MICRO ENTREPRISES

MICRO ENTREPRISES IN HARYANA: AN ANALYSIS

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Abstract

The objective of this paper is to understand, analyze and interpret the role of micro enterprises in the rapid growth of the Haryana economy. It would be no exaggeration to say that the industrial development lying within the ambit of micro enterprises especially those based on agriculture can go a long way in ensuring the overall economic well being of the people and thereby raising the quality of their life substantially. The sector has undergone several changes in terms of its nomenclature. Small Scale Industries (SSIs) have been reclassified as Micro and Small with the introduction of Micro and Small and Medium Enterprises (MSMEs) Act, 2006. MSMEs have been playing significant role in the overall economic development. MSMEs have been termed as ‘engine of growth’ for all the developing economies including Haryana. Annual Compound Growth Rates (ACGRs) have been used as the major statistical tool to analyze the functioning of micro enterprises in Haryana during pre and post reform period. Four economic parameters namely no. of units, investment, employment and production have been used as yardsticks to gauge or evaluate the contribution of the micro-enterprises in improving the financial health and economic scenario of the state. The major problems being encountered by micro enterprises have also been discussed. To ensure implementation of the policies and programmes for micro enterprises, we need good governance of the micro-enterprises in improving the financial health and economic scenario of the state. The major problems being encountered by micro enterprises have also been discussed. To ensure implementation of the policies and programmes for micro enterprises, we need good governance.

Keywords: Micro, MSME, Act 2006, Subsidy, Jagad Technology

Micro enterprises have only been recognized in last few years as an important subclass of the enterprise sector. But the evidence shows that one third of the population in developing countries derive their income from the micro enterprises sector, the very small, non-framing income generating units, including artisanal operations, family business, cottage industries and other prizes in the informal sector. The micro businesses include a wide spectrum of activities from rural traditional crafts handed down through generating to first steps in entrepreneurship taken by the impoverished unemployed. Micro enterprises embody an impressive array of initiatives, skill and talents which, if effective forms of assistance can be developed, have the potential to make enormous contribution to economic growth.

Industrialization is the main hope of most of the poor countries who are trying to increase their level of income and it is reckoned as a tested tool of development. Even Lt. Jawaharlal Nehru felt that the real development of a country depends upon industrialization. To quote him “We are bound to be industrialized, we must be industrialized, as progress ultimately depends upon industrialization”. In the broader sense, industrialization not only encompasses the entire gamut of economic activity but also has its impact on the social organization relations and attitude.

Historical Evolution of the Definition of Micro Enterprises

As per industries (Development and Regulation) Act 1951, a small scale industrial undertaking w.e.f. 21.12.1999, means an industrial undertaking in which the investment in fixed assets in plant and machinery whether held on ownership terms or lease or on hire purchase does not exceed. Rs. 10 million. (Subject to the condition that the unit is not owned, controlled or a subsidiary or any other industrial undertaking).

The earliest definition of small scale industries was made in 1950. At that time, in addition to a limit on investment in fixed assets, there was also an employment stipulation. The employment condition was deleted in 1960. The limit on investment in fixed assets was changed to a limit on investment in plant and machinery (original value) only in 1966.

Table 1 indicates the historical evolution of definition of MEs (SSIs).

<table>
<thead>
<tr>
<th>Year of Revision of MEs (SSIs) Ceiling</th>
<th>Amount (Rupees in Lakh)</th>
<th>Criteria for definition MEs (SSIs) investment in</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>Rs. 5.00</td>
<td>Fixed Assets and Employment less these 50/100 workers/ with/ without power</td>
</tr>
<tr>
<td>1960</td>
<td>Rs. 5.00</td>
<td>Fixed Assets</td>
</tr>
<tr>
<td>1966</td>
<td>Rs. 7.50</td>
<td>Plant and Machinery</td>
</tr>
<tr>
<td>1975</td>
<td>Rs. 7.50</td>
<td>Plant and Machinery</td>
</tr>
<tr>
<td>1980</td>
<td>Rs. 20.00</td>
<td>Plant and Machinery</td>
</tr>
<tr>
<td>1985</td>
<td>Rs. 35.00</td>
<td>Plant and Machinery</td>
</tr>
<tr>
<td>1991</td>
<td>Rs. 60.00</td>
<td>Plant and Machinery</td>
</tr>
<tr>
<td>1997</td>
<td>Rs. 300.00</td>
<td>Plant and Machinery</td>
</tr>
<tr>
<td>1999</td>
<td>Rs. 100.00</td>
<td>Plant and Machinery</td>
</tr>
<tr>
<td>2006</td>
<td>Rs. 25 Lakh to 5 Crore</td>
<td>Plant and Machinery</td>
</tr>
</tbody>
</table>

