

ROLE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSME_s) IN INDIA- A CASE STUDY ON HYDERABAD REGION-USING REGRESSION ANALYSIS

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Abstract

Purpose: The study results show that except marginal increase in growth rate in employment generation, the growth rate in other parameters. Micro, small and Medium Enterprises (MSMEs) are one of the most vibrant and sensitive sectors in Indian economy. The significance of Micro, small and Medium Enterprises (MSMEs) is attributable to its capacity of employment generation, low capital and technology requirement.

Design/Methodology/Approach: The main objective of this study is to analyse the impact of Micro, Small and Medium Enterprise Development (MSMED) Act, 2006, and also, to analyse the opportunities and threats of MSMEs in India after the liberalization period. Though globalization process has expanded the market facilitating supply of superior technology, this has also forced the MSMEs to face ruthless competition from large domestic firms and the MNCs. **Originality/Value:** The sector has undergone several changes regarding definition. The Small-Scale Industries (SSI) has been renamed as Micro, Small and Medium Enterprises (MSMEs) with the introduction of MSMED Act, 2006. This study is based on the secondary data and primary data. We use regression analysis and structure Equation Modeling. **Findings:** The MSMEs must convert the threats of globalization into opportunities through increased productivity, product diversification, supply chain management, Research and Development activities. Though Globalization has increased competitiveness in Indian MSMEs to certain extent, still Indian MSMEs are not adequately prepared to compete with the global players. There has been a definite change in attitude of the Govt. from protection to promotion of the MSMEs. The Govt. has taken several policy initiatives but needs to ensure proper co-ordination and implementation of such schemes

Keywords: MSME, Globalization, Liberalization, Problems, SEM Modeling.

JEL Codes: D81, D82, D86, D72, D78, D69

1. INTRODUCTION

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs 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 & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. Khadi is the proud legacy of our national freedom movement and the father of the nation. Khadi and Village Industries (KVI) are two national heritages of India.

One of the most significant aspects of KVI in Indian economy is that it creates employment at a very low per capita investment. The KVI Sector not only serves the basic needs of processed goods of the vast rural sector of the country, but also provides sustainable employment to rural artisans.

KVI today represent an exquisite, heritage product, which is 'ethnic' as well as ethical. It has a potentially strong clientele among the middle and upper echelons of the society.

The Micro; Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector.

The Act seeks to facilitate the development of these enterprises as also enhance their competitiveness.

It provides the first-ever legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium.

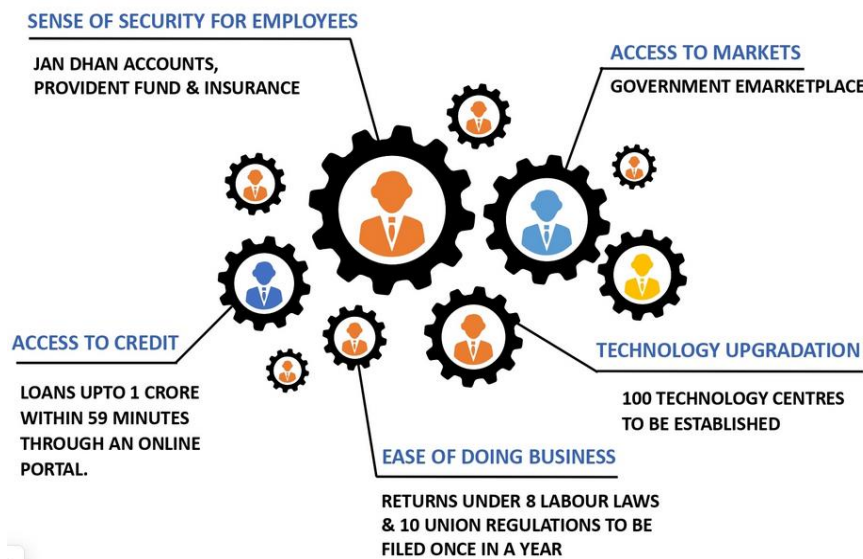
The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions.

Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act.

The Micro, Small and Medium Enterprises- Development Organization (MSME-DO) is headed by the Additional Secretary & Development Commissioner (MSME).

The Office of the Development Commissioner (Micro, Small & Medium Enterprises) assists the Ministry in formulating, coordinating, implementing and monitoring different policies and programmes for the promotion and development of MSMEs in the country.

