggestions for the betterment of the MSMEs.

Sankaran (2011) explicated that entrepreneurship is one of the important factors for economic development. He said that the young entrepreneurs are suffering heavily due to some socioeconomic and cultural factors. He also addressed the problems of young entrepreneurs in the Southern most districts of Tamil Nadu. The study strongly stressed the need for solving the problems of entrepreneurs immediately.

Vasu and Jayachandra (2014) analyzed the growth and development in MSMEs in India. They also studied the problems and prospects of this sector. The study found out that this sector has performed continuously well over years and with proper emphasis and government institutions, the problems could be overcome.

The present study is a modest attempt to provide a vivid picture on the current status of MSMEs in India with a special focus on Andhra Pradesh. The design and methodology adopted for the study are presented hereunder.

Statement of the Problem and Need for the Study

India is rich with its abundant natural, mineral, and agro-based resources which provide tremendous scope for industrial development, particularly for the MSME sector. However, it is distressing to notice that majority of the micro and small industrial units have been facing chronic sickness. Many reasons have been attributed for the sickness of MSMEs. Any study on MSMEs would be worthwhile to be undertaken. Though the MSMEs contribute significantly to the economy, the problems in the functional areas of management need to be thoroughly investigated so as to make the MSME sector a distinct contributor to the economy. Hence, the present study was conducted.

Methodology

In order to achieve the objectives set forth for the study, secondary data have been used. Various books, magazines, journals, various annual reports of MSMEs, etc. were referred to. To evaluate the growth and

development of MSMEs, a 15 year period from 2000-2001 to 2014-15 has been considered. To arrive at concrete inferences, statistical tools such as paired t - test, regression analysis, and compound growth rate etc., have been employed at appropriate contexts.

Analysis and Results

(1) Growth and Development of MSMEs Under Five - Year Plans : Five - Year Plans in India are said to be a boon to the SSIs/MSEs for their robust growth. A lot of funds were diverted towards development of SSIs / MSMEs under Five Year plans. The Table 2 is a token of evidence in this regard.

Table 2. Outlay of SSIs / MSMEs During Successive Five - Year Plans

Five Year Plan	Total	Share of SSIs/ MSMEs	(₹ in Lakhs)
			Percentage
First Plan	1960	5.20	0.27
Second Plan	4672	56.00	1.20
Third Plan	5877	113.06	1.92
Fourth Plan	6625	53.48	0.81
Fifth Plan	15779	96.19	0.61
Sixth Plan	39426	221.74	0.56
Seventh Plan	12177	104.81	0.86
Eight Plan	109292	616.10	0.56
Ninth Plan	180000	1120.51	0.62
Tenth Plan	434100	1629.55	0.66
Eleventh Plan	859200	4303.85	0.50
Twelfth Plan	1865700	5534.00	0.93
Total	8921600	13854.49	8.90
CAGR	77.10	78.75	10.86

Source: Ministry of Micro, Small and Medium Enterprises (2015)

As observed from the Table 2, the outlay earmarked for development of SSIs / MSMEs increased from first Five - Year Plan to Twelfth Five - Year Plan. The percentage share of this sector ranged between the lowest of 0.27% to the highest of 1.32 %. However, fluctuating trends have been noticed in the percentage share of SSIs / MSMEs to total outlays of the Five - Year plans. The calculated CAGR in the SSIs / MSMEs was 78.75% as against 77.1 % of the total outlays under the Five Year plans.

(2) Comparison of the MSME Sector with Overall Industrial Sector : The Table 3 discloses the details of the growth rate of MSME sector in comparison with the growth rate of overall industrial sector. The MSME sector has consistently registered a higher growth rate as against the overall growth of the industrial sector which can be observed from the Table 3.

⇒ H_{01} : There is no significant difference between the growth rate of the MSME sector and overall growth rate of the industrial sector.

It is apparent from the Table 3 that the growth rate of the MSME sector recorded the highest growth rate of

**Table 3. Growth Rate of MSME Sector and Growth Rate of Overall Industrial Sector
During the Period from 2000-01 to 2014 -15**

Year	Growth Rate of MSME Sector (%)	Growth Rate of Overall Industrial Sector (%)
2000-2001	8.0	5.0
2001-2002	6.1	2.7
2002-2003	8.68	5.70
2003-2004	9.64	7.00
2004-2005	10.8	8.40
2005-2006	12.32	8.20
2006-2007	12.60	11.60
2007-2008	13.0	8.50
2008-2009	10.30	12.80
2009-2010	6.70	10.40
2010-2011	4.4	07.40
2011-2012	4.4	07.80
2012-2013	5.6	06.85
2013-2014	9.1	06.76
2014-2015	8.56	06.54

Source: Ministry of Micro, Small and Medium Enterprises (2015)

