

# Growth and Performance of Micro, Small and Medium Enterprises in India: A Case study of Bihar

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## ABSTRACT

The MSMEs sector plays a significant role in the economy of India in terms of creation self-employment, new startup innovation ideas, entrepreneurial skill, exports, Industrial production and managerial skill. The present study deals with the growth and performance of Micro, Small and Medium Enterprise in the economy of Bihar. The study is based on the secondary data related to growth and performance of MSME's of State of Bihar, India. We have calculated the Compound annual growth rate (CAGR), percentage growth and graphical representation methods to analyze the performance MSME's. The result of the CAGR method indicates that the number of MSME's units in Bihar has increased during the study period but the yearly percentage growth rate has decreased continuously in the coming years while employment has achieved negative growth rate for the same period. The investment in MSME's units in Bihar has increased. Thus, it can be concluded that the rate of employment in the MSME's are not increasing as per the number of MSME's units in Bihar accordingly.

## 1. Introduction

The Micro Small and Medium enterprise (MSME's) sector is very important sector the economic growth of India. The MSME's has a major role in the contribution of employment generation in India. There are around 510 lakh enterprises in various industries providing around 1171 lakh employments in India. Out of 1171 lakh employment, the women participation is around 7.4 percent and 52 percent MEME's are working in rural area (MSME, 2016). The MSMEs sector contributing highest employment after agriculture sector. This sector is not only plays a crucial role in employment generation at a comparatively lower capital cost; but it also helps in indigenous industrialization of rural and backward areas. The contribution of MEME's in industrial output is around 45 percent and it contributes 40 percent in export sector in 2015-16. There are 8000 varieties of products ranging from indigenous to modern technology items which are being manufactured by the MSMEs sector in addition to provide service in various industries. In modern era, with the development of Indian economy and rapid expansion of trade, this sector has emerged as an enthusiastic and dynamic segment in the process of industrialization which is considered not only as a key factor to uplift the per capita income but also a vital mechanism for a larger transformation of Indian economy

According to 4th Census of MSMEs (registered units) Bihar occupies 9<sup>th</sup> position in India in terms of numbers of Micro, Small and Medium enterprises 3.20% percentage registered working enterprises (after Uttar Pradesh, Andhra Pradesh, Maharashtra, Tamil Nadu and Madhya Pradesh, West Bengal, Rajasthan). In terms of employment generation, the state Bihar ranks 12<sup>th</sup> position where 147,775 employees are engaged in the MSMEs enterprise. The maximum share of employees are engaged in Micro enterprises (95.30%) rest are in small and Medium enterprises. The industrial sector in Bihar in terms of per capita income is hardly 3.2% of net domestic product of the State, whereas, the national average works out

to 20.1%. MSMEs sectors are dominated by tiny enterprises and Micro enterprises as well artisan based industries, play a significant role in the industrial sector of the state. Generally, their contribution to employment generation is substantial, even when the levels of productivity and total production remain low in this sector. The share of micro industrial units among all the MSMEs units (both registered and unregistered) is as high as 96.3 percent. The state has been consistently low but progressive outlook to meet the changing needs of the state economy and industry. Furthermore, Bihar is also considered as one of the agriculture based industries state attracting investor to invest in Food products, tobacco products, leather products, and non-metallic products, though group of industries, comprising of cotton, jute, wool, paper, rubber, plastic and chemicals, also have their presence in smaller ways.

Government of Bihar states its mission to create employment opportunity for about 5 to 10 million people by 2025 in the state in the MSME sector and its vision is to create a sustainable eco-friendly to maximize the natural resources utilization of and widen the area of operation. The micro and small enterprises play a very vital role in the initiatives for socio-economic development of people in the state. Micro, Small & Medium Enterprises Development Institute (formerly known as Small Industries Service Institute), Patna, a field office of Development Commissioner (Micro, Small & Medium Enterprises) under the Ministry of Micro, Small & Medium Enterprises (MSME) is the nodal office for the State of Bihar having another office located at Muzaffarpur. These Institutes are providing assistance for the promotion and development of Micro, Small & Medium Enterprises in the state of Bihar through implementing policy guideline of Ministry of MSME, Government of India. The major aim of these Institutes is to upgrade economic of the state as well employment generation through Industrial development. In the current year (2014-15), MSME units have already been registered in EM-II with an

investment of Rs. 803.01 crores by providing employment to 113,594 persons (Economic Planning 2015-16). In the previous year (2013-14), 3,133 enterprises filed EM-II after commencement of production which provided 125,368 employments with Rs. 875.83 crores investments. The present study investigates the industry wise contribution of MSMEs in Bihar. Distribution of Micro and Small Scale Enterprises (MSSEs) among 38 districts of the state has significant variations. Muzaffarpur, Patna, Aurangabad, Saran, Gaya, Nalanda, Nawada, Darbhanga, Rohtas are key districts accounting for large portion of state enterprises, while rest of the districts are treated as backward districts with sloppy industrial growth, not remarkable progress in the secondary and tertiary sectors.