In addition, it provides a comprehensive range of common facilities, technology support services, marketing assistance, etc. through its network of 30 Micro, Small and Medium Enterprises-Development Institutes (MSME-DIs); 28 Branch MSME-DIs; 4 MSME Testing Centres (MSME-TCs); 7 MSME-Testing Stations (MSME-TSs); 2 MSME-Training Institutes (MSME-TIs); and 1 MSME-Technology Development Center-Hand Tools (MSME-TDC-Hand Tools). The % DC (MSME) also operates a network of Tool Rooms and Technology Development Centres (including 2 Footwear Training Institutes) which are autonomous bodies registered as Societies under the Societies Act. The Office implements a number of schemes for the MSME sector, the details of which have been duly incorporated in the booklet.



2. REVIEW OF LITERATURE

- ❖ **Thiripurasundari, K and V. Gurumurthy (2009):** The study highlights the challenges of micro, small and medium enterprises of India. One side the globalization is an opportunity as well as another side it is a challenge for the indigenous MSME'S. The Indian MSME'S are facing a great problem due to larger production of foreign manufacturing concern. The financially strong MSME'S will survive strongly at globalized platform.
- ❖ **Bhavani, T.A. (2011):** This study reveals that how the all aspects of the MSME'S (Employment, Leading sector of MSME'S, Investment in fixed assets) being change in modern perspective. The technological advancement and protection of MSME'S through various subsidy schemes and liberal availability of credit will be a great help.
- ❖ **Nalabala Kalyan, Kumar. Sardar, Gugloth. (2011):**. This study focuses upon the growth pattern of the MSME'S, employment generation (1992-2009). Further, study reveals the symptoms and steps involved in industrial sickness. The study gives the ample amount of knowledge about the various credit schemes sponsored by the government. Laghu udyami credit card scheme, Credit guarantee fund trust for small industries, Swarojgar credit card scheme, Credit linked capital subsidy scheme and credit through commercial banks are the sources and schemes available to fulfill the financial needs as well as financially strengthen to the MSME'S.
- ❖ **Ram Kumar (2022):** The study examined the null hypothesis that the SSI firms producing reserved category items should perform better than the SSIs producing non-reserved items. The study result revealed that capacity utilization in 1987-88 and aggregate change in production in 1987-88 were both lower for reserved than for unreserved items. This below par performance of the SSI firms producing reserved items was surprising as those firms did

not have to face competition from the large firms. The author observed that this could be due to the entrance of excess SSI firms into the protected areas.

- ❖ **Shekar Khanna (2022):** Studied the effects of globalization on Micro, Small and Medium Enterprises (MSMEs) during pre and post liberalization from 1973-74 to 2008-09. They used four economic parameters namely number of units, production, employment and export and interpreted study results based on Annual Average Growth Rate (AAGR) calculation. AAGR in pre liberalization period (1973-74 to 1989-90) was higher in all selected parameters than that of post liberalization period (1991-92 to 2007-08).

Statement of Problem

Small-scale industries have been playing an important role for development of the Indian economy. These small-scale industries not only help to create employment opportunities, but also generate income, investment and savings in the economy. Further, these industries may also help in developing regional economy, promotion of export potential, promotional of market facilities, development of infra – structural facilities etc. Small-scale industries also help in eradicating poverty, unemployment problems. The opportunities through SMEs have been helping to provide employment opportunities to rural, urban masses, generating income, and raising the levels of living.

Objectives of the Study

- ❖ To analyse the opportunities and threats of MSMEs in India during the liberalization period
- ❖ To study the impact of MSMEs on employment generation in India.
- ❖ To analyse the performance of MSMEs in India during the pre and post liberalization period.

Hypotheses of the Study

H0: There is no impact of MSMEs on employment generation in India

H1: There is an impact of MSMEs on employment generation in India

3. RESEARCH METHODOLOGY

Study Period

The period of the study is between the financial year 2022-23.

