

An Empirical Study on Problems and Prospects of Micro Small and Medium Enterprises in Bengaluru, Karnataka

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Abstract

The Unemployment Rate of India is climbing high year on year, end of March 2018 the unemployment rate of the country has gone up to 4.1% and the number of unemployed persons is at 6.7 million. The job market of India is mostly conducive for skilled and educated. Micro Small and Medium Enterprises (MSMEs) play an important role in plugging this problem of India. They not only provide employment for unemployed but also motivate low skilled labor to start up his own enterprise. MSMEs are nurseries for entrepreneurship and innovation. Despite their tremendous potential, the MSMEs faces several difficulties, there have been high cost of traditional credit, restricted access to equity capital, raw materials at a competitive cost, unsuitable infrastructure, low technology levels, dearth of skilled manpower and lack of resources for marketing and competency, lack of access to global markets. Karnataka is one of the most progressive and industrialized states in the country and is leading States in driving India's economic growth. The State Government has taken various measures to safeguard the interest of these micro, small and medium enterprises. The study analyses the problem and prospects of MSMEs in Bengaluru.

Key words: MSME, Employment, Entrepreneurship, Karnataka

1. INTRODUCTION

India is the fourth largest economy in the world (in PPP terms) and the second largest in developing Asia. By 2032, it is expected to overtake Japan to become the third-largest economy in the world. By the end of

the year India accounts for 17 per cent of World's GDP [as per PWC report], 17.74 per cent of world population [21]and 32.5 per cent of potential workforce in developing Asia. [23]While declaring the vision for India, Mr. Pranab Mukherjee stated that "India being the oldest civilization is going to be younger" in coming years with the largest number of skilled young working professionals and India has to provide leadership to the world".

The world aging population is estimated to be close to 360 million older people who will no longer be working. In two years, 13 countries, and 34 by 2030, will be "super-aged" - with more than 20% of their population over 65.[22]It is also estimated that due to India's demographic dividends majority of the supply to the global labor force will come from India, with 50 % of its population under the age of 25 and more than 65% below the age of 35.

But India being a developing country faces many difficulties. "Unemployment" is one of that kind. The Unemployment Rate of India is climbing a new high as the time passes. End of March 2018 the unemployment rate of the country has gone up to 4.1% and the number of unemployed persons is estimated at 6.7 million. Moreover, the job market of India is mostly conducive for skilled, educated and urban.

Micro Small and Medium Enterprises (MSMEs) play an important role in plugging this problem of India. This sector has the ability of reduction of regional disparity through income generation, creates employment opportunities, reduce poverty and above all induce regional development. Apart from creating

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employment opportunities at comparatively lower cost compared to large industries, it initiates industrialization in less developed areas, minimize regional imbalance and persuade equitable distribution of growth and development. MSME support entrepreneurs for development of existing enterprises and encourage entrepreneurs for new establishment.

The MSMEs are contributing 45% of total industrial output, 8% to Indian GDP, and 40% of all exports, provides employment to more than 10 crores, providing 40% of India's workforce after the agriculture sector and producing more than 8000 different products. MSMEs are nurseries for entrepreneurship and innovation. Despite being the big form, it faces lot of problems. Lack of proper financing, obsolete technology, lack of proper infrastructure and increasing debt are to name a few. In the present study the problems and prospects of MSMEs in Bangalore are identified and analyzed empirically.

2. REVIEW OF LITERATURE

MSMEs are contributing significantly towards the economic development of the country [20][19]. The sector is contributing in the industrial production in rural and backward areas, employment generation [5][17], contribution to export promotion [19], utilization of local resources is the major contribution of this sector. Many studies revealed the changing role of MSMEs in the development process and the access of MSMEs to informal and formal finance, including the role of microfinance [4] the role of small & medium enterprises (SMEs) in the industrial sector is growing rapidly and they have become a thrust area for future growth [18]. MSMEs contribute towards national growth and they are getting support from government regarding finance marketing infrastructure etc. MSMEs entrepreneurs can come together and can afford the burden of the cost of foreign collaboration of technology easily as the decline took place in agricultural employment and virtual stagnation in the organized manufacturing sector, employment in MSME sector has emerged as the only ray of hope. In developing countries small enterprises with low

investment is achieving more productivity of capital than the larger, more capital-intensive enterprises. [15] It is empirically tested that there is causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) [7].

