MICRO, SMALL, AND MEDIUM ENTERPRISES IN INDIA:PRESENT OPPORTUNITIES AND CHALLENGES: A SPECIAL REFERENCE TO PUNJAB

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Introduction

The Micro Small and Medium enterprises (MSMEs)have beenplaying significant role in Indian economy for a very long period. MSMEs, by their very nature, have been characterized by choice of labour intensive techniques, therebygenerating huge employment – as per quick estimates of 4th All India Census of MSMEs covering 26 million enterprises, 60 million persons got gainful employment[11]. In India majority of the workforce are less skilled or unskilled, which are not fit for the modern industry, but they get employment in small enterprises, because it require simple training to operate machines and other activities. India has been a capital scarce country. Capital-labour ratio in the MSMEs being much lower than the large scale industries, the MSMEs are able to generate more employment with the limited resources in the economy.The MSMEs contribute 8 percent of the country's GDP, 45 percent of the manufactured output and 40 percent of exports[12].

Scope and Objective of the Study

In this study the focus is upon the registered units in India, particularly Punjab. The fourth all India Census of MSMEs was done in 2006-07. So the present study aims at a critical analysis of the data of 2006-07 and onwards from the Census report and other secondary government reports. The period before 2006-07 is not taken into consideration since the fourth census also included medium enterprises which are more expanded than the third census report along with the changed definition of small enterprises through revision of investment limit in manufacturing enterprises. So the data of third census is not strictly comparable with the data of fourth census.

The present study is an inquiry into the performance of Indian MSMEs in an increasingly globalised economy, where all the players, both domestic and foreign, are entering into the Indian market and sometimes they are working in coordination and sometime competing with SMSEs. This has created both opportunities and challenges for MSMEs.

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[11]PM MSME Task Force 2010, p 1

[12] ibid

Definition of Micro, Small and Medium Enterprises in India

With the passage of time the role and challenges of small scale industries is continuously changing and the government is responding accordingly. The small scale industries (SSI) were earlier protected from the large scale industries; hence there were no competition between these industries. But the policy of economic liberalisation pursued by the Indian government post – 1991 was that of gradual de-reservation of industries hitherto reserved for the small scale industries and allowed large scale domestic industries and Multinational Companies to operate in the domain which were earlier reserved for SSI. In India the SSI is facing fierce competition from both,the domestic large scale industries and MNCs. This has created both challenges and opportunities for SSI. The government has also realised the changing situation and responded accordingly. The SSI was rechristened as Small and Medium Enterprises (SMEs) and in 2006 again government broadened the SMEs into Micro, Small and Medium enterprises (MSMEs) under the MSMEDevelopment Act, 2006. The definition of Micro, Small and Medium enterprises is also revised under this Act.The new definition is based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for service enterprises, which are following:

Classification	**Manufacturing Enterprises**	**Services Enterprises**
Micro	Rs. 25 lakh	Rs. 10 lakh
Small	Rs. 5 crore	Rs. 2 crore
Medium	Rs. 10 crore	Rs. 5 crore

(Source: Annual Report 2011-12, MSME, Government of India, p 315)

The government has changed the definition of MSMEs, both for manufacturing and services enterprises, keeping in mind the need of making them realise economies of scale so as to improve their competitiveness in changedmarket dynamics. The purpose behind this is to support and encourage these enterprises through proper policy intervention. The classification of MSMEs on the basis of investment limit in plant and machinery in manufacturing and equipment for services sector is done because the intrinsic characteristics of these three are different. All these three have their own natural weaknesses and advantages. At the same time smaller units in some areas are in more disadvantageous position, therefore, they need more positive government intervention. At the same time government also realised the benefits of coordination among all these three.

