

PERFORMANCE OF MSMEs IN HIMACHAL PRADESH: A COMPARISON OF PRE AND POST MSMEDA PERIOD

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RAKESH MAHAJAN

Research Scholar, University Business School,
Guru Nanak Dev University, Amritsar, Punjab

✉ rakesh.mahajan2411@gmail.com

DILPREET KAUR

Assistant Professor, Khalsa College for Women, Amritsar, Punjab

ABSTRACT

Worldwide, Micro, Small and Medium Enterprises (MSMEs) are playing a key fundamental role in propelling the economic growth and regional development. MSMEs sector is being recognized as the real engine of growth for the Indian Economy. With a large contribution of about 38% to the GDP, approximately 40% share of exports and 45% share of manufacturing output. The present paper is an attempt to study the status of MSMEs in the state of Himachal Pradesh. The paper analyses the performance of the MSMEs in Himachal Pradesh on the basis of number of enterprises and employment by MSMEs. This study is based on secondary data collected from annual reports of MSMEs, RBI statistics of Indian Economy, report on 73rd round of NSS, etc. A comparison of third and fourth census of MSMEs has also been done for registered and unregistered MSMEs in India.

KEYWORDS

Himachal Pradesh, MSMEs, MSME Performance.

INTRODUCTION

The dawn of planned economy from 1951 and the industrial policy pursued by Government of India, a special role was assigned for small-scale and medium-scale industries in the Indian economy. Both these sectors were accorded the due protection, and particularly small scale industries from 1951 to 1991, till the policy of liberalization and globalization was adopted by the nation. Certain products were reserved for small-scale units for a long time, though this list of products is decreasing due to change in industrial policies and climate. MSMEs are producing more than 6000 products in the country ranging from traditional products to the hi-tech gadgets. MSMEs have been established in almost all-major sectors in the Indian industry such as:

- Food Processing
- Agricultural Inputs
- Chemicals and Pharmaceuticals
- Engineering; Electricals; Electronics
- Electro-medical equipment
- Textiles and Garments
- Leather and leather goods
- Meat products
- Bio-engineering
- Sports goods
- Plastics products
- Computer Software, etc

MSMEs always represented the sculpt of socio-economic policies of the Government of India which emphasized thoughtful use of foreign exchange for import of capital goods and inputs; employment generation; labour intensive mode of production; non concentration of economic power in the hands of few person; discouragement of monopolistic production and marketing; and lastly effective contribution to foreign exchange earning of the country. It was also alligned with the policy of minimizing the concentration of industries and related activities in few geographical areas. It can be observed that by and large, SMEs in India met the expectations of the Government

in this respect. SMEs developed in a manner, which made it possible for them to achieve the following objectives:

- High contribution to GDP
- Significant exports
- Low investment requirements
- Location wise mobility
- Low intensive imports
- Import substitution
- Contribution towards defense production
- Technology– based industries

The MSMEs sector is projected to provide employment to over 100 million people across the country. The sector is manufacturing more than six thousand (6000) products varying from traditional products to advanced technological products.

India is a fast growing economy in “lower middle income category” (GNI \$1,046- \$4,125) and is expected to reach category of “upper middle income category” (GNI \$4,126- \$12,735) by 2026 at the current growth rate of 8.9 in GNI over the last decade. Also GDP has shown a growth rate 7.9% in the first quarter of 2016 taking the growth rate to a five year highest mark of 7.6% in 2015-16 and is expecting to reach 8% in fiscal year 2016-17. IMF has been expecting an increase in growth rate welcoming recent actions aimed at boosting public infrastructure, rationalising subsidies, creating the more flexible product and labour markets as well as intensifying financial inclusion.