Contrary to the many studies [4] in his paper highlights the importance of quality in employment generation by the SSIs and negates the short-term attitude of increasing the volume of employment generation compromising with quality. The author argues that employment generation by the SSIs may be high in quantitative term but very low in quality which can be up graded by technological up gradation in that sector. He further viewed that advanced technology enables the small firms to create quality employment improving remuneration, duration and skill [3].

Performance of MSMEs

There is a remarkable progress in the performance of SSI sector in terms of their units, production & employment levels. [15][19][04][18], During the post liberalization era the performance the small scale sector has grown rapidly compare to pre liberalization era [9]. A study result has revealed that due to more SSI firms has entered into the protected areas, the capacity utilization by SSI and their aggregate production are both lower for reserved item in comparison to unreserved items. [1] Compared the performance parameters of SSIs in the pre and post liberalization era as well as examined the performance of SSI in relation to three important variables like GDP, output and exports. The study found that in the period of nineties vis-à-vis the pre-reform years the annual average growth rate of different parameters of SSIs have declined. Further it reveals that there is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.

Opportunities and Problems

The critical problems that are being faced by the MSME sector in India are highlighted by many studies. It is [8] observed that small and medium enterprises

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(SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization[2] in the fields of management, marketing, product diversification, infrastructural development, technological up gradation[09][17] feel that innovation as main construct which impacts on growth and performance of MSME's in India. Availability and procurement of raw materials collaboration of foreign technologies costs more which small enterprisers can't afford[19].

The policy changes [18] domestic reforms on small-scale industries sector [2] have opened new opportunities for MSME sector. The resources available to start up and SSIs in Karnataka, where they can produce different type of products for domestic consumption and exports support from the Karnataka state government to the development of MSMEs is an added advantage for MSME entrepreneurs in Karnataka. [8][6] It is recommended that there is a need for the dedicated STOCK Exchange for the MSME sector to cater to their needs better which are different from the large industries. The above literature highlights the various aspects viz. performance, growth, problems and opportunities of MSMEs in Indian economy and induces for continuous research in this field.

3. OBJECTIVES

The main purpose of the study is to analyse the problems and prospects of micro and small enterprises confined to Bengaluru City of Karnataka. The study also focused on the performance of MSME in terms of units, employment generation and contribution to GDP.

4. METHODOLOGY

- 4.1 The study calls for both secondary data and primary data. Secondary data is collected from 2007 to 2018 from various annual reports published by the Govt. of India, Ministry of Micro, Small and Medium enterprises, published documents of District Industry Centre of Bengaluru and other journals.
- 4.2 Companies with a less than total income of Rs.500 Mn are selected for the study. To collect Primary

data, 250 owners and/or managers of MSMEs spreading across Bengaluru are interviewed with the help of a structured questionnaire. However, 29 responses could not be included due to missing data. Data collected from different sectors as below.

Sector	No of Units
Wearing Apparel, dressing, dying	18
Interior decoration, Furniture	17
Food Products and Beverages	26
Nonmetallic mineral Products	9
Computer and related activities	26
Handicrafts and Handlooms	17
Weaving	11
Sales, maintenance, repair of Automobiles	18
Hotels and Restaurants	22
Services	14
Others	43

5. ANALYSIS

Table1: Number of MSME units in India, Karnataka, Bangalore.

YEAR	Number of MSMEs INDIA (In lakhs)	Number of MSMEs in Karnataka (in units)	Number of MSMEs in Bangalore district (in units)
2007-08	272.79	14984	2652
2008-09	285.1	15705	2373
2009-10	298	17195	2767
2010-11	311.5	18434	3696
2011-12	447.5	21021	4478
2012-13	467.5	24208	7130
2013-14	488.46	25966	7526
2014-15	510.57	28574	8031
2015-16	633.88	30542	9685
2016-17	199	NA	NA
2017-18	362	NA	NA
CAGR	50.42%	192.20%	167.50%

Source: Annual Reports MSME

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In the year 2007-08 the number of MSMEs is 27.2 million which has increased to 36.2 million units with a CAGR of 50%. In Karnataka, the number of MSME was 14984 units in 2007-08 that has increased to 30542 in 2015-16. The compound annual growth rate of the same is 192% over a period of nine years. The number of MSME in Bengaluru was 2652, increased to 9685 in 2015-16 with a CAGR of 167%. It can also be observed that while at the national level the number of units has increased at the rate of 50% only, in Karnataka the same has grown by 192% and in Bengaluru the number of MSME units has raised by 167%. That implies that here is a remarkable increase in the number of MSME sector in Karnataka. This could be due to support and financial assistance extended by the Karnataka state government to the development of MSME [05].