Statistical Tools to be used

- Cronbach's alpha test
- Descriptive Statistics
- Structure Equation Model

4. RESULT AND DISCUSSION

Table 1: Estimated Number of MSMEs (Activity Wise)

| Activity Category | Estimated Number of Enterprises (in lakh) | | | Share (%) |
|-------------------|---|-------|--------|-----------|
| | Rural | Urban | Total | |
| Manufacturing | 114.14 | 82.50 | 196.65 | 31 |
| Electricity* | 0.03 | 0.01 | 0.03 | 0 |
| Manufacturing | 114.14 | 82.50 | 196.65 | 31 |
| Electricity* | 0.03 | 0.01 | 0.03 | 0 |

MSMEs in India are playing a crucial role by providing large employment opportunities at comparatively lower capital cost than large industries as well as through industrialization of rural & backward areas, inter alia, reducing regional imbalances, assuring more equitable distribution of national income and wealth. As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities (196.65 lakh in Manufacturing, 0.03 lakh in Non-captive Electricity Generation and Transmission, 230.35 lakh in Trade and 206.85 lakh in Other Services) excluding those MSMEs registered under (a) Sections 2m(i) and 2m(ii) of the Factories Act, 1948, (b) Companies Act, 1956 and (c) construction activities falling under Section F of National Industrial Classification (NIC) 2008. Statement No. 2.1 and Figure 2.1 shows the distribution of MSMEs activity wise.

Table 2: % Distribution of Enterprises in Rural and Urban Areas

| Sector | Male | Female | All |
|--------|-------|--------|-----|
| Rural | 77.76 | 22.24 | 100 |
| Urban | 81.58 | 18.42 | 100 |
| All | 79.63 | 20.37 | 100 |

Table 3: % distribution of Enterprises owned by Male/ Female Entrepreneurs Wise

| | | | |
|--------|-------|-------|-----|
| Micro | 79.56 | 20.44 | 100 |
| Small | 94.74 | 5.26 | 100 |
| Medium | 97.33 | 2.67 | 100 |
| All | 79.63 | 20.37 | 100 |

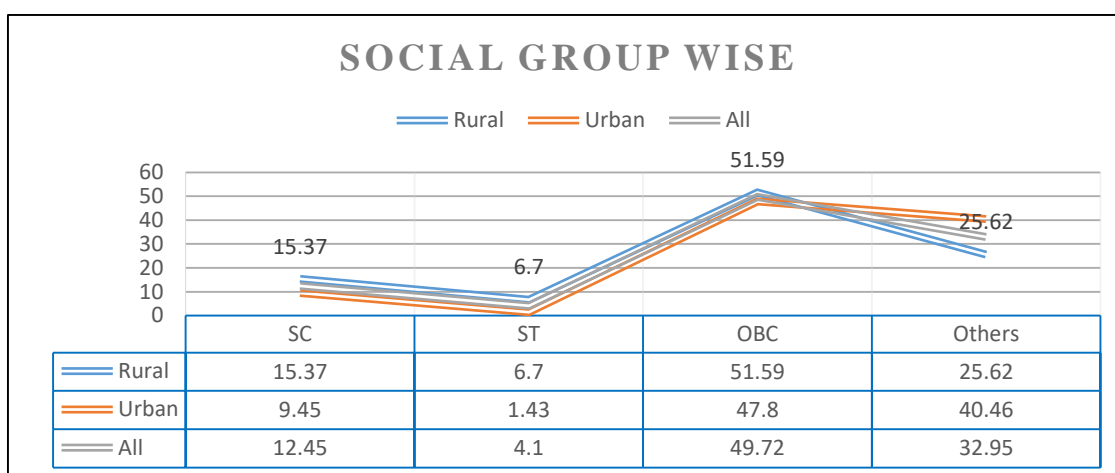
Interpretation

Micro sector with 630.52 lakh-estimated enterprises accounts for more than 99% of total estimated number of MSMEs. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs accounted for 0.52% and 0.01% of total estimated MSMEs, respectively. Out of 633.88-estimated number of MSMEs, 324.88 lakh MSMEs (51.25%) are in rural area and 309 lakh MSMEs (48.75%) are in the urban areas.

Table 4: % Distribution of Enterprises by Social Group of Owner in Rural and Urban Areas.

| Sector | SC | ST | OBC | Others | Not known | All |
|--------|-------|------|-------|--------|-----------|--------|
| Rural | 15.37 | 6.70 | 51.59 | 25.62 | 0.72 | 100.00 |
| Urban | 9.45 | 1.43 | 47.80 | 40.46 | 0.86 | 100.00 |
| All | 12.45 | 4.10 | 49.72 | 32.95 | 0.79 | 100.00 |

Graph 1: % Distribution of enterprises by social group of owner in rural and urban Areas



Interpretation

The socially backward groups owned almost 66.27% of MSMEs. Bulk of that was owned by OBCs (49.72%). The representation of SC and ST owners in MSME sector was low at 12.45% and 4.10% respectively. In rural areas, almost 73.67% of MSMEs were owned by socially backward groups, of which 51.59% belonged to the OBCs. In urban areas, almost 58.68% belonged to the socially backward groups, of which 47.80% belonged to the OBCs.

