



ENTREPRENEURSHIP, MICRO SMALL & MEDIUM ENTERPRISES AND THEIR ROLE IN BOOSTING ECONOMY OF INDIA

ABSTRACT

Entrepreneurship development and MSMEs have been globally acknowledged as instruments for achieving economic growth and development as well as employment creation. Entrepreneurial activities lead to employment generation and poverty reduction. Government has taken several major steps regarding regulatory norms and legal environment to promote entrepreneurial culture. These issues have been given much more attention in developing nations and many efforts are being done to enhance productivity and reduce constraints of budding entrepreneurs. Micro, Small and Medium Enterprises have taken a giant stride since independence. From being primarily based on manual labour in 1950's and 1960's, MSMEs have traversed a long path and now are using much of the mechanical devices for increasing production efficiency. MSMEs have grown in scale of operation and volume of production over the years. In the present scenario, MSMEs have made their presence felt across all the major sectors producing diversified products and playing a significant role in economic growth of the country. The present paper attempts to identify the role of Entrepreneurship and MSMEs in the upliftment of economy in India. The researcher tries to analyze the growth of MSME sector over the last decade. This paper is based on extensive review of literatures on MSME sector and their contribution in boosting economy of India. The review showed that the entrepreneurial activities and MSMEs have increased the amount of exports and had a favourable impact on the GDP of the country over the last few decades.



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INTRODUCTION

Entrepreneurship development and MSMEs have been globally acknowledged as instruments for achieving economic growth and development as well as employment creation. Van Praag and Versloot (2007) stated that progress in entrepreneurial activities is required for economic growth of a nation. Previous researches have shown a positive correlation between entrepreneurial activities and economic outcomes. Entrepreneurial

activities lead to employment generation and poverty reduction. Government has taken several major steps regarding regulatory norms and legal environment to promote entrepreneurial culture. These issues have been given much more attention in developing nations and many efforts are being done to enhance productivity and reduce constraints of budding entrepreneurs. This is particularly pressing in developing countries where wage and salary employment is limited and the majority of jobs



are created and operated in self-employment (Haltiwanger et al., 2010; Ayyagari et al., 2011; Gindling and Newhouse, 2012).

Micro, Small and Medium Enterprises have taken a giant stride since independence. From being primarily based on manual labour in 1950's and 1960's, MSMEs have traversed a long path and now are using much of the mechanical devices for increasing production efficiency. MSMEs have grown in scale of operation and volume of production over the years. In the present scenario, MSMEs have made their presence felt across all the major sectors producing diversified products and playing a significant role in economic growth of the country. While a key achievement of MSMEs over time has been their talent in utilising available domestic resources to deliver quality products and services, these firms have made their presence felt across India's key sectors as well as in prominent export markets. MSMEs have made an impact on a range of issues, from industrial progress to entrepreneurship and from job creation to economic empowerment.

The importance of MSME sector can be judged by the fact that around 50% of MSMEs in India are owned by underprivileged groups. MSMEs have played a

commendable role in transition of India's economy from agrarian economy to an industrialized one. The MSME sector in India is the second largest employment generator just after agriculture. MSMEs play a significant role in utilizing the local resources and providing employment opportunities.

The Micro, Small and Medium Enterprises Sector contribute approximately 40 percent of the exports and it is responsible for 45 percent of the total manufacturing output (MSME Annual Report, 2012-13). MSME Sector plays a crucial role in motivating the budding entrepreneurs and helps them in realizing their dream of having a unit of their own. The main advantage of this sector is that it provides a large employment at a low capital cost. Till 2005, the term SSIs and MSMEs were used interchangeably but in the year 2006, MSMED Act was implemented to have a greater clarity in defining this sector. The MSMED Act 2006 was enacted to attain certain objectives. The main objective behind implementing this act was to facilitate promotion and development of Micro, small and medium enterprises. It was enacted to increase the competitiveness of MSMEs. Table-1 reflects the segregation of enterprises according to MSMED Act 2006.