The present study deals with the growth, and performance of Micro, small and Medium Enterprise in the economy of Bihar. Specifically, the objectives of the study are as follows:

1. To study the growth pattern and performance of MSME in Bihar.
2. To study the industry wise progress of employment and investment of MSMEs in Bihar
3. To highlights the policies of government of Bihar to promote the MSMEs.

The Sections 2 discuss the review of literature of the previous studies. Section 3 discusses the methodological structure and Section 4 shows the analysis of the research study while Sector 5 discusses the conclusion of the research study.

## 2. Review of Literature

For the purpose of the research work, different books, journals, research papers and articles were consulted. Mukherjee. R. (1999) pointed out that in Indian perspective the growth in number of units and employment has not been uniform. In his study, West Bengal was selected for study and growth rates were calculated by districts for unit and employment separately during 1971 to 1997. There exist a considerable difference in the rates across districts and the year to year growth rates do not fluctuate much overtime for any one district. Nagraja B. (2013) has attempted to analyze performance of MSMEs sector with reference to North Eastern states. The author analyzes the weakness of low performance of MSMEs in the NE regions make few suggestion for providing the development plans to revive this sector and generate and income and employment and achieve more sustainable development. Lokhande, M. A. (2007) observed that the Women entrepreneurs, having inherent managerial skills, and can successfully run any type of business enterprise provided a conducive business environment is created. It is a matter of satisfaction that the government and non-government organization have been striving hard for promotion of women entrepreneurship through different schemes of assistance. Today's women entrepreneurs are leading in every field of economic activity. Das, S. K (2012) the Entrepreneurship

Development in micro small and medium enterprise is considered as a key factor to fight against unemployment, poverty and achieve overall socio-economic growth in our state. Sharma, P (2013) aptly observed that she focus promoting women entrepreneurship. She also focuses men and women are equal partners in all walks of life especially in the economic development. Prasad(2006) analyses the credit flow from commercial banks to the MSMEs and concludes that the growth in MSME credit is not keeping pace with the growth in the bank's overall credit. He states that government intervention is required for micro enterprises and smaller of the small enterprises through an appropriate policy mix. According to the authors it is stated that around 46% of the 60% MSMEs that fail due to financial difficulties. Smaller businesses are considered to be very risky, therefore are levied higher rates of interest. The loan to larger enterprises of the MSMEs is growing at a faster rate than the loans to the MSME sector. There exists a huge difference within the enterprises encompassed in the MSME sector (Kumar et al. 2009). The Policies are directly or indirectly affect the performance and growth of MSMEs in country. The central sponsored scheme can remove the barriers in states and help to promotion of growth of MSMEs (Prakash&Verma, 2016).

## 3. Research Methodology

### 3.1 Period of the Study

For the purpose of this study, the period after the introduction of MSME Act 2006 is considered. i.e. the required data is collected from the period 2006-07 to 2015-16 (Ten Years).

### 3.2 Sources of Data

The study is based Secondary data were collected from different sources like Final Report of 4th All India Census of MSMEs, published annual report of MSMEs, Economic Review of Bihar, Annual Report of SIDBI, Report of Department of MSME&T, journals, magazines, internet database, research papers, related books, District information center (DIC) report and thesis etc.

### 3.3 Tools and technique

The most appropriate research tool like; Compound Annual Growth Rate (CAGR), percentage and graphs are used to analysis the effectiveness of MSMEs in Bihar.

## 4. Data Analysis

### 4.1 MSMEs Scenario in Bihar

Bihar has been in the forefront in sustaining industrial growth and in creating environment conducive to industrial development. Investment – friendly industrial policies, excellent infrastructure and a strong and productive human resource base have made it a flavored destination for manufacturing, export and financial service sectors. The below table depicts the growth of the MSMEs in Bihar during the 2006-07-2014-15).

