



# A comparative study of liberalization and performance of Micro, Small and Medium Enterprises

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## Abstract:

The Micro, Small, and Medium Enterprises (MSMES) sector plays a significant role in contributing to the Indian economy. This sector is characterised by its minimal capital and technical requirements, strong capability for employment generation, and significant contribution to India's total exports. Although the MSME sector has made significant contributions to the Indian economy, it has been encountering numerous obstacles for a considerable period of time. The Indian government has implemented several measures to address these limitations. The enactment of the MSME Development Act of 2006 has significantly transformed this industry. This legislation has established specific standards for micro, small, and medium enterprises (MSMEs). This industry has been experiencing intense competition from both domestic and multinational corporations (MNCs) due to technological advancements since the economic reform measures implemented in India in 1991. Following the implementation of liberalization policies, the present study discovered a substantial enhancement in the performance of micro, small, and medium enterprises (MSMEs). The study is empirical, as it relies on data obtained using a structured timetable. We selected a specific industrial zone that encompasses the majority of the area's industries, including both legally recognised and unregistered businesses.

**Keywords:** *Indian economy, Export, Employment, Liberalisation, Multinational corporation (MNC), Micro, Small, and Medium Enterprises (MSME).*

## I. Introduction

Micro, small, and medium enterprises (MSMEs) play a crucial role in the Indian economy. Micro, small, and medium enterprises (MSMEs) offer significant job prospects at a reduced expense compared to large-scale enterprises while also making a substantial contribution to both export and production. Micro, small, and medium enterprises (MSMEs) contribute to the process of rural industrialization, which in turn helps to mitigate regional disparities and ensure equitable distribution of national revenue. The MSME sector is responsible for manufacturing more than 6,000 goods. The industrial sector accounts for approximately 40% of India's overall exports, 45% of India's manufacturing output, and 8% of India's gross domestic product.

Small and large-scale firms are integral components of a country's industrialization process. Consequently, every country contains small-scale firms. Both economic and ideological considerations have accorded small-scale firms significant importance within the Indian planning framework from the very beginning. In recent years, small-scale firms have become a dynamic and vital sector for the Indian economy. These units face significant challenges in finance, production, marketing, management, and pre-commencement operations.

During the pre-economic reform period, the government provided various facilities, such as incentives, subsidies, and concessions, to support the development of small-scale companies due to their significant contribution to the growth of the Indian economy. The implementation of economic reforms led to a loosening of laws, government constraints, and administrative control. Under the liberalisation plan, the focus for small-scale industries (SSI) switched from protection to actively promoting competition. This industry has been experiencing intense competition from both domestic companies and multinational corporations (MNCs) due to technological advancements since the economic reforms implemented in India in 1991. Although the MSME sector has made a significant contribution to the Indian economy, it has encountered numerous obstacles for a considerable period of time. The Indian government has implemented several measures to address these limitations. The enactment of the MSME Development Act of 2006 significantly improved this sector. This legislation has established clear and specific standards for micro, small, and medium enterprises (MSMEs).

**Table: 1: Definition Criteria of SSIs**

<b>Nature of Units</b>	<b>Manufacturing Enterprises (Investment in Plant &amp; Machinery)</b>	<b>Service Enterprises (Investment in Equipment's)</b>
Micro	Up to Rs. 1 Crore	Up to Rs. 1 Crore
Small	Between 10 crore- 50 crores	Between 10 crore- 50 crores
Medium	Between 50 crore- 250 crores	Between 50 crore- 250 crores

**Source:** Ministry of Micro, Small and Medium Enterprises

The MSME Development Act 2020 provided a precise definition of the MSMEs, which was the most important element. Additionally, this act mandated the composition of the National Board of MSMEs to

regulate the growth and operations of MSMES. The MSME Development Act 2020 established stringent guidelines for paying fees and streamlined the registration process, saving a tremendous deal of time.

## II. Review of Literature

The majority of research concerning MSMES indicates that this sector serves as the primary catalyst for the expansion of the Indian economy. Here are a few examples:

Despite the prevalence of MSMEs in the industrial sector of many nations, including India, there is a lack of extensive literature and studies on their diverse operations, particularly in relation to evolving viewpoints. The existing study literature suggests the presence of some gaps that require adequate attention.

**Green, C. J., Kirkpatrick, C. H., & Murinde, V. (2006)** stated This research analyses the potential impact of financial sector development strategies on poverty reduction, namely by promoting the expansion of micro and small enterprises (MSEs). More precisely, the article utilises case studies and empirical research to examine how the role of micro and small enterprises (MSEs) has evolved in the development process. It also investigates the extent to which MSEs have access to both informal and formal financial services, including the impact of microfinance. Researchers working towards the Millennium Development Goal (MDG) of reducing global poverty by 50% by 2015 have identified several research priorities for immediate attention. These priorities focus on the connections between financial policy, small enterprise development, and poverty reduction.

According to **Meeravali Shaik et. al. (2017)**, the MSME sector has made a positive impact on employment and fixed asset growth in recent years. However, it still faces several challenges, including limited credit, expensive credit, difficulties obtaining raw materials, storage and design issues, insufficient infrastructure, low levels of technology, and a shortage of skilled workers. The recommendation is for the government to implement a comprehensive policy with effective governance for the MSME sector in order to enhance its productivity and contribution to economic growth.