Table 4. Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Growth Rate of MSMEs	8.6800	15	2.83690	.73248
	Growth Rate of Overall Industry	6.8567	15	2.83264	.73138

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Growth Rate of MSMEs & Growth Rate of Overall Industry	15	.191	.495

Paired Samples Test

Paired Differences		95% Confidence Interval					T	df	Sig. (2-tailed)
		Std.		Std. Error	of the Difference				
		Mean	Deviation						
Pair 1	Growth Rate of MSMEs - Growth Rate o f Overall Industry	1.82333	3.60540	.93091	-.17327	3.81994	1.959	14	.070

12.6% in 2006-07 as against the growth rate of 11.6% of the overall industrial sector. It is further observed that the growth rate of both MSMEs and the overall industrial sector declined from 2009-10 upto the end of the period, that is, 2014-15. Paired *t*-test is employed to arrive at concrete inferences.

From the Table 4, the calculated paired sample test value is 0.07. Hence, the H_{01} is accepted. Therefore, it is observed that there is no significant difference between the growth rate of MSMEs and the overall industrial sector in the country.

(3) Performance of MSMEs – An Appraisal : The performance of the small scale sector is analyzed in terms of total number of units, fixed investment, production, employment, and exports. The Table 4 shows the

Table 5. Performance of MSMEs During the Period from 2000-01 to 2014-15

Year	Total MSMEs (in Lakhs)	Fixed Investment (₹ in Crore)	Production	Employment (Lakhs in person)	Exports (₹ in Crore)
2000-01	101.1	146845	261297	238.73	69797
2001-02	105.21	154349	282270	289.33	71244
2002-03	109.49	162317	314850	260.21	86013
2003-04	113.95	170219	364547	271.42	97644
2004-05	118.59	178699	429796	282.57	124417
2005-06	123.42	188113	497842	294.91	150242
2006-07	261.01	500758	709398	594.61	182538
2007-08	272.79	558190	790759	626.34	202017
2008-09	285.16	621753	880805	659.35	N.A
2009-10	298.08	693835	982919	695.38	N.A
2010-11	311.52	773487	1095758	732.17	111403
2011-12	447.64	182757.64	1834332.05	1011.69	131483
2012-13	447.54	1268763.67	1883394.25	1061.40	128162
2013-14	488.46	1363700.54	2049852.32	1114.29	N.A
2014-15	510.57	1471912.94	NA	1171.32	NA
CGR	12.26	17.90	17.17	12.03	5.19

Source: Ministry of Micro, Small and Medium Enterprises (2015)

performance of the small scale sector.

⇒ H_{02} : There is no significant difference between number of MSMEs and employment generated by MSMEs.

Table 6(a). Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	TotalMSMEs ^b	.	Enter

a. Dependent Variable: Employment

b. All requested variables entered.

Table 6(b). Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.999 ^a	.998	.998	15.22839

a. Predictors: (Constant), Total MSMEs

Table 6(c). ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1639222.047	1	1639222.047	7068.537	.000 ^b
	Residual	3014.752	13	231.904		
	Total	1642236.799	14			

a. Dependent Variable: Employment

b. Predictors: (Constant), TotalMSMEs

Table 6(d). Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	18.941	8.162		2.321	.037
	Total MSMEs	2.258	.027	.999	84.075	.000

a. Dependent Variable: Employment

It is inferred from the Table 5 that the overall performance of MSMEs reflected an upward trend. The total number of MSME units increased from 101.10 units to 510.57 units which accounts for multiple of five times during the study period. The same trend can be observed in terms of investment, production, employment, and exports. The overall performance of the MSME sector, except exports, was impressive during the period from 2000-01 to 2014-15.

The calculated compound growth rate is 12.26% in terms of total number of MSMEs, 17.9% in fixed investments, 17.17% in production, 12.03% in employment, and 5.19 % in exports. As can be inferred from the Tables 6(a) - 6(d), the calculated coefficients (Regression) value is 0.037. Hence, the H_{02} is rejected. Hence, there is no significant difference between number of MSMEs and the employment generated by the MSMEs.

(4) Contribution of the MSME Sector to GDP : The MSME sector in India has been contributing distinctly to the industrial sector and thereby to the GDP. But as the growth of this sector slackened in the recent past, the contribution has slightly come down in terms of percentage. The contribution of the MSME Sector to the GDP is depicted in the Table 7.