**Table 4.1: Year-wise Micro, Small and Medium Registered Units set up in Bihar**

Year	Medium	SSI	Tiny/micro	Total
Up to 2006-07		1433	162063	163496
2007-08	4	42	7156	7202
2008-09	7	25	6122	6154
2009-10	2	41	5048	5091
2010-11	3	33	4799	4835
2011-12	2	56	3904	3962
2012-13	3	53	3681	3737
2013-14	11	131	2991	3133
2014-15	22	150	1879	2051
Total	54	1964	197643	199661

Source: Department of Industry, Government of Bihar

For expanding the industrial sector in Bihar, the state government also promotes the establishment of micro, small and medium enterprises (MSME). It is very likely that these relatively smaller enterprises will eventually create a base for large enterprises in the state. At present, the number of registered micro, small and medium enterprises is — 54 units (medium), 1964 units (small) and 2.00 lakh units (micro) (Table 4.8). Between 2010-11 and 2014-15, a period of 5 years, the growth of enterprises has been — 315 percent (medium units), 27 percent (small units) and 9 percent (micro units). This

higher growth of medium enterprises, compared to small and micro enterprises, is a positive trend in the industrial scenario in Bihar.

#### 4.2 Growth and Performance of MSMEs in Bihar

The MSMEs has played a vital role in the process of industrialization and employment generation in the economy of Bihar. Table-4, represent the growth of MSMEs sector in Bihar in terms of numbers of units, employment, and investment during the period 2006-07 to 2014-15.

**Table 4.2: Year wise growth in number, employment and Investment in MSMEs in Bihar**

Year	Units	Growth in %	Employment	Growth in %	Investment	Growth in %
Up to 2006-07	163496		536890		801.15	
2007-08	170698	4.41	556853	3.72	935.98	16.83
2008-09	176852	3.61	574327	3.14	1054.84	12.7
2009-10	181943	2.88	590338	2.79	1183.48	12.2
2010-11	186778	2.66	607703	2.94	1369.05	15.68
2011-12	190740	2.12	623782	2.65	1754.69	28.17
2012-13	194477	1.96	634676	1.75	2008.54	14.47
2013-14	197610	1.61	651969	2.72	2324.13	15.71
2014-15	199661	1.04	676034	3.69	5163.42	122.17
CAGR	2.25%	(14.83)%	2.59 %	-0.09%	23%	24.64%

Source: Department of Industry, Government of Bihar

Discussion: As a result of different policy measures, for the promotion of Micro Small and Medium enterprises growth of enterprise has been increased.. The number of small scale units has gone to 199661 units in 2014-15 from 163,496 units in 2006-07, thus witnessing more than 1.4 times old increase in number of units during the period. But the compound annual growth rate in percentage negative (-14.83) during 2006-07 to 2014-15 which means that the number of units have grown at a decreasing rate of 14.83 per cent .No doubt, the growth of MSMEs has grown at a very low rate, but there has been sufficient progressive growth rate.

The primary aim of enterprises is to generating employment. Micro Small and Medium enterprise which dovetail well with the Indian economic imperatives, have generated large employment in the country. The Micro Small and Medium enterprise in the country outstands every other

sector of the economy except agriculture with respect to employment. In the state of Bihar, the Micro Small and Medium enterprise has registered a negative growth rate of 0.09% in employment. Thus showing that the employment in the sector has increased at a decreasing rate of 0.09% whereas, the sector has registered a cumulative growth of 2.59 percent in employment. On the other.. The number of persons employed in small scale industries in the state increased from 536890 persons in 2006-07 to 676034 persons in 2014-15. (See table for a detailed look).

The establishment of industrial units tends to increase in the investment of state; the investment serves the purpose of production. Among the Micro small and Medium enterprise units established, some may stand closed, some may be bogus and some dormant. As such, the growth rate in number of units cannot be the real indicator of industrial progress. A

look into the trends in industrial production will surface the industrial advancements made so far more candidly. A close introspection of the data contained in table brings to fore that the industrial capacity for investment in the state expand more than higher rate at which it has grown at an all India level. The investment in Micro Small and Medium enterprises in the state has registered a growth rate of 23 per cent against, a compound growth rate of 24.64 during the period.

#### 4.3 Industry wise Growth of Micro small and medium enterprises in Bihar

Table 4.3 presents the details of presently working units out of the registered MSME units in the state during 2011-12. The table reveals that out of the 73,123 registered units .Out of the 73,123 units 27.91 percent units are engaged in agro and allied based works, 13.76 percent units are engaged in engineering based sector, 11.63 percent enterprise are working repair based industries. while the percentages for Paper, Forest, Textiles, Nonmetallic and mineral, Electrical and Electronics, hotel and hospitality and Miscellaneous units were 1.07, 10, 7.26, 8.74, 3.61, 1.71, and 14.31 percent respectively.