Performance of MSMEs in India

The growth rate of MSMEs in India since 2007-08 is positive on the basis of the entrepreneur memorandum-II (EM-II)[13] filed by MSMEs. The number of units of Micro

[13] *As per the provision of the Act, all MSMEs are required to file Entrepreneurs Memorandum (Part-I) at District Industries Centres (DICs). After commencement of the project, the entrepreneur concerned is required to file*

enterprises is highest and the medium enterprises are lowest in terms of number of units. The MSMEs growth rate in 2008-09 was 10.76 percent and hovered around that till 2010-11, but in 2011-12 the growth rate surged to 19.06 percent, which was much higher than earlier years. As Table – 3 indicates, within the MSMEs, the growth rate of medium enterprises is higher than Micro and Small enterprises. The growth rate of Medium enterprise was 40.53 per cent in 2008-09, 104.64 per cent in 2009-10 and 133.25 per cent in 2011-12, with an aberration of negative growth of (-)10.76 per cent in 2010-11. Growth rate of Small enterprise was higher than Micro enterprises but lower than Medium enterprises. However, the Medium enterprises constituted onlyaround 1 percent of the total MSME units, though the share increased from 0.28 per cent in 2007-08 till 0.54 per cent in 2010-11 and further to 1.05 per cent in 2011-12.

Table-1

Distribution of MSMEs by type of enterprises in India

Year	Micro	Small	Medium	Total MSMEs
2007-08	156051	17777	491	174319
2008-09	171031	18757	690	190478
2009-10	186126	23999	1412	211537
2010-11	204064	29101	1260	234425
2011-12	242606	34192	2939	279737

Source: DC MSME, GoI, EM (Part-II) Data on MSME Sector, p 3

Table-2

Growth rate of different type of enterprises in India

Year	Micro	Small	Medium	Total MSMEs
2007-08	--	--	--	--
2008-09	9.60	5.51	40.53	9.27
2009-10	8.83	27.95	104.64	11.06
2010-11	9.64	21.26	-10.76	10.82
2011-12	18.89	17.49	133.25	19.33

Table-3

Percent share of different type of enterprises in India

Year	Micro	Small	Medium	Total MSMEs
2007-08	89.52	10.20	0.28	100
2008-09	89.79	9.85	0.36	100
2009-10	87.99	11.35	0.67	100
2010-11	87.05	12.41	0.54	100
2011-12	86.73	12.22	1.05	100

The MSMED Act, 2006 brought the micro, small and medium enterprises under one umbrella. This, therefore,allowed for integration of these three enterprises vertically so that micro

Entrepreneurs Memorandum (Part-II). Prior to enactment of the MSMED Act, 2006 there was a system of registration to small scale industrial units by the DICs.(DC MSME, GoI, EM (Part-II) Data on MSME Sector, p 1) enterprises can work along with small and medium enterprises, small with micro and medium, and medium with micro and small. The Act also provides scope for a production unit to grow and move from say micro to small and then to medium enterprise category, and still continue to avail the benefits of provisions under the Act. Thus, the Act facilitates growth of small enterprises and continues to do handholding till it matures and grows big enough. This encourages MSMEs to be more dynamic and energised.For example, in the automobile sector the companies also procure auto components from the domestic companies through subcontract. These enterprises are generally situated in a cluster and work in coordination with the parent company. The parent company support them for technological improvement and innovation. Theses ancillary units are also flexible in terms of switching from one product to another very fast with quality product. The demand for their product is almost assured, because they are competitive both in quality and price, so they can afford to take risk and succeed. In the automobile sector more clusters are emerging and within the cluster more enterprises are proliferating, both in organised and unorganised sector (Uchikawa, 2011). This trend is now further growing with the rapid growth of the automobile sector in India. The cluster of micro, small and medium enterprises is also expanding which increases coordination with each other at different tiers and at the same time there is more competition among the same tier and different tiers. The coordination among each other and collaboration with large enterprises encourages MSME to improve their technology. The large enterprises, both domestic and foreign, provide advance technology through sharing informationand technology transfer with the associated MSMEs. At the same time rising competition among MSMEs in the cluster forces all to adopt the advanced technology to maintain its market share, rather increase the share in the market and hence increase in the profitability. The size of cluster and number of clusters of SMSEs are increasing in India along with the growth of the number of large enterprises due to better infrastructure, favourable government policy and bigger market in certain pockets of India. This trend is going to be more beneficial for those enterprises which are able to create niche in the market and also have the capability to be flexible enough to follow the changing need of the market. But all the enterprises may not be able to compete in the market on its own due to rising competition, fast changing technology, more requirements of funds for new technology and operational purpose and moreover market for their product, so the right intervention of the government to address these challenges will give further boost to MSMEs, those which are functioning in clusters.