REVIEW OF LITERATURE

SMEs constitute a major portion of the private sector in other developing countries (Kunt, 2007) like India, which is a labor abundant country, small scale sector is considered as the major source of employment generation and foreign exchange income (Uma, 2013). MSMEs today face competitive environment due to liberalization of economy in 1991 favoring FDI, WTO formation in 1995 forcing the member nations to reduce the restrictions on imports and domestic economic reforms (Srinivasan, 1997). Sharma (1980) compared the performance of MSMEs in the pre and post liberalization era and observed a decrease in growth rate of number of SSIs, production and exports till 2009-10 mainly due to the reduction in protection norms, although there was little increase in the employment but again it was not satisfactory. Parekh (2004) concluded that government support is much needed for MSMEs in terms of educating and empowering them to make the optimum use of use of both economic and human resources to be successful. Mali (1998) in his study has observed that micro, small and medium enterprises (MSMEs) have to face increasing competition in the present scenario of globalization and they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up-gradation. Ayyagari (2007) suggested that new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighboring countries. Venkatesh and Muthiah (2012) argued that the government support is necessary for the SMEs to fully exploit the available opportunities as they constitute a major part of the industries like pharmaceutical, textile, retail, food processing, agro and information technology. Gravel *et al.*, (2011) found that most of the SMEs internationalize by exporting using their own resources rather than outsourcing

the exporting function. Alex Coad and Jagannadha Pawan Tamvada (2008) studied on the Growth and Decline of Small firms in Developing Countries. The researcher was of the view that many entrepreneurs who run the small firms take risks during the complete business life. The decision to export is a double-edged sword –if successful it can accelerate the growth, but it also increases the probability of decline (Arinaitwe, 2006). Kunt *et al.*, (2007) revealed a noteworthy variation in the volume and economic activity of the SME sector across countries; whereas there are only a few SMEs in many transition economies, the SMEs constitute a major portion of the private sector in other developing countries. They suggested that a larger role of SMEs in manufacturing is more strongly associated with a competitive business environment. Dhar and Lydall (1961) concluded that the issue of choice between large and small industries for the purpose of an employment-oriented industrialization strategy is largely irrelevant, and it should aim at making the best use of scarce resources, instead of aiming at creating employment for the sake of employment.

OBJECTIVES OF THE STUDY

To examine the growth and performance of MSMEs in Himachal Pradesh and to compare the status of Registered and Unregistered MSMEs during the third (2001-02) and fourth (2006-07) all India census of MSMEs.

RESEARCH METHODOLOGY OF THE STUDY

The study is based on secondary data. The sources of data include Third and Fourth All India Census of MSMEs, Annual Reports of MSMEs, Economic Survey of India and data from Ministry of Statistics and Program Implementation (MoSPI). Performance of MSMEs is measured on the basis of the variables, namely, number of units, employment and fixed investment. The study covers the period from 1971-72 to 2014-15. This period was selected because it covers years both before and after economic reforms during 1991, when the protection measures for MSMEs reduced significantly because of liberalization of economy. The time period also covered post-MSMEDA period i.e., after 2006 when MSMED Act was implemented. Descriptive statistics including, percentage analysis, AAGR (Average Annual Growth Rate) and CAGR (Compounded Annual Growth Rate) have been used as statistical tool to analyse the data. The data from Third and Fourth All India Census of MSMEs were used for comparison of registered and unregistered enterprises. The study restricted to comparison between third and fourth census only as there was no authenticated data available regarding registered MSMEs prior to third all India Census of MSMEs of 2001-02.

DATA ANALYSIS AND INTERPRETATION

This section deals with the analysis of data related to MSMEs in the state of Himachal Pradesh. Further, comparison has been made between the status of MSMEs during the third and fourth all India Census of MSMEs.

