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Jagadhesh SR

M.Com. M.Phil, Research Scholar and Assistant Professor, Department of Commerce and Management, Smt VHD Central Institute of Home Science, Sheshadri Road, Bangalore, Karnataka, India

Dr. Munivenkatappa

M.Com., M.B.A., PGDPM., PGDIR., M.Phil, Ph. D., Research Guide, Chairperson, Department of Commerce and Management Smt. VHD Central Institute of Home Science (Autonomous) Sheshadri Road, Bengaluru, Karnataka, India

Correspondence

Jagadhesh SR

M.Com. M.Phil, Research Scholar and Assistant Professor, Department of Commerce and Management, Smt VHD Central Institute of Home Science, Sheshadri Road, Bangalore, Karnataka, India

Growth and performance appraisal of MSME's in Karnataka: A qualitative study

Jagadhesh SR and Dr. Munivenkatappa

Abstract

The research of academicians be it an empirical or exploratory or conceptual, reports of commissions, reports of government, industry, ministries, clusters,etc have clearly indicated that the MSME sector is the most vibrant and dynamic sector of the country. The development of the nation is not just dependent on the growth of the large industries MSME's are the backbone of the country contributing tremendous to the economic development of the country by being the most attractive and promising sector for the employment among the younger generation, exports, diversification, innovation and resource mobilization. Small and medium enterprises (SMEs) have been the backbone of the Indian economy. To state the statistics, it is employing close to 40% of India's workforce and contributing 45% to India's manufacturing output, SMEs play a critical role in generating millions of jobs, especially at the low-skill level. The country's 1.3 million SMEs account for 40% of India's total exports .There was a time when MSME sector was suffering due to, lack of technical knowledge, expertise, strategic orientation, marketing planning, ineffective ways of utilising the resources...., with the help of the government initiatives, the sector is able to get proper guidance and insights which are facilitating the growth of the sector.

The research is conducted to bring out the growth and performance of MSME's, to identify the drivers of growth and reasons for hindering the performance.

Keywords: MSME, Growth, Performance, Strategy, Marketing, HR, Production

1. Introduction

The development of the nation is not just dependent on the growth of the large industries MSME's are the backbone of the country contributing tremendous to the economic development of the country by being the most attractive and promising sector for the employment among the younger generation, exports, diversification, innovation and resource mobilization. Small and medium enterprises (SMEs) have been the backbone of the Indian economy. To state the statistics, it is employing close to 40% of India's workforce and contributing 45% to India's manufacturing output, SMEs play a critical role in generating millions of jobs, especially at the low-skill level. The country's 1.3 million SMEs account for 40% of India's total exports. Karnataka has the seventh largest gross state domestic product (GSDP) in the country's GDP. It has a great potential to improve its economy through industrialization and contribute more towards nation's GDP. The state government considers industrial growth as a means to mitigate poverty and unemployment. Development of industry, trade and service sector promotes higher capital formation, improves the per capita income level, absorbs surplus workforce. According to New Industrial Policy of Karnataka, It has proposed to form at least five industrial areas every year spread over an area of 5,000 to 8,000 acres. Energy and water resources department will be directed to provide the required power and water to the designated industrial areas (business-standard.com).

1.1 Industrial scenario of Karnataka

The general index of the industrial production (IIP) of Karnataka covering Mining, Manufacturing and Electricity sectors for 2013-14 stood at 175.59. The sector wise indices for the period from 2011-12 to 2013-14 with base year as 5 are presented in Table 1. The overall organized industrial sector of Karnataka has registered 3.66% growth in 2013-14 as compared to 2012-13. Within the organized industrial sector, Electricity sector has boosted up with highest growth of 11.49% followed by the manufacturing sector (2.92%)

and mining sector registered negative growth of (-20.48%). Contraction in mining activities and deceleration in manufacturing output moderate with was observed in

industrial sector (economic Survey of Karnataka 2014-15, PP 348).

Table 1: Index of Industrial Production of Karnataka: 2011-12 to 2013-14 (Base Year: 2004-05)

Sector	Weight	2012-13*	2013-14*	2014-15*
Mining	69.8321	49.79 (-57.90)	36.42** (-26.85)	28.96 (-20.48)
Manufacturing*	811.3591	165.05 (2.41)	179.19 (8.56)	184.44 (2.92)
Electricity	118.8089	170.85 (15.47)	180.59 (5.70)	201.34 (11.49)
General Index	1000.000	157.69 (0.69)	169.38 (7.41)	175.59 (3.66)

Note: 1) Figures in brackets indicate percentage changes over the previous year.

* Provisional figures. 3) **Index revised as per IBM, Nagpur data Source: Directorate of Economics & Statistics.