Sources:- www.smallindustryIndia.com
The present definition of a maximum of Rs. 1 Crore of investment plant and machinery (and Rs. 25 Lakh for tiny or micro units), excluding equipment for environmental control and research and development, has had a tortuous history. In the immediate post-reform (post-1991) period, the prevailing definition was an investment limit of Rs. 60 Lakh for SSIs and Rs. 75 Lakh for ancillaries, with no formal definition of tiny or micro units. The then Govt. tried to enhance the SSIs investment limit to Rs. 1 Crore or 3 Crore but ultimately left the matter undisturbed, apparently to avoid antagonising on section or another. The succeeding Government raised the limit sharply to Rs. 3 Crore from Rs. 60 Lakh/ Rs. 75 Lakh towards the end of its tenure, without a modicum of debate and later reduced the limit to Rs. 1 crore in 1999.

**Micro, Small and Medium Enterprises Development (MSMED) Act, 2006**

According to Micro, Small and Medium Enterprises Development (MSMED) Act 2006 – it provides the first ever legal framework for recognition of the concept of ‘enterprises’ (comprising both manufacturing and services) and integrating the three-tiers of these enterprises, viz, micro, small and medium.

Manufacturing Enterprises: based on investment in plant and machinery.

**Micro Enterprises** – Investment upto Rs. 25 lakh

**Small Enterprises** – Investment above Rs. 25 lakh and upto Rs. 5 crore.

**Medium Enterprises** – Investment above Rs. 5 crore and upto Rs. 10 crore.

Service Enterprises: based on investment in equipments

**Micro Enterprises** – Investment upto Rs. 10 lakh.

**Small Enterprises** – Investment above Rs. 10 lakh and upto Rs. 2 crore.

**Medium Enterprises** – Investment above Rs. 2 crore and upto Rs. 5 crore.

The ceilings on investment for the micro, small and medium enterprises both in manufacturing sector and service sector can be summarized in the following table 2

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Investment in Plant and Machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Upto Rs. 25 Lakhs</td>
</tr>
<tr>
<td>Small</td>
<td>More than Rs. 25 Lakhs and upto Rs. 5 crores</td>
</tr>
<tr>
<td>Medium</td>
<td>More than Rs. 5 crores and upto Rs. 10 crores</td>
</tr>
</tbody>
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<th>Enterprises</th>
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<td>Micro</td>
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<tr>
<td>Small</td>
<td>More than Rs. 10 lakhs and upto Rs. 2 crores</td>
</tr>
<tr>
<td>Medium</td>
<td>More than Rs. 2 crores and upto Rs. 5 crores</td>
</tr>
</tbody>
</table>


**Review of Literature**

To justify the need of the study, there is a strong case for review of the literature in the field of research. The literature demonstrates that the micro enterprises are necessary for economic growth and development of any economy including Haryana. The review includes the following studies:

Ganguly (1988) studies the performance, policies, problems and prospects of the small scale industrial sector. Study reveals that the sector suffers from various problems such as inadequacy of raw materials and financial assistance, lack of effective marketing and encroachment on the areas reserved for SSIs by large and medium sectors, conscious efforts of the govt. to promote the small sector not with standing. But the author maintains the view that the faster growth of the medium and large scale sectors considerably.

Balu (1991) examined the overall financing of small scale industries and also the contribution of the financial institutions and banks in financing small scale units. The study is mainly based on primary data and covering a sample of 150 small scale entrepreneurs spread over Madras city. It has been found that the entrepreneur with non business background relied heavily on external sources like banks and other financial institutions. They face problems like delay in sanction and disbursement, inadequacy of loan, insistence for collateral security, impersonal and non cooperative attitude of the officials. A single agency approach has been recommended as a solution to these problems in the study.

Subramanian and Pillai (1994) in their article reported a survey of small industries in Kerela and compared their performance with the small industries in other major states and with all India average. The poor performance of small industries in Kerela is attributable to low capacity utilization, low factor productivity, unfavourable usage-productivity relationship and industrial ‘sickness’ following severe financial and marketing problems. The performance of the small sector in Kerela could be improved by changing growth strategies which may enable them to reap economies of scale and lead to sectoral linkages and agglomeration.