Figure-1

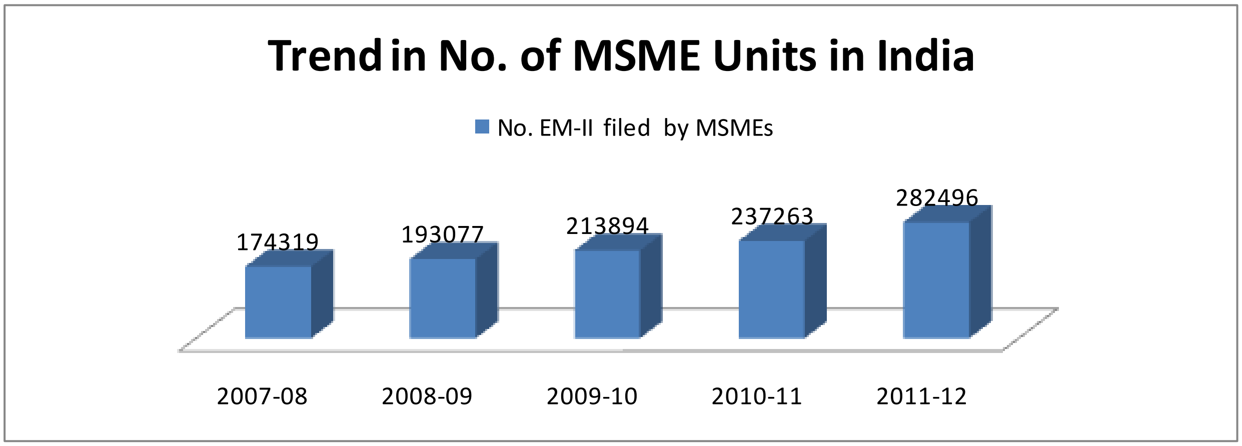
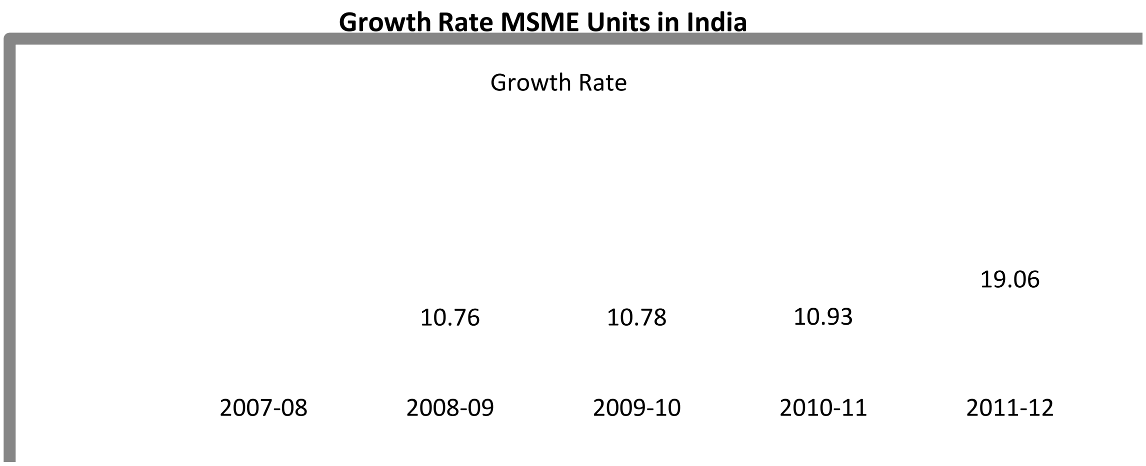


Figure-2



Performance of MSMEs in Punjab

The performance of MSMEs in Punjab is better than all India average performance. The growth rate of MSMEs in Punjab was 36.48 per cent in 2008-09, which increased to a staggering72.09 per cent in2009-10.The growth then tapered-off in 2010-11 (36.50 per cent) and declined even further to 3.31 per cent in 2011-12. The growth rates in micro and small enterprises were much better than medium enterprises, except in 2011-12 the growth rate in small enterprises -10.62 per cent, whereas the growth rate of medium enterprise was 75 per cent. The negative growth rate in small enterprises in 2011-12 pulled down the MSMEs growth rate in Punjab, despite the high growth rate in medium enterprises. The medium enterprises could not pull the growth rate of MSMEs up because the share of medium enterprise was 0.91 per cent in 2011-12, which is very small proportion and hence low impact in the MSMEs performance. This can also be substantiated from the Figure-4. Thus MSMEs overall performance is depending on the performance of micro and small enterprises. This can be further substantiated with the help of the share of micro and small enterprises in the SMSEs in Punjab. The micro enterprises share in 2007-08 was 78.97 per cent and 19.96 per cent of small enterprises, whereas medium enterprises share was 1.07 per cent.

