

Effect of Micro, Small and Medium Enterprises on Employment in India: A Study

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ARTICLE DETAILS

Article History

Published Online: 10 October 2018

Keywords

Employment, Export, Industrial product.

ABSTRACT

The present article deals with micro, small and medium enterprises and their role in economic growth related to employment generation in the Indian context. MSMEs are credited with generating high rates of employment growth and account for a major share of industrial production and exports. The number of people employed by these units has also shot up by 293 per cent within the space of 10 years. These units registered consistent growth related to revenue of over 11 per cent in the years.

1. Introduction

Micro, Small and Medium Enterprises (MSMEs) sector has emerged as highly vibrant and dynamic sector of the Indian economy over the last five decades. The MSMEs sector has already proved its mettle as a dominant player in most of the developed economies by giving a new dimension to their growth perspectives. It has helped in generation of large scale employment at lower capital cost, balanced regional development, generation of exportable surplus and in the establishment of a more flexible structure.

Micro, Small and Medium Enterprises (MSMEs) are a key component in economic life, not only because of their number and variety but because of their involvement in every aspect of the economy, their contribution to regional development and the complementary role they play in support of the large sector. Small and medium enterprises could be termed as seed of industrial growth.

The prime function and responsibility of MSMEs is to encourage entrepreneurship, employment and increase livelihood opportunities. MSMEs are commendatory to large industries as supplementary units and this sector contributes huge to the socio-economic development of the country (Annual Report of MSME, 2015-16).

Micro, Small and Medium enterprises (MSME) exist in the form of factories, workshops, trading and service organisation and range from the most modern and up-to-date enterprise to the simple and traditional units. The main objectives of MSMEs are almost the same; they are defined and viewed differently in different countries. MSMEs have the advantages of generating employment with low investment, diversifying the industrial base, reducing regional disparities through dispersal of industries into rural, semi-urban and backward areas (Subramanyam and Reddy, 2012).

2. Meaning and Definition of Micro, Small and Medium Enterprises (MSMEs)

According to MSME Development Act, 2006 Micro, Small and Medium Enterprises are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment's for enterprises providing or rendering services.

According to the Ministry of Micro, Small and Medium Enterprises, recent ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows:

For manufacturing sector, an enterprise is classified as:

- Micro enterprise, if investment in plant and machinery does not exceed Rs. 25 Lakhs.
- Small enterprise, if investment in plant and machinery is more than Rs. 25 Lakhs but does not exceed Rs. 5 Crore; or
- Medium enterprise, if investment in plant and machinery is more than Rs. 5 Crore but does not exceed Rs. 10 Crore;

In case enterprise is engaged in providing or rendering services, it is classified as:

- Micro enterprise, if investment in equipment does not exceed Rs. 10 Lakhs.
- Small enterprise, if investment in equipment is more than Rs. 10 Lakhs but does not exceed Rs. 2 Crore.
- Medium enterprise, if investment in equipment is more than Rs. 2 Crore but does not exceed Rs. 5 Crore.

According to Micro, Small and Medium Enterprises Amendment Bill, 2015, a recent ceiling on investment for enterprises to be as follows:

For manufacturing sector, an enterprise is classified as:

- Micro enterprise, if investment in plant and machinery does not exceed Rs. 50 Lakhs.
- Small enterprise, if investment in plant and machinery is more than Rs. 50 Lakhs but does not exceed Rs. 10 Crore; or
- Medium enterprise, if investment in plant and machinery is more than Rs. 10 Crore but does not exceed Rs. 30 Crore;

In case enterprise is engaged in providing or rendering services, it is classified as:

- Micro enterprise, if investment in equipment does not exceed Rs. 20 Lakhs.
- Small enterprise, if investment in equipment is more than Rs. 20 Lakhs but does not exceed Rs. 5 Crore.
- Medium enterprise, if investment in equipment is more than Rs. 5 Crore but does not exceed Rs. 15 Crore (Jain, 2017).

3. Literature Review

Golla (2018) measured the growth and performance of MSMEs in India after Micro, Small and Medium Enterprises Development Act, 2006. For the purpose of measuring the growth of MSMEs, secondary source has been used like Statistical Abstracts of India, All India Census of MSMEs and Annual reports of Ministry of MSMEs. The collected data have been analysed with the help of tables, ratio and graphs. It was found that after implementation of MSME Act, 2006, the number of working enterprises significantly increased from 36.18 million (2006-07) to 51.05 million (2014-15). It was also found that the number of employment generated by MSMEs sector was 80.52 million in 2006-07 which increased to 117.13 million in 2014-15.

Shaik et al. (2017) conducted the study to measure the performance and government initiatives for the development of MSMEs in India. Researchers have used secondary source like Annual reports of Ministry of MSMEs. The collected data have been analyzed with the help of tables and ratios. It was found that total working enterprises in MSMEs grown at Compound Annual Growth Rate (CAGR) 4.39 per cent from 2006-07 to 2013-14.