Chattopadhyay (1995) with the help of primary and secondary data discusses the causes and solutions of industrial sickness in India. By using various mathematical and statistical tools like financial ratios and multiple regression, it has been observed that sick industrial units have been suffering from managerial inefficiency, demand recession, obsolete plant and machinery and labour problems. Sufficient financial aid from financial institutions is not forthcoming. Policies framed by the govt. need to be implemented strictly to being about improvement in the situations.

Abid Hussain Committee (1997) reiterated the recommendations of Nayak Committee in general and recommended introduction of innovative finance and made a case for higher earmarking of credit for tiny sector units among small scale units.
Mali (1998) in his study has observed that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up gradation. Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighboring countries.

Neelamegam and Inigo (1999) in their study discussed the financial aspects of the SSIs. Three districts of Tamil Nadu, SSIs are contributing in providing employment opportunities, increase in production. It has been found that managerial inefficiency is the most serious problem. The study made empirical analysis especially for textile & engineering goods industries and observed that mere recommendations and enactment of policies are not enough unless proper implementation is ensured. Therefore, Government should take necessary steps as it is highly desirable to tackle the problem.

Goel (2002) has diagnosed the problems of SSIs and talked about excellence models for management of SSIs in India. The products of the SSIs would be popular only if they satisfy the essential need of the customer (foreign as well as domestic) and is utilitarian. Glamour alone can not be a substitute for the basic requirements of Need, Affordability and Worth (NAW approach) of the product. To adopt and accept the normative approach to HRD in SSIs, it is essential to understand SIMPLE model of HRD consisting of six human development activities such as Spiritual development, Intuition development, Mental level development, Physical Development, Love-yourself attitude development and Emotional quotient (EQ) development.

Bala Subrahmanya (2004) highlights the impact of globalization and domestic reforms on small-scale industries sector. The study states that small industry has suffered in terms of growth of units, employment, output and exports. The Researcher highlights that the policy changes have also thrown open new opportunities and markets for the small-scale industries sector. He suggests that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

Sonia and Kansai Rajeev (2009) studied the effects of globalization on Micro, Small and Medium Enterprises (MSMEs) during pre and post liberalization from 1973-74 to 2008-09. They used four economic parameters namely number of units, production, employment and export and interpreted study results based on Annual Average Growth Rate (AAGR) calculation. AAGR in pre liberalization period (1973-74 to 1989-90) was higher in all selected parameters than that of post liberalization period (1991-92 to 2007-08). They concluded that MSMEs failed to put up an impressive performance in post reform era.

Sanchita (2010) observed that management problems and constraints experienced by women entrepreneurs in Small Scale industry of Haryana including lack of confidence, problems of finance, working capital, Socio-cultural barriers, production problems and inefficient marketing arrangements. To solve the management problems of for women entrepreneurs in Haryana specially in Small Scale sectors, there is a strong case for simple and systematic procedures at all administrative levels for ensuring the planned benefits to the needy women entrepreneurs for optimal utilization without underutilization and wastage of scarce financial resources.

Singh et al, (2012) analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

**Research Methodology**

The present study analyses the growth, performance and problems of micro enterprises in Haryana. The data structure for the study is based on official publications of the directorate of industries, Haryana Chandigarh. The study covers a period from 1966-67 to 2011-12. Four parameters namely No. of Units, Employment, Investment and Total Production have been used for the analysis of micro enterprises in Haryana inclusive of both pre and post-reform periods. In this paper we have used Annual Compound Growth Rate(ACGR) for analysis of data.

**Annual Compound Growth Rates**

The ACGRs have been calculated by using the semi-log model as explained below:

\[ Y_t = ab_t \]

(i) Taking log, we have

\[ \log Y_t = \log a + t \log b_t \]

(ii) \[ G = \text{[Anti Log (Log b_i) ]} \times 100 \]

\[ Y_t = t^{th} \text{ observation on the variable Y} \]

\[ T = t^{th} \text{ variable taking n values 1,2,3,..n} \]

\[ G = \text{Annual compound Growth Rate in percentage (ACGR)} \]

The test of significance has been applied to find out whether the estimated growth rate is significant or not and for this purpose, we have used ‘t’ statistics.