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In 2011-12 the share of micro enterprises were 77.55 per cent, share of small enterprises were 21.54 per cent and medium has 0.91 per cent. The negative growth rate in small enterprises in 2011-12 may indicate that small enterprises are facing problems,on account of lack of effective policy intervention from the government or the changing market dynamics or a combination of both. It is important to find out what are the real problems plaguing small enterprises and take corrective measures, both the short term and the long term, so that the small enterprises maintain a sustained level of high growth rate. The government has implemented many corrective measures. However,the negative growth rate in small enterprises suggests that either appropriate measures have not been adopted or the policies are not properly implemented or partially both the factors are responsible.

Table-4

Distribution of enterprises by type of enterprises in Punjab

Year	Micro	Small	Medium	Total MSMEs
2007-08	736	186	10	932
2008-09	977	285	10	1272
2009-10	1748	426	15	2189
2010-11	2228	744	16	2988
2011-12	2394	665	28	3087

Source: *DC MSME, GoI, EM (Part-II) Data on MSME Sector, p17*

Table-5

Growth rate of different types of enterprises in Punjab

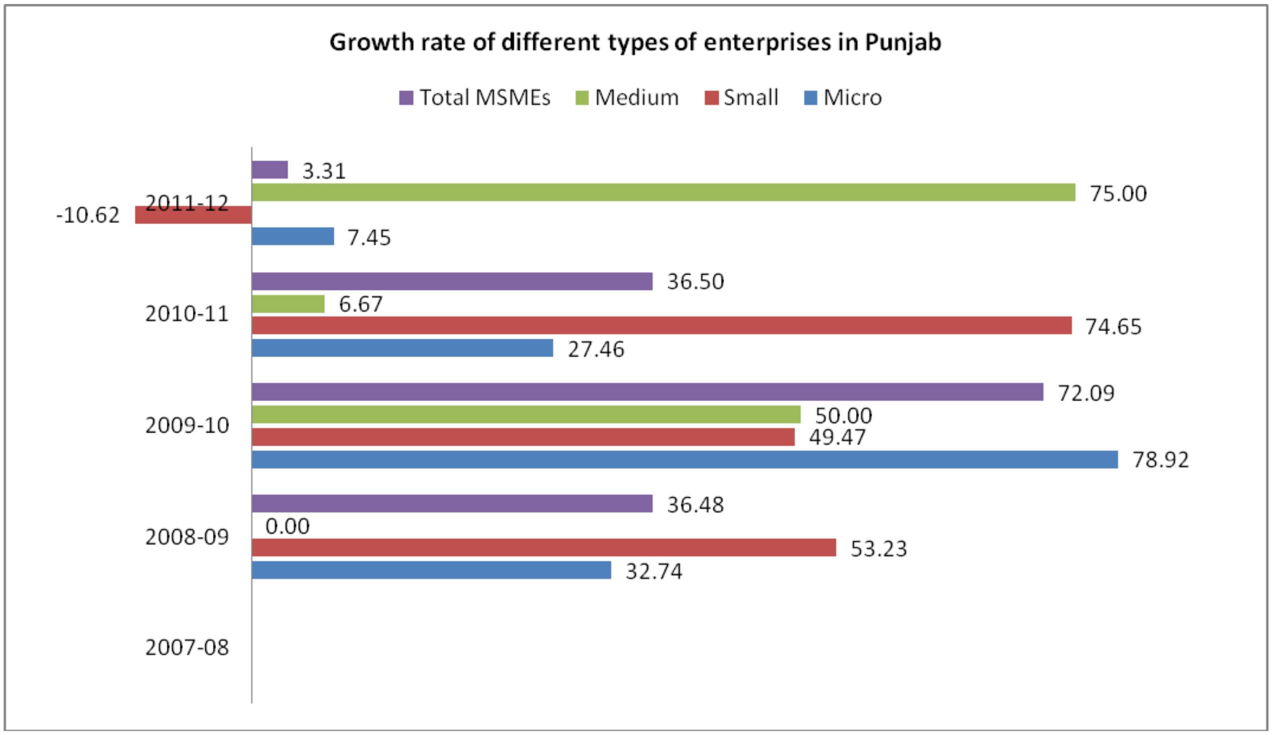
Year	Micro	Small	Medium	Total MSMEs
2007-08				
2008-09	32.74	53.23	0.00	36.48
2009-10	78.92	49.47	50.00	72.09
2010-11	27.46	74.65	6.67	36.50
2011-12	7.45	-10.62	75.00	3.31