Farajollahzadeh et al. (2016) examined the contribution of the MSMEs in terms of job creation, profit generation, overall production and capital formation in the country. Researchers have measured the trend of growth for MSMEs operating in India. The collected data have been analysed with the help of ratios, tables and graphs. It was found that MSMEs are making a vital contribution to the GDP of India, creating various job opportunities in this sector.

Kaur (2014) analysed the importance of MSMEs in the job creation and development of Indian economy. Research was based on the secondary data which was derived from the various online sources as well as offline sources. Researcher has taken the data of last four years from 2007 to 2011. The result showed that there is annual growth of 4.5 percent in the number of units established during 2007-2011 in MSMEs sector. MSMEs are contributing significantly towards the employment generation in the economy. 69 percent of the total employment is generated by micro industries, 24 percent of the total employment generated by small industries and seven percent of the total employment is being generated by medium industries.

Panigrahi (2012) examined the contribution of MSMEs regarding employment and production. Research was based on the secondary data collected from the economic surveys reports, and annual reports of MSMEs. Data has been analyzed through tables and ratios method. It was found that MSMEs are making a significant contribution towards the employment, total output or production, total exported goods, and the foreign exchange reserves. Majority of the MSMEs i.e. 80 percent of total number of MSMEs in the country produce over 8000 products which are intermediate product in nature and used by other industries. While only 20 percent of the MSMEs are those which produce the products for final consumers.

4. Objective of the Paper

- ❖ To examine contribution of Micro, Small and Medium Enterprises in India with reference to Employment generation.
- ❖ To measure the effect of MSMEs Growth on Employment Growth.

5. Analysing contribution of MSMEs sector in India with reference to Employment Generation

According to table-1 total working enterprises in MSMEs grown at Compound Annual Growth Rate (as mentioned in chapter-3) 4.39 per cent from 2006-07 to 2014-15. Total estimated registered working enterprises were 3.6 Crore to 5.1 Crore from 2006 to 2015, distributed 55 per cent in urban areas and 45 per cent in rural areas. Out of the total working enterprises micro sector includes 95.05 per cent, small sector includes 4.74 per cent and medium sector includes 0.21 per cent so micro sector dominated MSMEs sector in terms of working enterprises.

Employment growth in CAGR 4.79 per cent from 2006-07 to 2014-15, there is constant growth in MSMEs employment and MSMEs providing more employment opportunities over last 10 years. Rural area has a share of 39 per cent and urban area has a share of 61 per cent. Average employment provided by medium enterprises is much higher (160.87 per enterprises) as compared to small enterprises (30.62 per enterprises) and micro enterprises (4.40 per enterprises).

Table 1: Contribution of MSMEs in India (In Crores)

Year	Total Working MSME	Employment
2006-07	3.62	8.05
2007-08	3.78 (4.3)	8.42 (4.6)
2008-09	3.94 (4.3)	8.81 (4.6)
2009-10	4.11 (4.3)	9.22 (4.6)
2010-11	4.29 (4.4)	9.65 (4.7)
2011-12	4.48 (4.4)	10.12 (4.8)
2012-13	4.68 (4.4)	10.62 (4.9)
2013-14	4.89 (4.5)	11.15 (5.0)
2014-15	5.11 (4.5)	11.72 (5.1)

(Sources: Annual Report of MSME, 2015-16)

(Figures in parenthesis denote per centage.)

6. Effect of MSME's Growth on Employment Growth

Researcher has measured the effect of growth of MSMEs on the employment growth in the country. Simple regression model has been used by the researcher to measure the cause and effect relationship between MSMEs' growth and employment growth. Growth in number of MSMEs has been taken as independent variable and growth in employment has been taken as dependent variable. Results of the regression have been given below in table 2:

Table 2: Effect of Growth of MSMEs on Employment Growth

R = 0.816, R Square = 0.665					
F-value = 5453.953, p-value = 0.000					
Regression	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.092	2.343		-1.385	.199
Growth of MSME	0.892	.031	.710	73.851	.000

(Source: Secondary Data)

Interpretation: It can be interpreted from the table 2 that value of R square is 0.665, which indicates that 66 percent of the variation in the value of dependent variable is caused by independent variable and only 34 percent of variation in the value of dependent variable is caused by other factors. It was also found from the table that f-value is 5453.953 at a p-value of 0.000 which shows that a significant model has emerged from the regression model. Null hypothesis (H01) which states that there is no relationship between growth of MSMEs and employment growth may be rejected and it can be said that

growth of MSMEs has a statistically significant impact on the growth of employment. Further, it is clear from the table that the value of regression coefficients is 0.892 which is positive and significant at one percent level of significance. Thus, overall it can be said that there is significant effect of growth of MSMEs on employment growth.

Overall, it can be conclude that growth of Micro, Small and Medium Enterprises (MSMEs) has a positive and significant effect on employment generation in India.

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