Analysis the growth of micro enterprises regarding number of units, employment, total investment and total production.
The above table reveals that the growth rate of employment in micro enterprises in Haryana for different time periods (except 1997-98 to 2006-07) is positive and considerable. During 1977/78 - 1986/87, it is 32.4 percent which is highest. If whole time spans from 1966-67 to 2012 is considered then ACGR is 5.2 percent, only.

The regression coefficient ($B_1$) in all cases, except in case of 1997/98 - 2006/07 is statistically significant at 1 percent level of significance. The value of $R^2$ for all cases excluding 1997/98 - 2006/07 and 1966/67 - 2012, is quite high and showing goodnesses of fit of the selected models.

### Table 3 – Growth of the number of Micro Enterprises

<table>
<thead>
<tr>
<th>Period</th>
<th>$B_0$</th>
<th>$B_1$</th>
<th>ACGR (T-Values)</th>
<th>$R^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966-67 - 1976-77</td>
<td>11.249</td>
<td>0.058</td>
<td>14.3* (13.2996)</td>
<td>0.957317</td>
</tr>
<tr>
<td>1977-78 - 1986-87</td>
<td>11.670</td>
<td>0.122</td>
<td>32.4* (14.7102)</td>
<td>0.964388</td>
</tr>
<tr>
<td>1987-88 - 1996-97</td>
<td>12.939</td>
<td>0.065</td>
<td>16.1* (11.3642)</td>
<td>0.942807</td>
</tr>
<tr>
<td>1997-98 - 2006-07</td>
<td>13.288</td>
<td>-0.033</td>
<td>-7.32* (-1.6850)</td>
<td>0.261736</td>
</tr>
<tr>
<td>2007-08 - 2012</td>
<td>13.088</td>
<td>0.066</td>
<td>16.4* (20.5613)</td>
<td>0.991696</td>
</tr>
<tr>
<td>1966-67 - 2012</td>
<td>12.135</td>
<td>0.022</td>
<td>5.2* (5.0016)</td>
<td>0.362470</td>
</tr>
</tbody>
</table>

Sources : Directorate of Industry, Haryana Chandigarh

Note: i) Figures in parentheses denote T-Values

ii) *T-values are significant at 1 percent level significant.

### Table 4 – Growth of Employment of Micro Enterprises

<table>
<thead>
<tr>
<th>Period</th>
<th>$B_0$</th>
<th>$B_1$</th>
<th>ACGR (T-Values)</th>
<th>$R^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966-67 - 1976-77</td>
<td>8.271</td>
<td>0.127</td>
<td>34* (16.3729)</td>
<td>0.970959</td>
</tr>
<tr>
<td>1977-78 - 1986-87</td>
<td>9.289</td>
<td>0.184</td>
<td>52.8* (27.0957)</td>
<td>0.989174</td>
</tr>
<tr>
<td>1987-88 - 1996-97</td>
<td>11.167</td>
<td>0.065</td>
<td>16.1* (37.9706)</td>
<td>0.994166</td>
</tr>
<tr>
<td>1997-98 - 2006-07</td>
<td>11.544</td>
<td>-0.047</td>
<td>-10.26* (-2.4643)</td>
<td>0.466324</td>
</tr>
<tr>
<td>2007-08 - 2012</td>
<td>11.149</td>
<td>0.033</td>
<td>5.3* (9.7429)</td>
<td>0.961867</td>
</tr>
<tr>
<td>1966-67 - 2012</td>
<td>9.607</td>
<td>0.051</td>
<td>12.5* (5.7692)</td>
<td>0.430654</td>
</tr>
</tbody>
</table>

Sources : Directorate of Industry, Haryana Chandigarh

Note: i) Figures in parentheses denote T-Values

ii) *T-values are significant at 1 percent level significant.
The above table 6 reveals that the ACGR of the production of micro enterprises is positive and considerable in all time periods. During 2007-08 to 2012, ACGR is highest and stood at 87.9 percent while for the years 1997-98 to 2006-07, it is 8.4 percent, as the total number of micro enterprises declined during 1997-98 to 2006-07 despite that the production of these enterprises have grown. However the regression coefficient for all time spans except 1997-98 to 2006-07 are statistically significant at 1 percent level of significance. Similarly, R² is appreciable in all modals except for 1997-98 to 2006-07 and 1966-67 to 2012.