GROWTH OF MSMEs IN HIMACHAL PRADESH

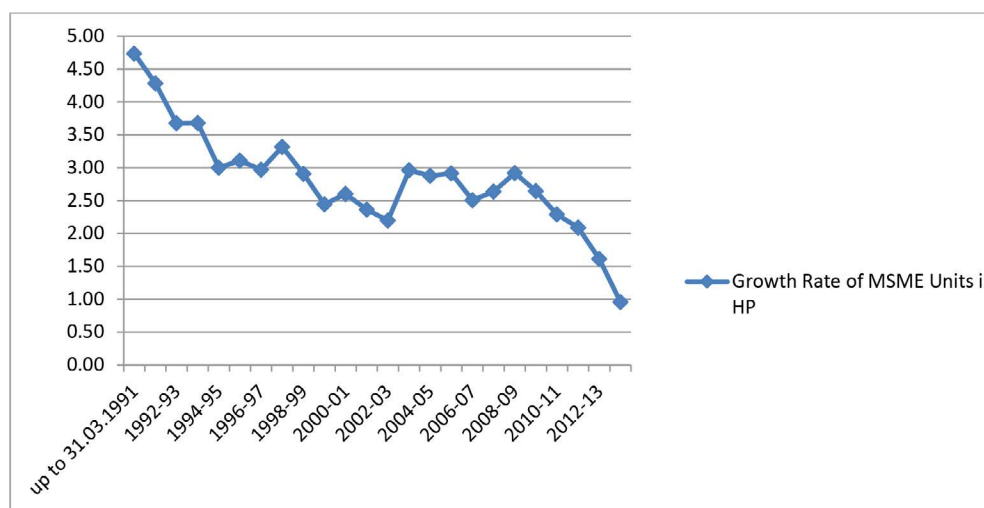
Table 1 shows the number of MSME units in the state upto 1991 and year wise trend afterwards. It was found that there were 20545 MSMEs established in the state till 1990-91 which increased to 33618 in 2006-07 and the number further moved up with 40028 MSMEs in 2014-15. The statistical analysis of the data confirmed that there is a significant difference between growth rates of MSME units during the post-reforms and post-MSMEDA periods. The analysis of data indicate that only 19,483 new MSMEs were established in the state during the post 1991-92 over a period of approximately 25 years.

TABLE-1. DISTRIBUTION, ANNUAL INCREASE AND GROWTH RATE OF MSME UNITS IN HIMACHAL PRADESH FROM 1991-92 TO 2014-15

Year	Number of Enterprises (Nos.)	Annual Increase in Number of Enterprises (Nos.)	Growth Rate of Enterprises (percentage)
up to 31.03.1991	20545	--	--
1991-92	21518	973	4.74
1992-93	22440	922	4.28
1993-94	23265	825	3.68
1994-95	24121	856	3.68
1995-96	24845	724	3.00
1996-97	25617	772	3.11
1997-98	26378	761	2.97
1998-99	27253	875	3.32
1999-00	28045	792	2.91
2000-01	28731	686	2.45
2001-02	29479	748	2.60
2002-03	30176	697	2.36
2003-04	30839	663	2.20
2004-05	31752	913	2.96
2005-06	32666	914	2.88
2006-07	33618	952	2.91
2007-08	34460	842	2.50
2008-09	35369	909	2.64
2009-10	36401	1032	2.92
2010-11	37364	963	2.65
2011-12	38220	856	2.29
2012-13	39018	798	2.09
2013-14	39648	630	1.61
2014-15	40028	380	0.96
AAGR of Entire Period			2.71
AAGR of Post-reforms Period			3.14*
AAGR after 2006-07			2.29*
*Represents that the value is statistical significant at 1 per cent level of significance			

The results indicate that the number of MSME units in the state increased over the period of time, however, a continuous declining trend in the growth rate of establishment of new MSMEs was recorded in the state as shown in Figure 1. AAGR in the post-reforms period found to be 3.14 per cent which reduced to 2.29 per cent after 2006-07 i.e., post implementation of MSMEDA. The AAGR for the entire period under study has been found to be 2.71 per cent. Therefore, no visible impact of MSMED Act, 2006 is seen in the state as far as the total number of MSMEs in the state is concerned.

FIGURE 1. DISTRIBUTION OF GROWTH RATE OF MSME UNITS IN HIMACHAL PRADESH.



GROWTH OF EMPLOYMENT BY MSMES IN HIMACHAL PRADESH

Table 2 shows the employment trends of the MSMEs in the state. The data reveals that 86227 persons were employed by MSMEs till 1990-91 which increased to 1,57,328 in 2006-07 and reached to 2,24,831 in 2014-15. The growth pattern for the employment in the MSMEs remained different before and after 2006-07. Before 2006-07 there was an overall increase in the total employment by MSMEs, however, the annual increase in the employment declined continuously after 2006-07.