Table2: PERFORMANCE OF MSME SECTOR IN INDIA

Year	Total working MSMEs (in Lakhs)	Employment (in Lakh person)	Share of MSME Sector in total GDP (%)*
2006-07	361.76	805.23	35.13
2007-08	377.36	842	34.41
2008-09	393.7	880.84	36.12
2009-10	410.8	921.79	36.05
2010-11	428.73	965.15	36.69
2011-12	447.64	1011.69	37.97
2012-13	467.54	1061.4	37.54
2013-14	488.46	1114.29	30.64
2014-15	510.57	1171.32	30.74
2015-16	633.88	1109.89	28.77
2016-17	797.34	1172.52	28.21
2017-18	NA	NA	NA
CAGR	7.37%	3.48%	-1.97%

Source: MSME Annual Reports

The total working of MSME has increased from 361.76 in 2006-07 to 797.34 in 2016-17 with a compound annual growth rate of 7.37% only which is not very impactful. In contrary to the many existing literature which suggested that there is a significant contribution of MSME sector to GDP of the country, the above table shows that the contribution of MSME towards GDP has come down to 28.21% in 2016-17 with the CAGR of -1.97% .

Based on the existing literature five factors are identified as the opportunities for MSME operating in Bengaluru. The different factors are administered to the sample entrepreneurs and managers of MSMEs on Likert five-point scale. For every statement, scores are allotted. Each factor is ranked in order of merit by means of weighted mean and most influencing variable is ranked in ascending order.

The same methodology has been adopted to identify the problems as well.

Table3: Prospects of MSMEs in Bengaluru

Opportunities	Weighted Mean	Rank
Karnataka Government schemes	102	1
Locational Advantage	71	4
Resources available to Start up	58	5
Ease of doing business	83	2
Export promotion	79	3

Source: Primary Data

The MSME enjoy the benefits from government schemes. Government provide lot of reimbursements to small industries regarding the employment, marketing and other following schemes. The above table shows the ranking about the opportunities for MSMEs in Bengaluru. Entrepreneurs in Bengaluru have ranked "Government initiatives" as number One followed by ease of doing business in Karnataka. The respondents also feel that the resources available for Start Ups in Karnataka are not Very Significant.

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Table 4: Problems faced by MSMEs in Bengaluru

PROBLEMS	Weighted Mean	RANK
Availability and Procurement of raw material	83	8
Strain of government regulations	62	12
Cut Throat Competition in Market	132	3
Government Price Control	112	4
Problem in Infrastructure	87	7
High Cost of Production	178	1
Lack of Skilled Labor	98	5
Lessaccessibility to finance	163	2
Discriminative treatment by banks and other FIs	92	6
Lack of Technological up gradation	71	11
Lack of Knowledge about the Government Schemes	79	9
Weak Market Demand	78	10

Source: Primary Data

It is evident from table 4 that the major problem of MSME in Bangalore is the High Cost of Production followed by low accessability to Finance. Difficulty in marketing the product due to Availability of better substitute is ranked 3 whereas dealing with government laws is the least important factor affecting the performance of MSME.

6. Conclusion

The MSME sector plays an important role in economic development of a country. The study found that the growth and performance of MSME in terms of units is appreciable. But the matter of concern is that the contribution to GDP is getting lower over a period of time. The sector has huge potential to generate employment, contribute to export and to make "Make in India" project successful. The study found that High cost of production is most worrisome factor to the entrepreneurs and dealing with government laws is the least important factor.

In the present study only, the external factors affecting the performance of MSME are considered but there is a further scope of research by including internal factors. A comparison between internal and external factors will also be contribution to the existing research.

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