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1.2 Index of Industrial production for Organized Manufacturing in Karnataka-Use-based Classification: 2011-2014 (base year 2004-05)

S. No.	Industry Group	Weight	2012-13*	2013-14*	2014-15*
1.	Basic goods	219.8377	153.76	178.14	184.64
			(-6.64)	(15.85)	(3.64)
2.	Capital goods	132.8699	192.03	194.69	200.95
			(39.22)	(1.38)	(3.21)
3.	Intermediate goods	173.5747	187.68	211.07	219.67
			(28.40)	(12.46)	(4.07)
4.	Consumer goods	285.0769	147.40	153.37	155.13
			(-10.98)	(4.05)	(1.14)
	a) Consumer durables	37.4330	183.85	116.51	120.36
			(18.08)	(-36.62)	(3.30)
	b) Consumer non-durables	247.6439	141.89	156.70	165.20
			(-13.28)	(10.43)	(5.42)
Total (Manufacturing sector)		811.3591	165.05 (2.40)	179.19 (8.56)	184.44 (2.92)

Note: 1. Figures in brackets indicate percentage change over the previous year.

2. * Provisional Figures.

Source: Directorate of Economics and Statistics.

Industrial growth in terms of use-based classification of industries is presented in Table 2 for four broad groups of organized manufacturing industries:

(i) Basic goods, (ii) Capital goods, (iii) Intermediate goods, and (iv) Consumer goods consisting of durables and non-durables. Among the four broad groups, the consumer goods industry sector accounts for the highest weight followed by the basic goods industry. Within the consumer goods

industry sector, non-durables account for 24.7% and durables account for 3.7% of the total weight of 28.5% the s e weights indicate relative importance of the different groups in the manufacturing industry of Karnataka (economic Survey of Karnataka 2014-15, PP 350).

1.3 Details of MSMEs registered in Karnataka 2011-12 to 2014 15

Year	MICRO			SMALL			MEDIUM			TOTAL		
	Units (Nos.)	Invt. (Rs. Lakh)	Empl. (Nos.)	Units (Nos.)	Invt. (Rs. Lakh)	Empl. (Nos.)	Units (Nos.)	Invt. (Rs. Lakh)	Empl. (Nos.)	Units (Nos.)	Empl. (Nos.)	
2012-13	19610	43650	86216	1370	91266	34400	41	24724	7771	21021	159641	128387
2013-14	22169	66019	105029	1981	116791	46029	56	34041	4493	24206	216851	155551
2014-15	23229	79416	110070	2661	144096	46741	76	61545	10536	25966	285056	167347
2015-16 (Up to Dec.16)	17786	59736	83779	1877	90556	33421	58	41613	5086	19721	191905	122286

Source: Directorate of Industries and Commerce.

As compared to 2012-13, there is a 7.27% increase in the number of units registered, 31.45% increase in investment and 7.58% increase in number of persons employed in 2013-14. During the first Nine months of the year (April to

Dec.2014), 19721 units have been registered with an investment of Rs. 191905 lakh by providing employment to 122286 persons. When compared to previous year for the same period (April to Dec. 2013), there is an increase of

12.30 in the number of units registered under MSME with 4.50% increase in investment and 6.69 increase in employment generated.

2. Literature Review

According to the research investigation by *Prof. Harpreet Singh and Manish Bansal* explored the problems as well as prospects in relation with its response to seasonal fluctuations in terms of productivity, profitability and export in Punjab on food processing industry. They concluded that the industry suffers from the lack of marketing strategies, seasonal fluctuations and performance of products. Study conducted by *Dr Reetu Kumar* aimed at examining the policies and practises relating to small scale industrial units, to find out the differences between problems and prospects of exporting and non-exporting units followed by them and to identify gaps in those practises which have failed to receive acceptance. The important findings were, SSI is at developing stage in regard of marketing activities. It is especially true that marketing activities are pushing force for expansion of any concern, but sustainability is the biggest concern. An effective marketing mix strategy will definitely help firms expand their business.

Research conducted by *Vidya Suresh and P. Shashidhar* with objective to address solutions to enhance the productivity by addressing the short comings of growth of small industries, authors have concluded saying that, small scale industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification. By its less capital intensive and high labour absorption nature, SSI sector has made significant contributions to employment generation and also to rural industrialization. The business can compete on cost, quality, and products at domestic and international level only if ideal investment technology, production process, R and D and marketing are made. Infrastructure bottlenecks are not completely solved. The promotional activities for India need to concentrate on improved credit flow, HRD, appropriate technology and funds for modernization.

The variety in the demand structure will ensure long-term co-existence of many layers of demand for consumer products, technologies/ process. There will be flourishing and well grounded markets for the same product/process, differentiated by quality, value added and sophisticated. *Professor M.R. Narayana* researched on determinants of competitiveness of small-scale industries in India with intention to analyse quality and cost of infrastructure facilities and business environment and their impact on competitiveness of small scale industries. The study so conducted reveals that low quality and high transport facilities, power, water supply, lack of market information, inadequate credit facility and low technology definitely hinder the competitiveness of SSI.