Table-6

Percent share of different types of enterprises in Punjab

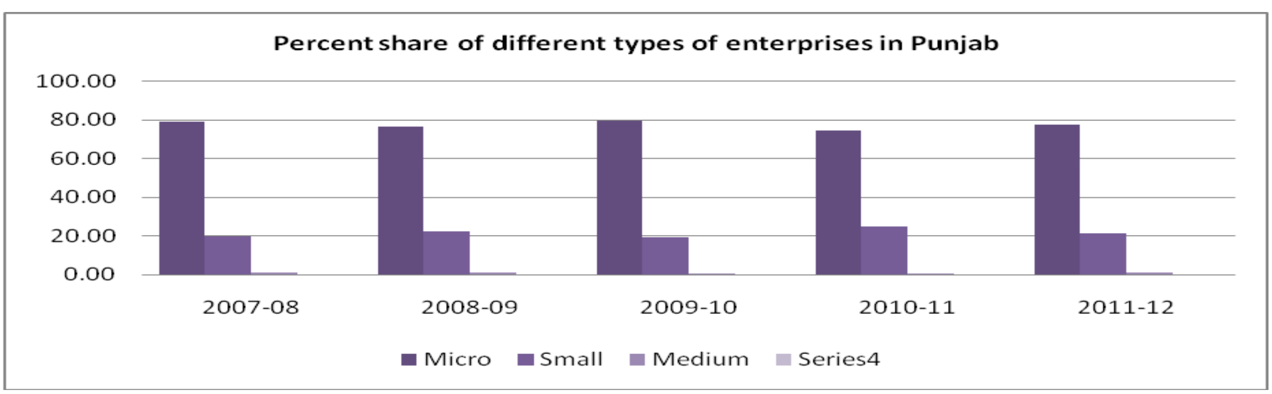
Year	Micro	Small	Medium	Total MSMEs
2007-08	78.97	19.96	1.07	100.00
2008-09	76.81	22.41	0.79	100.00
2009-10	79.85	19.46	0.69	100.00
2010-11	74.56	24.90	0.54	100.00
2011-12	77.55	21.54	0.91	100.00

Figure-3



If we look at the district-wise performance of MSMEs in Punjab, we find disparities across the districts. The number of MSMEs varies from 4 in Nawanshaher and Faridkot to 1461 in Ludhiana. In Punjab out of 20 districts many districts are lagging in terms of number of MSMEs and few districts have good numbers of MSMEs, indicating greater concentration of MSMEs and agglomeration in some of the districts. The performances of MSMEs in districts where numbers are large have more weightage in the performance of the MSMEs at state level. The number of MSMEs in a particular district can be taken as cluster of MSMEs. The trend in Ludhiana of micro enterprises is faster than other four major districts. In other words, the size of the cluster is expanding faster in Ludhiana than other districts. In 2007-08 the number of micro enterprises in Ludhiana was 211, which increased to 1088 in 2010-11. In case of small enterprises too,Ludhiana has the biggest concentration, which has increased from 53 in 2007-08 to 417 in 2010-11. In medium enterprises also, Ludhiana's performance is better than all other districts. This suggests that

Figure-4



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Ludhiana is able to attract more enterprises in all these three types of enterprises. The impressive performance of MSMEs and emergence of a sizeable cluster of MSMEs in Ludhiana is due largely to greater scope of forward and backward linkages in the value chain, cost-efficiency due to technical spillovers one would associate with agglomeration economies, adequately developed infrastructure, abundant manpower- skilled and semi-skilled both, and market for the product to new entrants. The cluster in Ludhiana also creates an atmosphere, which is producing new entrepreneurs who is coming up with new enterprises.