Key Challenges faced by the MSME Sector

- ❖ Lack of availability of adequate and timely credit
- ❖ High cost of credit • Collateral requirements
- ❖ Limited access to equity capital
- ❖ Procurement of raw material at a competitive cost
- ❖ Problems of storage, designing, packaging and product display
- ❖ Lack of access to global markets
- ❖ Inadequate infrastructure facilities, including power, water, roads
- ❖ Low technology levels and lack of access to modern technology
- ❖ Lack of skilled manpower for manufacturing, services, marketing, etc.
- ❖ Multiplicity of labour laws and complicated procedures associated with compliance of such laws

Table 4: Correlation between Factors Influencing Traditional Banking System

| Correlation of Traditional Banking System | | | | | | | | | | | |
|---|---------------------|-------|-------|-------|-------|-------|--------|--------|--------|--------|-------|
| Description | Correlations | LA | HC | LC | SBSA | PRM | PSD | LAGM | IFF | DD | LSMC |
| LA | Pearson Correlation | 1 | 0.12 | -0.21 | -.231 | .049 | .154 | -.066 | -.273 | -.282 | -.091 |
| | Sig. (2-tailed) | | .721 | .578 | .067 | .787 | .472 | .553 | .158 | .139 | .886 |
| HC | Pearson Correlation | .012 | 1 | -.029 | .099 | -.034 | .353* | .048 | -.128 | -.023 | -.222 |
| | Sig. (2-tailed) | .721 | | .843 | .492 | .816 | .012 | .743 | .375 | .874 | .121 |
| LC | Pearson Correlation | -.031 | -.029 | 1 | .015 | .157 | .071 | -.141 | -.026 | -.018 | .138 |
| | Sig. (2-tailed) | .548 | .843 | | .917 | .275 | .625 | .328 | .858 | .902 | .341 |
| PRM | Pearson Correlation | -.251 | .099 | .015 | 1 | -.077 | -.239 | .040 | .123 | .209 | .339* |
| | Sig. (2-tailed) | .067 | .492 | .917 | | .593 | .094 | .781 | .395 | .145 | .016 |
| PSD | Pearson Correlation | .079 | -.034 | .157 | -.077 | 1 | -.052 | -.120 | .077 | -.090 | .229 |
| | Sig. (2-tailed) | .787 | .816 | .275 | .593 | | .718 | .405 | .596 | .534 | .110 |
| LAGM | Pearson Correlation | .194 | .353* | .071 | -.239 | -.052 | 1 | -.111 | -.286* | -.121 | -.246 |
| | Sig. (2-tailed) | .402 | .012 | .625 | .094 | .718 | | .443 | .044 | .403 | .086 |
| IFF | Pearson Correlation | -.016 | .048 | -.141 | .040 | -.120 | -.111 | 1 | .539** | .520** | .254 |
| | Sig. (2-tailed) | .523 | .743 | .328 | .781 | .405 | .443 | | .000 | .000 | .075 |
| LTL | Pearson Correlation | -.233 | -.128 | -.026 | .123 | .077 | -.286* | .539** | 1 | .764** | .317* |
| | Sig. (2-tailed) | .148 | .375 | .858 | .395 | .596 | .044 | .000 | | .000 | .025 |
| LSMC | Pearson Correlation | -.252 | -.023 | -.018 | .209 | -.090 | -.121 | .520** | .764** | 1 | .274 |
| | Sig. (2-tailed) | .169 | .874 | .902 | .145 | .534 | .403 | .000 | .000 | | .054 |
| ML | Pearson Correlation | -.071 | -.222 | .138 | .339* | .229 | -.246 | .254 | .317* | .274 | 1 |
| | Sig. (2-tailed) | .886 | .121 | .341 | .016 | .110 | .086 | .075 | .025 | .054 | |

* Correlation is significant at the 0.05 level

Interpretation

Above Table shows, that the closer the value is to -1 or +1 the stronger the association is between the variables. There is a positive relationship between the traditional banking system and Internet banking system. The above results do not show any significant association between traditional and Internet banking system. Therefore, the null hypothesis, H01, is accepted. The Pearson correlation measures the strength of the linear relationship between two variables. It has a value between -1 to 1, with a value of -1 meaning a total negative linear correlation, 0 being no correlation, and + 1 meaning a total positive correlation.