As depicted by the Table 7, the percentage contribution of the MSME sector to the total industrial production

Table 7. Contribution of MSMEs to the Total Gross Domestic Product (GDP) in 2015

(in %)		
Year	Total Industrial Production	Gross Domestic Product (GDP)
2000-2001	39.71	6.04
2001-2002	39.12	5.77
2002-2003	38.89	5.91
2003-2004	38.74	5.79
2004-2005	38.62	5.84
2005-2006	38.56	5.83
2006-2007	45.62	7.20
2007-2008	45.24	8.00
2008-2009	44.86	8.72
2009-2010	39.63	7.45
2010-2011	38.50	7.39
2011-2012	37.47	7.27
2012-2013	37.33	7.04
2013-2014	37.24	6.95
2014-15	36.95	6.68
CGR	-0.51	0.72

Source: Ministry of Micro, Small and Medium Enterprises (2015)

and to the gross domestic product registered a declining trend. The contribution to the total industrial production came down from 40% in 2000-01 to about 37% in 2014-15. The contribution to the GDP shows a declining trend in the beginning and afterwards, it shows an increasing trend. The percentage contribution of MSMEs to GDP was 6.04% in 2000-01, it gradually declined to 5.83% in 2005-06, and flashed on to an increasing trend afterwards and reached 6.68% in 2014-15. The compound growth rates of total industrial production and gross domestic product are -0.51 and 0.72, respectively.

(5) Export Earnings Through MSMEs : It is obvious that the MSME sector plays a unique role in export earnings. As can be inferred from the Table 8, the percentage share of MSMEs to the total exports was 34.3% in 2000-01, which gradually rose to 37.1% in 2002-03, after registering a declining trend in 2003-04 and 2004-05, and reached to 38.56% in 2005-06. The highest share, that is, 45% was recorded in 2007-08. Increasing trends have been observed from 2008-09 upto 2013-14. The percentage share by the end of the 2014-15 recorded a figure of 28.67% in 2014-15 as against 36.68% in 2013-14. The compound growth rates of total exports and exports from MSME sector were 18.30% and 16.80%, respectively.

(6) Performance of MSMEs in Andhra Pradesh – A Review : This section deals with the growth of MSMEs in Andhra Pradesh. In fact, the growth of MSMEs in Andhra Pradesh has to be discussed in the context of erstwhile Andhra Pradesh and in the residual Andhra Pradesh. This issue arises because of change in the territorial limits of Andhra Pradesh due to the division of the State into two and the separation of Telangana region from the state of Andhra Pradesh in June 2014.

➤ **Growth of MSMEs in Erstwhile Andhra Pradesh :** The Andhra Pradesh Government has given the highest

Table 8. The Share of the MSME Sector in Total Exports

(₹ in crores)			
Year	Total Exports	Exports from the MSME Sector	Share of MSME Sector (%)
2000-01	203571	69797	34.3
2001-02	209018	71244	34.1
2002-03	255137	86013	37.1
2003-04	293367	97644	33.3
2004-05	375340	124417	31.7
2005-06	425650	150242	38.56
2006-07	465698	182538	44.12
2007-08	495845	202017	45.00
2008-09	840755	219227	26.1
2009-10	945534	229227	27.2
2010-11	1142644	340507	29.8
2011-12	1260735	408478	32.4
2012-13	1403875	485740	34.6
2013-14	1803164	551319	36.68
2014-15	2140627	613678	28.67
CGR	18.30	16.80	-1.27

Source: Ministry of Micro, Small and Medium Enterprises (2015)

Table 9. Performance of MSMEs in Andhra Pradesh During the Period from 1992 to 2012

Year	Units	Investments (₹ in crores)	Employment (No.)
1991-92	7706	111	67450
1992-93	6201	155	41454
1993-94	5612	157	46362
1994-95	4435	185	40899
1995-96	4123	191	33836
1996-97	4970	211	37900
1997-98	4935	297	49999
1998-99	4997	552	58253
1999-00	4195	539	39664
2000-01	2124	327	25433
2001-02	1612	261	19211
2002-03	1641	235	24293
2003-04	1573	204	21949
2004-05	1632	266	24076
2005-06	1267	245	15832
2006-07	2440	886	36019
2007-08	4209	2161	79258
2008-09	4599	2628	85211
2009-10	5101	4423	64844
2010-11	8507	4905	104620
2011-12	8464	4881	120435
CGR	0.471	20.83	2.94

Source: Ministry of Micro, Small and Medium Enterprises (2015)

priority to the industrial sector to register sustainable economic growth. MSMEs play a crucial role in the process of economic development by value addition, employment generation, equitable distribution of national income, regional dispersal of industries, and mobilization of capital, entrepreneurial skills, and contribution to exports. On the industrial infrastructure front, the state has taken a lot of initiatives for development of industrial infrastructure for consistent growth. The government, in association with APIIC, has initiated a set of prestigious projects that include industrial infrastructure, social infrastructure, and infrastructure for specific sectors. The State-owned corporation, APIIC, has already set up 272 industrial estates and specialized parks like ICICI Knowledge Park, SP Bio-Tech Park, marine bio-tech park, agri bio-tech park, special economic zones, pharma city, hardware park, HITEC City, leather park, food park, agri export zones, etc. The State has one major port at Vishakapatnam, which handles the largest tonnage among all Indian ports and minor ports at Kakinada, Krishnapatnam, Vodarevu, and Gangavaram.