If we see in Ludhiana the number of enterprises has fallen in case of micro enterprises, from 1088 in 2010-11 to 1077 in 2011-12, and in case of small enterprises, from 417 in 2010-11 to 365 in 2011-12, which shows that some factors are playing against these enterprises. This may also be attributed to the adverse impact of slowdown in Indian industry *per se*, particularly in the second half of 2011-12. So the MSMEs itself need to evolve from their own experience. At the same time, the government should continue to provide support to the MSMEs so as to help them face the onslaught of economic slowdown. The Table-7 belowbrings out the inter-district disparity in Punjab regarding the performance of MSMEs.

Table:7

Dist- Wise No. of EM-II filed by Micro, Small & Medium enterprises at DIC, Chandigarh

		1/4/2007-31/3/2008				1/4/2008-31/3/2009				1/4/2009-31/3/2010				1/4/2010-31/3/2011				1/4/2011-31/3/2012			
Dist Code	Name of the Dist	Micro	Small	Medium	Total	Micro	Small	Medium	Total	Micro	Small	Medium	Total	Micro	Small	Medium	Total	Micro	Small	Medium	Total
1	Gurdaspur	10	9	1	20	23	4	0	27	43	14	0	57	47	7	1	55	44	11	0	55
2	Amritsar	68	15	0	83	87	18	0	105	123	28	0	151	156	23	2	181	208	27	1	236
3	Kapurthala	8	5	0	13	24	1	0	25	35	5	0	40	61	6	0	67	84	10	0	94
4	Jalandhar	148	32	0	180	304	103	0	407	336	72	2	410	342	79	0	421	314	82	0	396
5	Hoshiarpur	11	0	1	12	13	0	0	13	9	1	0	10	13	0	0	13	13	0	0	13
6	Nawanshaher	2	1	0	3	0	2	0	2	4	0	0	4	2	4	0	6	4	0	0	4
7	Rupnagar	5	0	1	6	2	0	1	3	5	0	0	5	8	2	0	10	6	1	0	7
8	Fatehgarh Sahib	22	16	4	42	34	29	0	63	42	30	4	76	59	56	0	115	66	44	0	110
9	Ludhiana	211	53	1	265	217	60	4	281	658	181	5	844	1088	417	10	1515	1077	365	19	1461
10	Moga	6	8	0	14	18	4	0	22	9	7	0	16	32	15	0	47	26	15	1	42
11	Ferozpur	3	3	1	7	7	3	0	10	3	4	0	7	3	6	0	9	32	5	0	37
12	Muktsar	4	0	0	4	5	2	0	7	1	0	0	1	8	1	0	9	97	2	0	99
13	Faridkot	2	0	0	2	4	2	0	6	6	2	0	8	8	7	0	15	3	1	0	4
14	Bhatinda	11	1	0	12	9	5	0	14	15	3	0	18	22	12	0	34	33	10	0	43
15	Mansa	2	1	0	3	3	0	0	3	3	0	0	3	13	1	0	14	11	1	0	12
16	Sangrur	28	5	0	33	27	10	1	38	47	12	0	59	86	26	0	112	67	19	0	86
17	Patiala	81	12	0	93	109	14	1	124	100	12	1	113	94	17	3	114	100	27	3	130
18	S Ajit Singh Nagar	103	24	1	128	67	25	3	95	285	52	2	339	152	57	0	209	170	31	4	205
19	Taran Taaran	4	0	0	4	17	1	0	18	17	0	1	18	20	5	0	25	23	4	0	27
20	Barnala	7	1	0	8	7	2	0	9	7	3	0	10	14	3	0	17	16	10	0	26
	State Total	**736**	**186**	**10**	**932**	**977**	**285**	**10**	**1272**	**1748**	**426**	**15**	**2189**	**2228**	**744**	**16**	**2988**	**2394**	**665**	**28**	**3087**

Source: DC MSME, GoI, EM (Part-II) Data on MSME Sector, p17

Table-8

No. of Micro Enterprises in selected Districts Of Punjab

Name of the District	2007-08	2008-09	2009-10	2010-11	2011-12
Amritsar	68	87	123	156	208
Jalandhar	148	304	336	342	314
Ludhiana	211	217	658	1088	1077
Patiala	81	109	100	94	100
S Ajit Singh Nagar	103	67	285	152	170