It is observed from table that the aggregate fixed investment incurred on the MSMEs was Rs.230,549 lakh in 2011-12. Out of fixed investment incurred in 2011-12 as much

as 44.10 percent was utilized for agro-based units, whereas Engineering based units based units account for 11.20 per cent. The percentage of investment made on Forest based units was accounted for 8.90 per cent, Repairs & Service based units 7.47 Electronics & Electric based units 3.08, Hotel and hospitality sector 2.17 and Paper & printing based units for 0.56 per cent. The share of remaining categories was miscellaneous units 6.92 per cent, per unit investment highest in agro and allied based industries was 4.98.

It is observed from table that the aggregate employment provided by the MSMEs was 285,213 people in 2011-12. Among the 2, 85,213 persons as many as 34.13 percent are employed in agro and allied based units and 12.83 percent in Engineering based units. These two categories have provided employment to 46.96 per cent of total employment in MSMEs. It is observed that 11.66 per cent persons employed in Non-metallic & mineral based units, 9.31 per cent in forest based, 9.01 per cent in Repairs & Service based units. The remaining 30 percent employment is generated through other sectors. The per unit employment highest in paper and printing based units 5.72 person per unit.

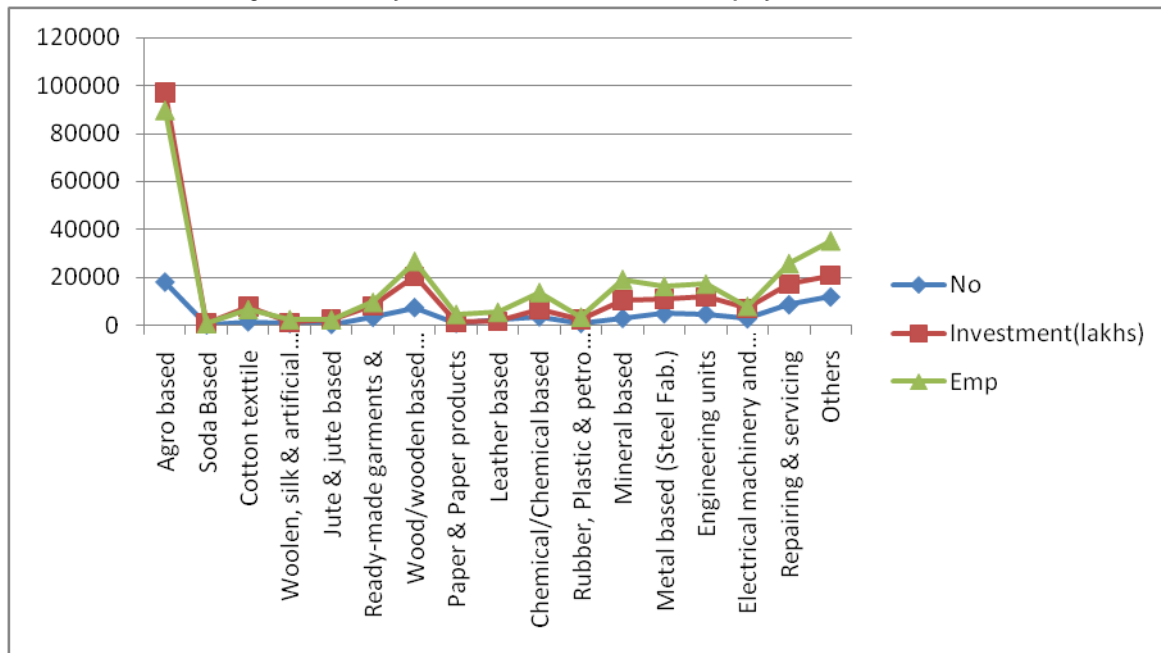
The review of the above data leads to the conclusion that major growth of units, investment, and employment was observed in agro and allied based units.