Reliability Analysis

| S. No | Construct | Reliability Values of Initial stage | Dimension | Loadings | Reliability Values | CR | AVE | No. of dimensions |
|-------|-----------|-------------------------------------|-----------|----------|--------------------|-------|-------|-------------------|
| 1 | PEU | 0.816 | PEU1 | 0.816 | 0.816 | 0.903 | 0.654 | 4 |
| | | | CC2 | 0.727 | | | | |
| | | | CC3 | 0.732 | | | | |
| | | | CC4 | 0.795 | | | | |
| 2 | PT | 0.892 | EF1 | 0.892 | 0.892 | 0.827 | 0.549 | 4 |
| | | | EF2 | 0.856 | | | | |
| | | | EF3 | 0.857 | | | | |
| | | | EF4 | 0.836 | | | | |
| 3 | BC | 0.89 | PS1 | 0.857 | 0.89 | 0.894 | 0.68 | 4 |
| | | | PS2 | 0.859 | | | | |
| | | | PS3 | 0.839 | | | | |
| | | | PS4 | 0.876 | | | | |
| 4 | PR | 0.888 | RL1 | 0.836 | 0.888 | 0.893 | 0.676 | 4 |
| | | | RL2 | 0.863 | | | | |
| | | | RL3 | 0.875 | | | | |
| | | | RL4 | 0.85 | | | | |
| 5 | CV | 0.893 | FDI1 | 0.89 | 0.893 | 0.897 | 0.637 | 4 |
| | | | FDI2 | 0.848 | | | | |
| | | | FDI3 | 0.877 | | | | |
| | | | FDI4 | 0.88 | | | | |
| | | | FDI5 | 0.852 | | | | |
| 6 | FRA | 0.812 | PEU1 | 0.816 | 0.812 | 0.903 | 0.654 | 4 |
| | | | CC2 | 0.727 | | | | |
| | | | CC3 | 0.732 | | | | |
| | | | CC4 | 0.795 | | | | |
| 7 | PBM | 0.813 | EF1 | 0.892 | 0.813 | 0.827 | 0.549 | 4 |
| | | | EF2 | 0.856 | | | | |
| | | | EF3 | 0.857 | | | | |
| | | | EF4 | 0.836 | | | | |
| 8 | PB | 0.841 | PS1 | 0.857 | 0.841 | 0.894 | 0.68 | 4 |
| | | | PS2 | 0.859 | | | | |
| | | | PS3 | 0.839 | | | | |
| | | | PS4 | 0.876 | | | | |
| 9 | | 0.851 | RL1 | 0.836 | 0.851 | 0.893 | 0.676 | 4 |

| | | | | | | | | |
|-----------------------------------|----|-------|------|-------|-------|-------|-------|----|
| | QS | | RL2 | 0.863 | | | | |
| | | | RL3 | 0.875 | | | | |
| | | | RL4 | 0.85 | | | | |
| | | 0.861 | FDI1 | 0.89 | 0.861 | 0.897 | 0.637 | 5 |
| | CC | | FDI2 | 0.848 | | | | |
| 10 | | | FDI3 | 0.877 | | | | |
| | | | FDI4 | 0.88 | | | | |
| | | | FDI5 | 0.852 | | | | |
| Total number of Dimensions | | | | | | | | 41 |

Fit Indices Values of CFA Path Model

| | $\chi^2(df)$ | χ^2/df | CFI | GFI | RMSEA |
|---------------|--------------|-------------|-------|-------|-------|
| Model results | 431.735(6) | 284 | 0.927 | 0.979 | 0.035 |

Fit Indices Values of Structural Model

| | $\chi^2(df)$ | χ^2/df | CFI | GFI | RMSEA |
|---------------|--------------|-------------|-------|-------|-------|
| Model results | 9.310(6) | 1.551 | 0.886 | 0.812 | 0.068 |

CONCLUSIONS

To conclude, the MSME sector of India is today at the gateway of global growth on the strength of competitive and quality product range. However, facilitation from the Government is required to minimize the transaction costs of technology upgradation, market penetration, modernization of infrastructure etc. In this paper, we have looked at growth of Indian Micro Small and Medium Enterprise Sector over the last ten years. The MSME sector has often been termed the ‘engine of growth’ for developing economies. We begin with an overview of this sector in India and look at some recent trends, which highlight the development and significance of this sector vis-à-vis the Indian economy. We have analyzed the growth of MSMES in fixed investment, production performance, employment generation and export contribution. The MSME Development Act of 2006 is perhaps the most crucial of these recent policy changes.

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