Figure-5

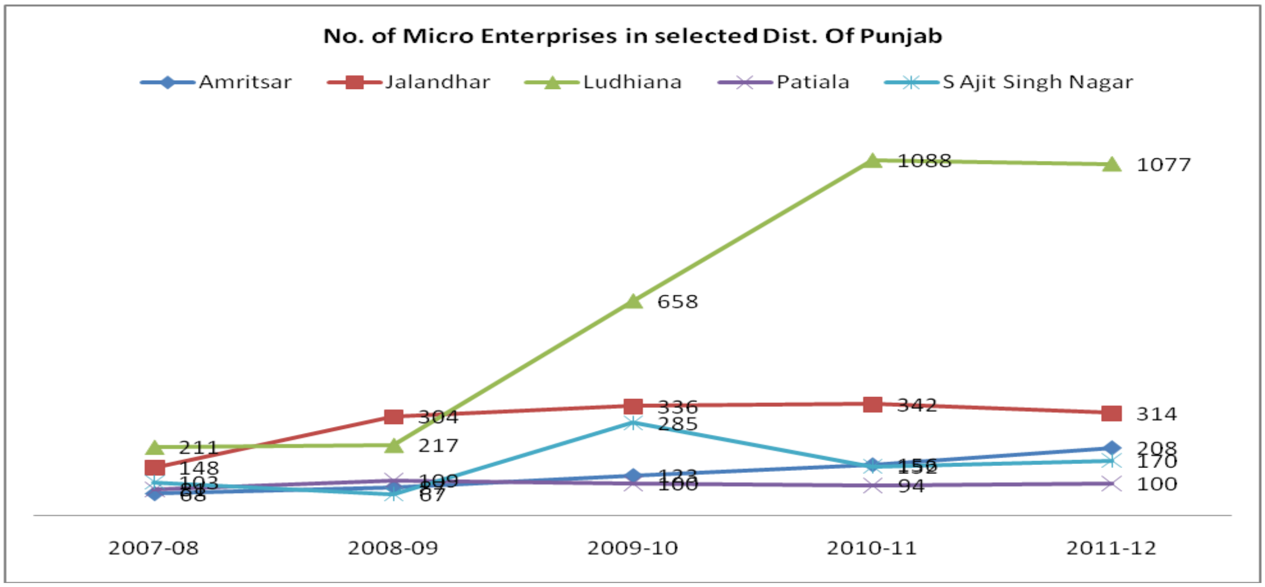

Table-9

No. of Small Enterprises in selected District Of Punjab

Name of the District	2007-08	2008-09	2009-10	2010-11	2011-12
Amritsar	15	18	28	23	27
Jalandhar	32	103	72	79	82
Ludhiana	53	60	181	417	365
Patiala	12	14	12	17	27
S Ajit Singh Nagar	24	25	52	57	31

Table-10

No. of Medium Enterprises in selected District Of Punjab

Name of the District	2007-08	2008-09	2009-10	2010-11	2011-12
Amritsar	0	0	0	2	1
Jalandhar	0	0	2	0	0
Ludhiana	1	4	5	10	19
Patiala	0	1	1	3	3
S Ajit Singh Nagar	1	3	2	0	4

Conclusion

MSMEs is an important sector in Indian economy, both in short term and long term periods. India is having huge working age population, which needs employment. The MSMEs can create huge employment because it is more labour intensive than the large enterprises, so per unit investment in this sector can create more employment.

The new economic policies have created both, opportunities and challenges, for MSMEs. The MSMEs are now working in collaboration with the large enterprises, both domestic and foreign, so they have an access of the latest technology and thus they are able to be more efficient and better performance. The MSMEs are performing well in the cluster, so more cluster should be promoted in different parts of India and within the region also. The rising integration with rest of the world has increased the level of competition among all the enterprises, whether domestic large enterprises or MNCs all are competing with each other. In the near future the Chinese companies are going to be one of the biggest challenge for the MSMEs in India. The Indian industries must be equipped enough and also government should make appropriate strategy so that MSMEs overcome all the challenges. Some industries in MSMEs are very competitive and also performing well both in the domestic market and in the international market. The dynamics of the market is fast changing and, therefore, these industries will have to adapt accordingly, so that they maintain their edge in the market. The MSMEs, at present, on its own may not stand up to all the challenges. Hence the need for continued intervention of the government with appropriate and effective policies.

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