



## Growth and Performance of Indian Micro, Small and Medium Enterprises (MSMEs) in the Post Globalization Period

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### ABSTRACT

*Micro, Small and Medium enterprises (MSMEs) play a key role in the development of economies with their effective, efficient, flexible and pioneering entrepreneurial spirit. In terms of value, the sector accounts for about 45% of the manufacturing production and 40% of the total exports of India in 2010. A research study on 'Growth and performance of Indian MSMEs in post globalization period' was undertaken with the objectives of studying the growth of number of micro, small and medium enterprises, capital invested, labour employed, output and exports in, finding out the instability in the growth of MSMEs in post globalization period. The study was related to 1992-93 to 2010-11. The data for the study were compiled from the Annual Report of MSMEs published by the Ministry of micro, small and medium enterprises, Government of India. The study predicted compound growth rate, Coppock's instability index and Frontier production function. According to study, in the post-globalization period the compound growth rate of number of MSMEs, fixed investment, production, employment and exports was momentous. There had been more volatility in the number of MSMEs in the post globalization period as compared to fixed investment, production, employment, exports. To advance the performance of MSMEs the study recommends increasing the number of items to be reserved for manufactured by MSME sector and providing support in the field of skill development, credit marketing, technology and infrastructure.*

**Keywords : MSMEs, Globalization, Instability, Performance.**

### INTRODUCTION

MSMEs are entirely identified for promotion in the manufacturing sector of most of the national economies. MSMEs, including khadi and village/rural enterprises generating the highest rates of employment growth and account for a major share of industrial production and exports. They also play a key role in the development of economies with their effective, competent, flexible and innovative entrepreneurial guts.

The most important explanation for the special promotion of MSMEs is their potential for employment intensity. MSME creates more jobs per unit of capital investment than a large enterprise; it can be started with relatively less capital; it facilitates nurturing of entrepreneurship; and it can be used as a tool for alleviating local disparities in development.

It is assumed that as per value, the sector accounts for about 45% of the manufacturing output and 40% of the total exports of the nation. The sector is estimated to employ about 595 lakh peoples in over 261lakh enterprises all over the country (Report of MSME 2011-12). Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSMEs provide good chances for both self-employment and wage employment.

Globalization is seen as the translation of the World into a single economic space one macro-economy. Globalization the process of continuing integration of the countries in the World is strongly underway in all parts of the globe. While the movement of goods, services, ideas, capital and technology across national borders is not a new phenomenon, its process since the past decade marks a qualitative break with the past. This process is characterized by national Governments across the World moving towards more open and market-oriented regimes, with greater reliance on private business and less

direction of allocation of resources.

The globalization of economic activity affects the development of small and medium-sized enterprises (SMEs) by two ways:

- ✓ It opens up new opportunities for outward development and growth. These fast-growing SMEs are vital to the world economy; and they in fact play an important international role, directly productizing about 26% of OECD exports and about 35% of Asia's exports.
- ✓ Globalization poses new competitive challenges. Different SMEs are affected in different ways. The firms that are able to become, internationally competitive are likely to be advantaged; and they make up about 25% of manufacturing SMEs. Those less likely or unable to adapt are at risk as a outcome of globalization pressures and will probably not survive in their present form without vital changes to improve factors such as output quality, costs competitiveness and management practices.

Globalization provides an environment within which SMEs have to increasingly compete and perform. While some of their traditional markets have shrunk, the market opportunities in some other areas have increased. It is significant that these rapid changes are quickly understood and corrective measures taken without delay. In this context a research study on '**Growth and performance of Indian MSMEs in post globalization period**' was undertaken with the following objectives.

1. To study the growth of number of Indian MSMEs, capital investment, labour employment, output and exports in post globalization period
2. To find out the volatility in the growth of MSMEs in post globalization period and
3. To examine the performance of MSMEs in post globalization period.

## METHODOLOGY

The study was concern to 1992-93 to 2010-11. The year 1992-1993 was chosen since globalization was introduced in 1991. The study was related to 2010-11 as it is the latest year for which all the required data are available. The data for the study were compiled from the Annual Report of MSMEs published by the Ministry of micro, small and medium enterprises, Government of India.

## HYPOTHESIS FORMULATED

1. There is no significant growth in the number of MSMEs, capital investment, labour employment and output produced in India in the post globalization period and
2. There is no volatility in the number of MSMEs, fixed investment, production, employment and exports in India in the post globalization period.

## TOOLS TO BE USED

### 1. COMPOUND GROWTH RATE

To evaluate the growth of number of MSMEs, capital invested, labour employed, output produced and exports compound growth rate was calculated. The formula used was

$$Y_t = A b^t$$

Y= Variable Selected;

A= Constant;

t= Time;

b= Co-efficient of time.

Compound growth rate=  $\text{Antilog}(b-1) \times 100$ .

### 2. COPPOCK'S INSTABILITY INDEX

To find out the degree of instability in the number of MSMEs, capital investment, labour employment, output production and exports, Coppock's instability index was calculated.

#### Coppock's instability index is

$$V \log = \frac{\sum \left[ \frac{\log X_t - 1}{X_t} \right] - m}{N}$$

The instability index =  $(\text{antilog } \sqrt{V \log - 1}) \times 100$ .

where,

X<sub>t</sub>= Number of MSMEs, capital investment, labour employment, output production and exports.

### 3. FRONTIER PRODUCTION FUNCTION:

The frontier production function was estimated to analyze the contribution of labour and capital to total output.

$$\ln Y = \beta_0 + \beta_1 \ln X_1 + \beta_2 \ln X_2$$

where,

Y= Value of output (in Rs);

X<sub>1</sub>= Cap. Invested in Rs;

X<sub>2</sub>= Number of labourers employed;

The frontier production function based on Front 4.1 version.