The Table 9 depicts the growth of MSMEs in terms of number of units, investment amount, and employment in the erstwhile Andhra Pradesh during the two-decade period from 1991-92 to 2011-12. The number of units, which was 7706 in 1991-92 increased to 8464 in 2011-12, though it showed a declining trend and fluctuations in the intervening period. The number declined in the four years following the period 1991-92, it reached a low of 4123 in 1995-96, and then increased to 4997 in 1998-99.

It is distressing to notice that there was a decline in the number of MSME units from 1999-2000 upto 2006-07 ; afterwards, an increasing trend can be observed upto 2010-11. During the year 2011-12, the number of units

reduced to 8464 as against the figure of 8507 in 2010-11. The same trends may be observed in terms of investments and employments. The compound growth rate is observed to be 0.471% in terms of units, 20.83% in the area of investments, and 2.94% in terms of employment.

Major Findings

The major findings that emerge from the aforesaid analysis are elucidated briefly below :

- ✧ In the Third Five Year Plan, the share of MSMEs on total outlay percentage, that is, 1.92% is highest among all Five - Year Plans.
- ✧ The highest growth rate of the MSME sector as compared to the overall industrial sector was recorded as 13.00% during the year 2007-08.
- ✧ The calculated paired sample t - test value is 0.07. Hence, the H_{01} is accepted. Hence, there is no significant difference between the growth rate of MSMEs and the growth rate of the overall industrial sector in the country.
- ✧ The calculated coefficients (regression) value is 0.037. The H_{02} has been rejected. Hence, there is no significant difference between the number of MSMEs and employment generated by MSMEs.
- ✧ Comparatively, the growth of the industrial sector has been more significant than the growth of MSMEs during the period from 2000-01 to 2014 -15.
- ✧ During 2000-01 to 2014-15, it is observed from that the percentage contribution of the MSME sector to the total industrial production and to the gross domestic product revealed a declining as well as fluctuating trend.
- ✧ The number of units of MSMEs, investments, and employment generated in Andhra Pradesh showed an increasing trend during the study period.

Suggestions

The study offers the following suggestions for efficient and effective functioning of micro, small and medium enterprises (MSMEs) :

- ✧ The Central Government has to implement many more programmes to inculcate entrepreneurship skills among the urban and rural youth so that there is possibility to promote entrepreneurship in the country.
- ✧ The government is required to concentrate on latest technology of developed countries and to make it accessible to all entrepreneurs.
- ✧ A maximum number of MSME entrepreneurs have not registered their concerns. Implementation of compulsory registration policy by the government has to become mandatory in view of incentives and subsidies offered by the government.
- ✧ Creation of additional employment opportunities on a dispersed and decentralized basis.
- ✧ To improve the growth in production, special emphasis should be laid on human resources development, particularly training programmes both at Central and State levels.
- ✧ Various financial institutions should allow the small and marginal entrepreneurs to borrow short term capital.

Research and Policy Implications

Since demonetization, the MSME sector is lagging behind on the export front. Both Central and State governments should frame policies to overcome the impact of demonetization on MSMEs. The Central government has to improve facilities by providing more incentives to the MSMEs so as to solve the problem of unemployment and earning of foreign currency to the national exchequer.

Conclusion

To conclude, the MSME sector in India has been contributing satisfactorily to the industrial sector and thereby, to the gross domestic product. However, as the growth of this sector slackened in the recent past, the contribution of this sector to the economy has slightly come down. The Government of Andhra Pradesh has accorded top priority to the industrial sector to explore sustainable economic growth. Keeping in view the role of MSMEs in terms of value addition, employment generation, equitable distribution of national income, regional dispersal of industries and mobilization of capital, entrepreneurial skills and export potential, the government has to lay special emphasis on the schemes and programmes specially designed for sustainable development of MSMEs.

Limitations of the Study and Scope for Further Research

The study is mainly focused on growth and development of MSMEs by considering the Five Year Plans by considering the selective indicators like growth, performance of MSMEs, contribution of MSMEs to gross domestic product, exports, etc. in India with special focus on Andhra Pradesh.

The MSMEs are the backbone of all developing countries. Furthermore, extensive research is needed, especially on specific areas of management because these sectors are facing financial problems in some areas, marketing problems in other regions, and labour problems in semi-urban areas. Hence, specific research related to financial problems and analysis, marketing problems and strategic analysis, human resource management etc., are topics that need to be addressed in further research.

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