It is clear from the above table no. (3), (4), (5) and (6) that the growth rate of the number of units, employment, investment and total production has increased before the post reforms periods. After 1991, there has been a sharp decline in the number of units, the number of persons employed, investment and total production. An analysis of pre and post reform period, reveal that new economic policy has adversely affected the micro enterprises (SSIs) in Haryana.

Problems of Micro Enterprises in Haryana

The development of micro enterprises has been hampered due to diversity of problems. Micro Enterprises have suffered with many problems. Though, there are many problems connected with micro enterprises, some of them are as under:

1. **Competition (both healthy as well as unhealthy)** with other categories of industries: Micro enterprises have to compete with medium and large scale industries which outstrip the former in terms of competent entrepreneurs, abundant and superior raw material modern and sophisticated equipment, development of latest modern technology, immense financial sinews and latest marketing strategies. With their primitive methods of production and limited financial resources and illiterate incompetent and ignorant entrepreneurs and non-standardized nature of their product, micro enterprises are out performed by large scale industries in a big way. They find it almost impossible to compete with then in terms of price and quality of gives. Unless micro enterprises are incentivized and subsidized by the government their survival is under threat and it would be disastrous for Indian economy if these labour intensive and employment generating unity are forces to close down due to their un-viability in the face of mounting competition from large scale industries.

2. **Lack of raw material**: The raw material is the basic pre-requisite of an industrial enterprise and industrial sector of an economy, without adequate and timely supply of required raw material, is not likely to make much progress. Different types of micro enterprises require different types of raw material. For some industries local raw material is used and the same is abundantly available. But in other industries raw material is required from other states and for some even from other countries too which creates the problem of non-availability of good quality raw material at low prices.

3. **Lack of labour**: The labour is an essential and active factor of production besides raw material, power and capital. It is manifestly different from other factors of production. Empirical study of Eresi (2001) concludes that labour related problems constitute on of the important reasons for the failure of micro enterprises. Labour is a living thing that makes all the difference. So well planned recruitment and training facilities are basic requirement for an industry. Proper manpower planning is the basic requirement for the recruitment of an effective working force in any enterprise.

4. **Lack of power shortage**: In modern times, power is the most important ingredient of production. The entire movement of the machinery depends upon power. If there is a short supply of power or electricity, there is an interruption in production stream and the entrepreneur has to suffer heavy losses. The state should therefore, pay special attention to the problem of power shortage/crisis in micro enterprises.

5. **Financial problems**: Every problem of small producer concerning production, raw material quality or marketing is in the ultimate analysis, a financial one. The producers in the small scale industries have small means and require short, medium and long-term loans to meet their obligations. The internal sources of micro enterprises mainly consist of ploughed-back profits. Since absolute size of profit is small for the finance facility, they have to depend upon central and state governments, commercial banks, SFCs and other private financiers.

6. **Marketing problems**: Micro enterprises in the region are plagued by certain problems on marketing front. In the present competitive world, the sale of a product can be improved with a suitable marketing strategy. The concept of marketing signifies much more than the traditional act of selling rather it is an integrated effort. Since most of the units in the region are very small in size and financially not very strong, so individual units have limited production capacity, limited sustaining power and competitive strength. Micro enterprises suffer from marketing difficulties.
Policy Implications: The following policy implications are flowing from the analysis of micro enterprises in the state of Haryana for their survival & progress: The problems of the entrepreneurs need to be addressed by the government by devising suitable policies and strategies to surmount them. The survival of the micro is under grave threat in the face of stiff competition triggered by the commencement of the globalised era. Upgradation of technology (juggad technology), innovations, liberal credit facilities, marketing devices and proper and intensive advertising to capture national and international markets—all these steps need to be taken on priority basis to save our overpopulated economy from being swallowed by the monster of unemployment and poverty. These micro enterprises must be enabled to withstand the ever growing pressure of global competition by introducing competitiveness in terms of quality and price of their products otherwise not only will the progress of the economy be decelerated but it will fall into a shambles. Micro enterprises will help in the development of Indian economy by generating additional employment opportunities, reducing poverty and regional inequalities. It is the need of the hour that gov’t should adopt certain policies and strategies which will boost micro enterprises to increase the number of units, employment, investment and production. To ensure implementation of the policies and programmes for micro enterprises, we need good governance which means SMART (SIMPLE, Moral, Action Oriented, Responsive and Transparent) administration.

These above given recommendations flowing from the study need to be implemented seriously and sincerely with honesty of purpose. Only then the micro enterprises in the state Haryana will survive, exist and thrive.

References