• **Suhail Mohammad Ghouse (2017)** conducts a primary research study on 210 exporters in the handicraft industry located in and around Noida. The purpose of the study is to gain insight into the perceived hurdles faced by these MSMEs in their efforts to expand internationally. We employ unstructured surveys to investigate export markets, selected sales tactics, competition situations, and export-related issues. The data confirms that the United Kingdom and France are the primary export markets. Furthermore, personal contacts and direct export sales are the most common methods of selling. The primary concern when exporting to overseas markets is the absence of adequate infrastructure. Export subsidies, market awareness, and export promotion are the primary obstacles.

The study suggests that MSME exporters should prioritise export-related subsidies due to the intense pricing competitiveness in the global market.

**Syamala Devi Bhoghanadam et al. (2017)** examine the current body of literature regarding the many obstacles encountered by the Indian MSME sector and categorise them as either internal or external issues. The study includes a literature matrix that categorises all the obstacles into different groups, such as external issues, environmental issues, sociocultural issues, marketing issues, financial issues, HR development issues, and infrastructural issues.

**Sonia Mukherjee (2018)** examines the export trajectory of the Indian coir industry over a period of five years. Researchers have identified the primary cause of its declining export competitiveness as the lack of appropriate technologies. She determines that increasing investment in advanced technology and research and development, increasing utilisation of digital platforms, technology transfer, increasing investment in human resources, improving access to finance, and implementing liberal business policies can enhance its global competitiveness. The research also includes a thorough review of the various initiatives undertaken by the Indian government to encourage the technical advancement of Indian MSMEs.

### III. Objectives of the study

The primary objective of the present investigation is to assess the efficacy of MSMES in India pre- and post-liberalisation.

### IV. Research Methodology

The Ministry of Micro, Small, and Medium Enterprises produced a variety of annual reports from which we gathered the secondary data for this study. The study's base period is the years 1983–84 to 2022–23. This study has employed four variables—number of units, production, employment, and export—to evaluate the performance of MSMES in India. We have used a paired sample t-test to examine MSMES's performance before and after liberalisation. As an illustration, consider pre- and post-observations of the same subject. We use SPSS software for all computations.

### V. Empirical Finding

**Table 2: Paired Samples statistics**

		Mean	N	SD
<b>Pair 1</b>	units' pre-Liberalization	11.94	22	13.24
	units post Liberalization	195.86	22	153.47
<b>Pair 2</b>	production pre-Liberalization	38322.82	22	36628.34
	production post Liberalization	589525.7	22	638041.06
<b>Pair 3</b>	employment pre-Liberalization	72.5	22	33.6
	employment post Liberalization	449.52	22	339.14
<b>Pair 4</b>	export pre-Liberalization	2284.73	22	2522.6
	export post Liberalization	159982.5	22	204968.31

Table 2 shows that following liberalisation, the average value of all variables is greater compared to the pre-liberalisation period. The positive impact of liberalisation on the MSME sector is clearly apparent.

**Table3: Paired samples correlation**

Pair	Variables	N	Correlation	Sig
Pair1	Units pre & units post	22	0.65	.000
Pair2	Production pre & Production post	22	0.85	.000
Pair3	Employment pre & employment post	22	0.90	.000
Pair4	Export pre & export post	22	0.95	.000

**Source: SPSS Calculation**

Table 3 shows the correlation between variable values before and after the liberalization process. There is a strong association between employment and exports. The association between the number of units and productivity is moderate.

		Paired Differences					t	df	sig
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Units pre – units post	-183.92	145.16	30.95	-248.28	-119.56	-5.94	21	0
Pair 2	Production pre-Production post	-551203	607280	129472.4	-820456	281950	-4.26	21	0
Pair 3	Employment pre-Employment post	-377.02	309.1	65.9	-514.06	-239.97	-5.72	21	0
Pair 4	Export pre – export post	-157698	202585	43191.16	-247519	-67877	-3.65	21	0

Table 4 demonstrates a notable disparity between the average values of all variables (units, production, employment, and export of MSMES) before and after liberalisation. This is demonstrated by the fact that the 'p' value for each variable is less than 0.05. Therefore, we can reject the null hypothesis and accept the alternative hypothesis, indicating a significant difference between the pre- and post-liberalisation performance of MSMES in India.

We use factor analysis to examine the challenges faced by MSMEs.

We examine these difficulties in five distinct areas.

1. Financial concerns
2. Issues with the manufacturing process
3. Challenges in marketing
4. Management-related issues
5. Prior to the start of commercial operations, issues arise.

## VI. Conclusion

The performance of MSMEs has shown a notable enhancement following liberalisation, as confirmed by the paired sample 't' test. However, in the era of liberalisation and globalisation, it is imperative for MSMEs to enhance their production processes, research and development, and marketing strategies in order to compete on both national and international scales. MSMEs have been instrumental in shaping the Indian economy. This study has demonstrated that this sector has produced a substantial impact on employment, production, and exports. This industry ranks second in terms of employment opportunities in India, following agriculture. This sector possesses significant potential and necessitates the cooperation of both the government and financial institutions. The government has devised multiple programmes and initiatives, but it is crucial to ensure their effective implementation.

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