Table-1 Classification of Industries in MSMED Act 2006

Particulars	Investment in Plant & Machineries in case of Manufacturing Enterprises	Investment in Equipment in case of Service Sector Enterprises
Micro Enterprises	Up to Rs. 25/- lacs	Up to Rs.10/- lacs
Small Enterprises	Above Rs. 25/- lacs and up to Rs.500/- lacs	Above Rs.10/- lacs and up to Rs.200/- lacs
Medium Enterprises	Above Rs.500/- lacs and up to Rs.1000/- lacs	Above Rs.200/- lacs and up to Rs.500/- lacs

Source: Compiled from MSME Annual Report (2012-13)

REVIEW OF LITERATURE

Pascale and Athos (1991) argued that 95% of Japanese and US managers are the same, as "they only differ in core issues," such as the management of soft matters like human resources. The soft aspects of management include style, staff, skills and shared values.

Poojary (1996) defined entrepreneurship development as the process of extracting profit (firm performance) from new, unique and valuable combination of resource in an uncertain and ambiguous environment. Considering this definition, entrepreneurship development, could equally be seen as a gradual process in which an individual takes in establishing a business or creating wealth for the purpose of making profit.

Gibb and Lyapunov (1996) suggested that an entrepreneurial culture needs to be nurtured to support MSMEs in areas such as values, beliefs, attitudes and behavioural norms. Gibb also argues that a personal network based on social value constitutes an important variable that influences transactions between firms and customers, marketing channels, suppliers, employees, family, regulatory authorities, banks, accountants, and competitors.

Ha and Swierczek (2003) observed that the performance of MSMEs in Vietnam was positively related to entrepreneurial culture. This means that the owners of MSMEs are not willing to take risky business decisions and the presence of a risk avoidance attitude is prominent among entrepreneurs.

Gentry and Hubbard (2004) found that entrepreneurs comprise just fewer than 9% of households in the U.S., but they hold 38% of household assets and 39% of the total net worth. Not only are entrepreneurs wealthier, but also the wealthy are more likely to become entrepreneurs.

Ravi (2009) focused on entrepreneurship development within the Micro, Small and Medium Enterprise (MSME) sector in India. He overviewed this sector in India and looked at some recent trends which highlighted the development and significance of this sector with respect to the Indian economy. He also studied about specific government policy interventions on the growth of entrepreneurship in the MSME sector in India. His studies revealed that while specific policies that were aimed at the MSME sector had a limited influence on the growth of MSME sector. He highlighted that the general policies and not the specific policies drafted for MSMEs had a significant positive impact on the growth of MSME sector in India. His results suggested that perhaps the government should play a facilitator role and improve access to finance by encouraging more banks and other financial institutions to enter the local market, instead of becoming an active player itself.

Bargal (2009) examined the causal relationship among the three variables GDP, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study found that the annual average growth rate of different parameters of SSIs have declined in the period of nineties vis-à-vis the pre-reform years. There is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.

Sonia and Kansai Rajeev (2009) analyzed how far the globalization has had an impact on the MSMEs. They considered the period of study from 1973-74 to 2008-09. They analyzed the scenario before the liberalization era and as well as after the liberalization era. They analyzed the MSMEs on the basis of growth in the number of units, total production, employment generated by this sector and total contribution in exports. Their study concluded that the MSME sector has shown a better growth rate in all these parameters in the pre liberalization era as compared to post liberalization era.

Bhavani T.A. (2010) studied about the quality employment opportunities generated by the MSME sector. He stressed on the point of quality employment and not short term employment. The author highlighted that MSMEs may contribute a high percentage towards employment generation but that is more quantitative in nature, rather than being qualitative. He also stressed on the use of technology for the MSMEs and argued in favour of technology upgradation, which in turn would improve remuneration, create quality employment opportunities and improve skills. Use of technology may reduce the rate of growth of employment in short run but it would ensure sustainable employment opportunities in the long run for the MSME sector.

Dixit and Pandey (2011) applied co integration analysis to examine the causal relationship between MSMEs output, exports, employment, number of MSMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the positive causality between MSMEs output and India's GDP.