**Table 4.3: Industry wise number of MSMEs and Employment Generation**

Type of Industry	No.	Investment(lakhs)	Employment
Agro based	17924	97267.42	89615
Soda Based	96	889.76	601
Cotton textile	1381	7868.04	6495
Woolen, silk & artificial Thread	675	1209.44	2320
Jute & jute based	307	2595.81	2334
Ready-made garments &	3253	8238.78	9466
Wood/wooden based furniture	7310	20508.6	26567
Paper & Paper products	783	1281.81	4479
Leather based	2179	1829.7	5382
Chemical/Chemical based	3454	6996.29	13617
Rubber, Plastic & petro based	700	2643.62	3346
Mineral based	2839	10747.16	19047
Metal based (Steel Fab.)	4747	11189.82	16146
Engineering units	4614	12000.9	17111
Electrical machinery and transport equipment	2642	7099.93	7839
Repairing & servicing	8506	17221.97	25686
Others	11713	20959.62	35162
Total	73123	230548.67	285213

Source: District Information center Patna 2012-13

Figure 1: Industry wise number of MSMEs and Employment Generation



Source: Author's own estimation.

#### 4.4 Supportive Institution to promote the Micro Small and Medium enterprises in Bihar

To support and promote the growth of MSMEs in the state, the state government has constituted various supportive institutions. The role of these institutions to promote, rehabilitate and improving the working condition of the industries. The functions of these institutions are discussed below.

- (a) UdyogMitra: The UdyogMitra constituted under the department of Industries in 2004, to help the enthusiastic entrepreneurs. The aim of this agency provides technical help and guidance in the form of relevant project profiles as well policy information to entrepreneurs setting up all kinds of industries. During 2013-14, a total of 583 entrepreneurs were benefited by helping them to prepare project profiles, or through in provision of data and information. During 2014-15, 664 entrepreneurs were also benefited The UdyogMitra has prepared the District Profile for all the districts in the state, and completed the land-mapping work. The UdyogMitra has also been nominated as an implementing agency for the National Mission for Food Processing, a scheme launched by the central government. This work includes training through soft and hard interventions, establishment of 'SuidhaKendras', marketing, and redresses of the problems faced by the entrepreneurs.
- (b) District Industries Centre: District information center (DIC) are the promoting agencies for micro small and medium enterprises at the district level and rendered all types of helps and guidance to establish the unit. DIC is the promoting agency of the Pradhan- Mantri employment Guarantee scheme at the district level. The objective of the DICs are : accelerate the overall efforts to promote industrialization in the district, Rural industrialization and development of rural industries and handicraft, attainment of economic equalities in various region in the district, support new

entrepreneurs to establishment of business, help to financial support and marketing facilities to new innovators.

- (c) Bihar Industrial Area Development Authority (BIADA): The BIADA was constituted under the Act 1974 with the mission to promote and develop industrial park and provide basic facilities and infrastructures like roads, power, water, communication and others. BIADA is pioneer agency to allot the land to investors in the industrial area. This program is carried out through its four regional offices at Patna, Darbhanga, Muzaffarpur and Bhagalpur.

#### 5. Conclusion

The present study has shown that there is a continuous and steady growth of number of MSMEs units in Bihar. The Micro, Small and Medium Enterprises (MSMEs) have been accepted as the engine of macro-economic growth and play a dominant role in the equitable and sustainable economic development of Bihar. The major advantage of the sector is its employment potential at low capital cost.

Considering the increasing insurgency problems in the state, outside entrepreneurs are hesitant to come to the insurgency stricken state for establishing their industrial units. Problems in land acquisition are yet another reason behind the failure of the industrial policy. However, as the majority of land in Bihar is agricultural land, its acquisition is an issue. The challenge for the government is to address the issue from a holistic perspective, striking a balance between agriculture and industry. To facilitate growth in the micro, small and medium enterprises (MSMEs) sector, industrial clusters need to be created to ensure common facilities, thereby reducing the disparities among the areas. The various promotion agencies are working to facilities and provide a concession to establish the industries in Bihar.

At last not least, growth rate of MSME's is not adequate as compare to national average but healthy sign towards progress and prosperity of Bihar. MSME's is continued to play a vital role in developed economy where poverty and an employment is a serious problem. MSME's are the engine that not only contributes to high rate of economic growth but also creates demand for goods and services that leads to inclusive and balanced growth of the economy. It also helps to reduce social imbalances and faster sustainable development MSME's of today may be the MNCS of tomorrow. Therefore, top most priority should be given to this sector.

## 6. Limitation of Study

The research study faces weak data base for the micro small and medium enterprises. Industry wise data base is not

available at the state level. The study is confined only to the particular state Bihar not represents whole nation.

## 7. Scope for further Study

The research study is only limited to the state Bihar, so the researchers can do the research for the other state too.

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