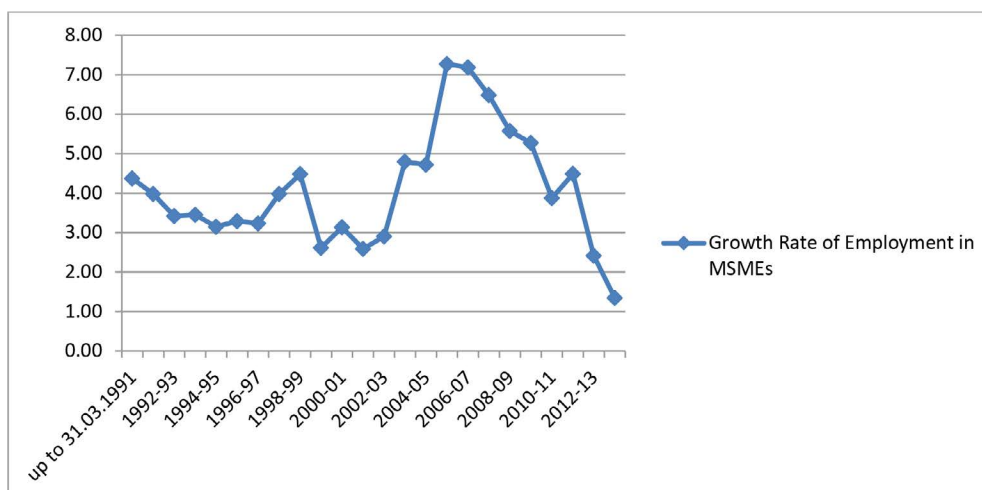
TABLE-2. DISTRIBUTION, ANNUAL INCREASE AND GROWTH RATE OF EMPLOYMENT BY MSMES IN HIMACHAL PRADESH FROM 1991-92 TO 2014-15

Year	Employment by MSMEs (Nos.)	Annual Increase Employment by MSMEs (Nos.)	Growth Rate of Employment (percentage)
up to 31.03.1991	86227	--	--
1991-92	89997	3770	4.37
1992-93	93577	3580	3.98
1993-94	96779	3202	3.42
1994-95	100119	3340	3.45
1995-96	103269	3150	3.15
1996-97	106665	3396	3.29
1997-98	110112	3447	3.23

1998-99	114491	4379	3.98
1999-00	119618	5127	4.48
2000-01	122745	3127	2.61
2001-02	126594	3849	3.14
2002-03	129871	3277	2.59
2003-04	133640	3769	2.90
2004-05	140052	6412	4.80
2005-06	146663	6611	4.72
2006-07	157328	10665	7.27
2007-08	168630	11302	7.18
2008-09	179569	10939	6.49
2009-10	189580	10011	5.58
2010-11	199582	10002	5.28
2011-12	207314	7732	3.87
2012-13	216612	9298	4.48
2013-14	221842	5230	2.41
2014-15	224831	2989	1.35
AAGR of Entire Period			4.24
AAGR of Post-reforms Period			3.61
AAGR after 2006-07			4.88
The mean difference is not statistically significant for both the periods.			

The results indicate that the growth rate of employment by MSMEs witnessed fluctuations during the period under study as presented in Figure 2. AAGR in post-reforms period was found to be 3.61 per cent which increased to 4.88 per cent after 2006-07. AAGR for the entire period under study is found as 4.24 per cent. The study found that there is a continuous decline in the growth rate after 2006-07 whereas growth rate remained almost consistent during the post-reforms period and before 2006-07.

FIGURE-2. DISTRIBUTION OF GROWTH RATE OF EMPLOYMENT BY MSMES IN HIMACHAL PRADESH.