Alit Sen Gupta says the socio-economic environment hinders the emergence of entrepreneurial talent. Entrepreneurship development is a pre-requisite for overall economic development of any country. The growth of the nation depends upon the skilled entrepreneurs, but supply of entrepreneurial talent depends upon the business and industrial climate prevailing in the country. According to the study, it is suggested that the banks can eliminate the avoidable delays, guiding the entrepreneurs to overcome initial hurdles at the time of launching their enterprise, effective monitoring and follow-up of utilisation, easy way

of receiving loans and rescheduling of loan repayment in case of genuine difficulty of entrepreneurs to overcome financial problem

3. Objectives

1. To identify the factors determining the performance of MSMEs; and
2. To identify the problems encountered by the owners of MSMEs;

4. Design of the study

The qualitative research titled "Growth and Performance of MSME's in Karnataka-a qualitative study" is exploratory in nature adopting interview method, focused group approach, experience survey to collect the first hand information which in turn is supported with secondary information through the annual reports of MSME, Economic Survey reports, KPMG reports, news portals, articles from various international and national journals.

The first section of the article, industrial scenario is the analytical outcome of the reports of Ministry of MSME and Economic Survey of Karnataka supported with news portals like business-standard.com.

The second section of the report where the primary information is collected adopting the qualitative techniques like focus group approach, interview of the owners of the enterprises, and interview of the entrepreneurs who have well equipped knowledge and experience in the respective sector from the region of Karnataka.

Thus collected data is analysed with help of percentage method along with parameters formed based on the information provided during the experience survey and interview of focus group to illustrate the inferences to suggest the suggestive measures if any.

5. Limitations

The research conducted facilitates the understanding of the drivers of growth of MSME's and ascertain the problems faced by the manufacturing sector only and study if confined to Karnataka state. Apart from the above, the natural biases while sharing the information from the respondents is unavoidable.

6. Discussion

A. Human resource management

Most of the SME's are the suppliers for the large enterprises and about 23% of the SME's are into direct marketing. If we look at the availability of the workforce for SME's in Karnataka, north-Karnataka is densely populated and fall under the category of not developed districts. Many of the people migrate in search of employment across the state. The factors like draught, dry land, water scarcity have forced the migration of the people in search of the better life. Therefore, abundant amount of workforce is available across the Karnataka state for working in construction firms, steel sheets, plastic granules, fertilizer production, purified water, fabrication works, stone polishing and cutting, daal/sugar/rice mills etc. The firms fail to facilitate the career development; lack good incentive schemes, many of employees are deprived of insurance schemes, the compensation of the workers is not revised every year. The owner of the enterprises is hardly bothered to communicate/ address the issues of the employees. Therefore, the

migration and job switching is a very common problems faced by the small enterprises.

B. Finance

Total bank credit to MSME sector stood at Rs 833 billion in the financial year 2005 and has grown at a compounded average growth rate of 25% to 7.9 trillion in the financial year 2014. There is huge demand for the financial assistance to small enterprises. It was observed that most of the small enterprises are finding difficulty in lending against collateral. Bank credit to the MSME sector has increased in recent years but these units continue to experience problems in accessing credit. Banks have been directed to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises and a 10 per cent growth in the number of micro enterprise accounts. Credit by scheduled commercial banks to micro and small industries accounts for only 13 per cent of bank credit to industry. It is argued that banks are reluctant to lend to small units as this segment has high non-performing assets (NPAs). The fact is that NPAs are prevalent across-the-board as between larger and smaller industrial units. The only difference is that there is "glamour" in lending to larger units.

One of the major problems of the smaller industrial units is the problem in collecting receivables. The problem starts with the government (Central and State), which holds back payments to public sector units (PSUs) and the PSUs, in turn, hold back payments to large and medium industry. Large and medium industry holds back payment to the smaller units, which have nowhere to shift the burden. Even when deliveries are completed the technique used is to hold back the final inspection clearance of completion of work; this sets off a chain of dues not being paid. Invariably it is the smallest units, which suffer the most.

Apart from the above, inadequate and timely finance, higher interest rates.

Repayment and Multiple loans are the issues faced by MSME's.

C. Marketing

It is observed and evident from the interview of the enterprise owners that they do not have the clarity regarding their marketing objectives. They fail to understand the meaning of vision, mission, market share, diversification, long term planning, and expansion. There are many firms which are not aware of the government assistance for the marketing. They have limited their business to the local markets and it is been observed that in north Karnataka hardly people are into exporting. They lack the understanding of strategic approach to business and hence fail to do proper planning. Their thinking horizon is limited to serving the local or neighborhood markets. The communication platforms and strategies adopted are obsolete. They lack the proper understanding of the intensity of the competition.

7. Conclusion

It is evident from the research conducted that the overall performance and growth of the MSME is appreciable, but the fact cant not be ignored that most of the SME's still are suffering from the deficiencies. The government of India and Karnataka are laying down the beneficial policy measures facilitating the growth of the MSME. The

problems faced by the MSME are at institutional level, management level.

MSME's should work towards the better performance by understanding the GAPS and filling these GAPS.

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