Singh et al. (2012) analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

MEDHODOLOGY

The present study is primarily based on secondary data. The data has been mainly collected from various MSME Annual Reports, Statistical Abstracts of India, Reports of Ministry of MSMEs, IFC – Intellect Reports etc. Extensive review of the literature provided useful insight about the role of MSMEs in boosting economy of India over the last few decades.

OBJECTIVES

- To identify the Share of Various Manufacturing and Services Industries in MSME Sector's Gross Output
- To analyze the Contribution of MSMEs in boosting Economy of India

Table-2 highlights the key statistics regarding the economic contribution of MSMEs. It can be clearly concluded that MSMEs play a significant role in Indian Economy and their contribution cannot be overlooked.

Table – 2 Key Statistics on Economic Contribution of MSMEs

Share	Value
Industrial Units	95%
Industrial Output	45%
Exports (In Value)	40%
Gross Domestic Product (GDP)	8%
Employment (In Millions)	69
Per unit gross output	Rs.46.13 lakh
Employment per one lakh fixed investment	0.19

Source: MSME Annual Report (2012-13)

SHARE OF VARIOUS MANUFACTURING AND SERVICE INDUSTRIES IN MSME SECTOR'S GROSS OUTPUT

Table – 3 Share of Top Ten Manufacturing Industries in MSME Sector's Gross Output

Industry	Share of Gross Output of the MSME Sector
Food Products & Beverages	19%
Textiles	10%
Basic Metals	10%
Chemical and Chemical Products	8%
Fabricated Metal Products	7%
Machinery and Equipment	6%
Wearing Apparel	5%
Rubber and Plastic Products	4%
Transport Equipment	3%
Non-metallic Mineral Products	3%
Total	75%

Source: Source: IFC – Intellect Analysis

Table-3 depicts the share of Top Ten Manufacturing Industries in MSME Sector's Gross Output. Food and Beverages is predominantly capturing the share of Gross Output with a share of 19%. The other top manufacturing industries include Textiles, Basic Metals, Chemical & Chemical Products, Machinery & Equipments, Wearing Apparel, Rubber & Plastic Products, Transport Equipments and Non metallic mineral products. The MSME sector has maintained a higher rate of growth vis-

a-vis the overall industrial sector. This indicates that the contribution of MSMEs has been much higher as compared to over all industrial sector in India. The father of nation, Mahatma Gandhi said that the small and micro enterprises are the backbone of Indian industrial sector. The sayings of the father of nation has been holding true in Indian economy. Therefore, the central as well as state governments should give priority in the development of this sector by making them more competitive.

Table – 4 Share of Top Ten Services Industries in MSME Sector's Gross Output

Industry	Share of Gross Output of the MSME Sector
Agriculture-based Activities	1.3%
Repair and Maintenance of Motor Vehicles	1.1%
Retail	0.7%
Professional Business Activities	0.6%
Computers and Information Technology	0.3%
Transport and Travel Agents	0.3%
Forestry and Logging Activities	0.3%
Other Service Activities	0.2%
Utilities Supply	0.2%
Post and Telecommunication	0.1%
Total	5%

Source: Source: IFC – Intellect Analysis

Table-4 highlights the share of Top Ten Services Industries in MSME Sector's Gross Output. Agriculture-based Activities is predominantly capturing the share of Gross Output with a share of 1.3%. The other top services industries include Repair and Maintenance of Motor Vehicles, Retail, Professional Business Activities, Computers and Information Technology, Transport and Travel Agents, Forestry and Logging Activities, Utilities Supply and Post & Telecommunication. Although the services sector accounts for a larger number of enterprises, it is the top ten industries in manufacturing that account for 75 percent of the sector's total output. The top ten services industries account for a total of 5 percent of the total output by the Micro, Small and Medium Enterprises Sector output. The Services Sector in India is primarily dominated by the

units involved in retail trade, Small transport operators and retail & maintenance shops. The contribution of these outlets and shops is much lower when compared to the manufacturing sector enterprises. However, with the passage of time, service sector started making prudent usage of the available resources and thus increasing the production efficiency of the service sector.