## FINDINGS OF THE STUDY

### A. GROWTH OF MSMEs IN INDIAN POST GLOBALIZATION PERIOD

Table-1 provides the information on the number of MSMEs, investment, employment, production and exports in the reference period.

**TABLE-1:**  
**TREND IN THE GROWTH OF INDIAN MSMEs IN THE POST GLOBALIZATION PERIOD**

Year	MSMEs (lakh numbers)	Fixed Investment (Rs. crore)	Production (At current prices) (Rs. crore)	Employment (lakh persons)	Exports (Rs. crore)
1992-1993	73.51	109623	84413	174.84	17784
1993-1994	76.49	115795	98796	182.64	25307
1994-1995	79.6	123790	122154	191.4	29068

1995-1996	82.84	125750	147712	197.93	36470
1996-1997	86.21	130560	167805	205.85	39248
1997-1998	89.71	133242	187217	213.16	44442
1998-1999	93.36	135482	210454	220.55	48979
1999-2000	97.15	139982	233760	229.1	54200
2000-2001	101.1	146845	261297	238.73	69797
2001-2002	105.21	154349	282270	249.33	71244
2002-2003	109.49	162317	314850	260.21	86013
2003-2004	113.95	170219	364547	271.42	97644
2004-2005	118.59	178699	429796	282.57	124417
2005-2006	123.42	188113	497842	294.91	150242
2006-2007	261.01	500758	709398	594.61	182538
2007-2008	272.79	558190	790759	626.34	202017
2008-2009	285.16	621753	880805	659.35	N.S
2009-2010	298.08	693532	982919	695.35	N.S
2010-2011	311.52	773487	1095758	732.17	N.A

Source: Annual Report of MSMEs, New Delhi - 2010-11.

In the described period the number of MSMEs raised from 73.51 lakhs in 1992-1993 to 311.52 lakhs in 2010-11. There had been extraordinary growth in the number of MSMEs in 2006-07. As compare to previous year. Fixed investment in MSMEs had enlarged from Rs1,09,623 crores in 1992-93 to 7,73,487 crores in 2010-11. Likewise the number of labourers employed in MSMEs enlarged from 174.84 lakhs in 1992-93 to Rs732.17 lakhs in 2010-11. In the similar period production in MSMEs enlarged from Rs.84413 crores to Rs.10,95,758 crores. And exports also enlarged from Rs.17,784 crores in 1992-93 to Rs. 2,02,017 crores in 2007-08.

### B. ESTIMATED COMPOUND GROWTH RATE OF NUMBER OF INDIAN MSMEs, CAPITAL INVESTMENT, LABOUR EMPLOYMENT, PRODUCTION AND EXPORTS IN POST GLOBALIZATION PERIOD:

Table-2 represents estimated compound growth rate of number of Indian MSMEs, capital invested, labour employed, production and exports in post globalization period.

**TABLE-2:**  
**ESTIMATED COMPOUND GROWTH RATE IN POST GLOBALIZATION PERIOD**

No	Variable	Constant	Compound growth rate	T	R <sup>2</sup>
1	Number of MSMEs	4.04	8.27	28.39**	0.98
2	Fixed Investment	11.21	10.69	6.43**	0.72
3	Production	11.26	14.83	32.16**	0.99
4	Employment	4.87	8.45	5.71**	0.67
5	Exports	9.83	15.35	7.24**	0.79

Source: Calculated figures based on the data compiled.

\*\* Statistically significant at 1 percent level.

From Table-2 it is evident that in India in the post globalization period the compound growth rate of number of MSMEs, fixed investment, production, employment and exports was significant as evident from the calculated t value.

### C. ESTIMATED INSTABILITY INDEX IN THE NUMBER OF INDIAN MSMEs, FIXED INVESTMENT, PRODUCTION, EMPLOYMENT AND EXPORTS IN POST GLOBALIZATION PERIOD

Table-3 shows the predictable Coppock's instability index in the number of Indian MSMEs, fixed investment, production, employment and exports in the post globalization period.

**TABLE-3: ESTIMATED INSTABILITY INDEX.**

No	Variable	Coppock Instability Index
1	MSMEs	53.28
2	Fixed Investment	12.47
3	Production	10.73
4	Employment	11.69
5	Exports	10.95

Source: Calculated figures based on the data compiled.

From Table-3 it is evident that there had been more instability in the number of Indian MSMEs in the post globalization period as compared to fixed investment, production, employment, exports. The production seemed to be more stable since the estimated Coppock's instability index was lower for production.

#### D. ESTIMATED FRONTIER PRODUCTION FUNCTION

The current study tried to estimate the Frontier production function by using the software Frontier 4.1 version. The estimated production function was

$$Y = 4.2 + 0.68X_1 + 0.41X_2$$

(1.83) (2.46) \*  $R^2 = 0.72$

The estimated production function shows that there had been increasing returns to scale since the addition of capital co-efficient and labour co-efficient was greater than 1. The estimated production function was statistically valid as indicated by  $R^2$  value.

#### RECOMMENDATIONS

1. MSMEs are to be encouraged to modernize to face the challenge arising out of World globalization;
2. There is need for mounting the number of items to be reserved for manufacture by MSMEs;
3. Build the capability of the Indian MSMEs for overcoming rivalry in the global markets and facing challenges from the multinationals in the domestic markets, the national manufacturing competitiveness programme desires to be applied in all the States;
4. There is a requirement for providing support in the field of skill development, credit marketing, technology and infrastructure;

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