COMPARISON OF STATUS OF REGISTERED ENTERPRISES DURING THE THIRD AND FOURTH ALL INDIA CENSUS OF MSMEs

Table 3 shows that Registered Enterprises displayed a positive growth rate in all variables except the MSMEs working in service industry where it faced negative growth rate of -44.69%. Registered MSMEs displayed a growth rate of 248.09% and 206.09% in total gross output and per unit output respectively.

TABLE-3. COMPARISON OF REGISTERED ENTERPRISES DURING THIRD (2001-02) AND FOURTH (2006-07) ALL INDIA CENSUS OF MSMES

Variable	Census year		Growth rate
	2001-02	2006-07	
Size of Sector			
Number of Enterprises (in lakh)	13.75	15.64	13.75%
Rural Enterprises (in lakh)	6.10	7.07	15.99%
Urban Enterprises (in lakh)	7.65	8.57	11.96%
Women Enterprises (in lakh)	1.38	2.15	56.32%
Activity of Enterprises			
Manufacturing (in lakh)	8.72	10.49	20.24%
Repair & Maintenance (in lakh)	0.29	2.52	773.70%
Service (in lakh)	4.74	2.62	-44.69%
Employment			
Total (in lakh)	61.63	93.09	51.03%
Per Unit	4.48	5.95	32.81%
Gross Output			
Total (in lakh)	20325462	70751027	248.09%
Per Unit (in lakh)	14.78	45.24	206.09%

Source: Third (2001-02) and Fourth (2006-07) All India Census of MSMEs

COMPARISON OF STATUS OF UNREGISTERED ENTERPRISES DURING THE THIRD AND FOURTH ALL INDIA CENSUS OF MSMEs

Table 4 reveals that Unregistered Enterprises displayed a very high growth rate in all variables except the MSMEs working in repair and maintenance industry where it faced negative growth rate of -27.27%. Unregistered MSMEs displayed a growth rate of more than 200% in manufacturing enterprises and 367% growth in total gross output. A sudden jump in the total growth output can be attributed to the large increase in the number of enterprises.

TABLE-4. COMPARISON OF UNREGISTERED ENTERPRISES DURING THIRD (2001-02) AND FOURTH (2006-07) ALL INDIA CENSUS OF MSMEs

Variable	Census year		Growth rate
	2001-02	2006-07	
Size of Sector			
Number of Enterprises (in lakh)	91.46	198.74	117.29%

Rural Enterprises (in lakh)	51.99	119.69	130.23%
Urban Enterprises (in lakh)	39.47	79.05	100.26%
Women Enterprises (in lakh)	9.26	18.06	94.99%
Activity of Enterprises			
Manufacturing (in lakh)	33.03	104.5	216.34%
Repair & Maintenance (in lakh)	16.93	12.31	-27.27%
Service (in lakh)	41.50	81.93	97.41%
Employment			
Total (in lakh)	187.69	408.84	117.82%
Per Unit	2.05	2.06	0.49%
Gross Output			
Total (in lakh)	7901536	36970259	367.89%
Per Unit (in lakh)	0.86	1.86	116.28%

Source: Third (2001-02) and fourth (2006-07) All India Census of MSMEs

CONCLUSION

To understand the place of MSMEs in an economy one has to understand their limitations, namely, low capital base, concentration of functions in one/two persons, inadequate exposure to international environment, inability to face impact of economic reforms, inadequate contribution towards R&D, and lack of professionalism etc. In spite of these limitations, the SMEs have made substantial contribution towards technological development and exports. As a result of globalization and liberalization, coupled with WTO regime, Indian SMEs have been passing through a transitional period. With slowing down of economy in India and abroad, particularly USA and European Union and enhanced competition from China and a few low cost centers of production from abroad many units have been facing a tough time. Although the AAGR for MSMEs has not been very impressive for different variables under study but the same is expected to improve with improving Raking of India in terms of Ease of Doing Business. Government need to provide customized packages for MSMEs of different states due to the geographical and demographical differences among the states. In short, those SMEs who have strong technological base, international business outlook, competitive spirit and willingness to restructure themselves shall withstand the present challenges and come out with shining colours to make their own contribution to the Indian economy.

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