CONTRIBUTION OF MSMES IN BOOSTING ECONOMY OF INDIA

MSMEs play a pivotal role in the economy of our country. Table-5 highlights the performance of MSMEs in India over the last decade. It reflects how the MSMEs have grown in the last ten years. It also depicts the major role played by MSMEs in the employment generation.

Table-5 Growth of MSMEs in the last decade

Sl. No.	Year	Total Working Enterprise (In Lakh)	Employment (In Lakh)	Market Value of Fixed Assets (In Crore)	Gross Output (In Crore)
1	2001-02	105.21	249.33	154349.00	282270.00
2	2002-03	109.49	260.21	162317.00	314850.00
3	2003-04	113.95	271.42	170219.00	364547.00
4	2004-05	118.59	282.57	178699.00	429796.00
5	2005-06	123.42	294.91	188113.00	188113.00
6	2006-07	361.76	805.23	868543.79	1351383.45
7	2007-08	377.37	842.23	917437.46	1435179.26
8	2008-09	393.70	881.14	971407.49	1524234.83
9	2009-10	410.82	922.19	1029331.46	1619355.53
10	2010-11	428.77	965.69	1094893.42	1721553.42
11	2011-12	447.73	1012.59	1176939.36	1834332.05

Source: MSME Annual Report (2012-13)

Micro, Small and Medium Enterprises (MSMEs) are a critical economic factor in poorer countries as well as the more developed economies in the world today. They make up a majority of the domestic business transactions and at the same time play an important role. They are highly adaptable in developed and developing economies, provided that they have a facilitating environment to grow.

With trade barriers falling, Indian MSMEs were initially apprehensive of their ability to survive in a globally competitive environment, but over a period of time, they realized that it also provided them with greater opportunity to become part of a global supply chain as large manufacturing companies are outsourcing their production to low-cost economies.

Globally, MSMEs constitute almost 90% of the total enterprises and they are responsible for generating the highest rate of employment all over the world. Apart from employment generation, they are credited for having a major share of industrial production as well as a high amount of contribution in exports as well.

In India, MSMEs play a remarkable role in creating a large number of employments. In fact, now MSME Sector has become the second largest employment provider just after agriculture. They are making an immense contribution to the National Income of our country by constantly increasing their share of exports. One of the major contributions of MSMEs is that, they use the local resources and provide employment to the locals and thus are responsible for a balanced regional development. They provide an opportunity to the people having entrepreneurial skills to setup a unit of their own and contribute to Indian economy.

CONCLUSION

The MSME sector in India is growing at a rapid pace. Their contribution in economy is also increasing at a very rapid rate. The growth rate of MSMEs is much higher than the overall industrial growth rate in the country. This study concludes that the MSMEs with effective use of networks, associations and government supports become more sustainable and make a greater contribution to the



economy. MSMEs act as an engine for growth of any economy and their role in the development of nation cannot be overlooked. The study reveals that there has been a drastic increase in the number of MSME units over the last ten years. The employability of the MSME sector has also increased tremendously and it has now become the second largest employer after agriculture. MSMEs play a pivotal role in our economy. From time to time, Government and Reserve Bank of India (RBI) have implemented several policies to improve the flow of credit to the MSME Sector. Ours is an industrializing economy which has been growing at a substantial rate over the last decade. MSME sector and small entrepreneurs are playing a very crucial role in the GDP of our country.

From traditional units with couple of labours to modern mechanized units, MSMEs have traversed a long path. With the passage of time and support from the government, MSMEs have fostered. Before independence, when British Empire ruled over India, the condition of small scale enterprises was not good. They didn't get any support from the British. After independence several industrial policies were implemented and SSI sector benefited a lot. After liberalization of Indian economy in 1991, MSMEs in India got exposed to world economy and they took on the challenge and adjusted themselves to compete with world economy. MSMEs now contribute a significant portion of Indian Exports.

The output by the service sector is much lower when compared to the output of the manufacturing sector but with the passage of time, service sector started making prudent usage of the available resources and thus increasing the production efficiency of the service sector.

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