CHAPTER I
INTRODUCTION AND 
RESEARCH DESIGN

Micro, Small and Medium Enterprise (henceforth MSME) sector has been recognized as an engine of growth all over the world. The sector is characterised by low investment requirement, operational flexibility, location wise mobility, and import substitution. In India, the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 is a remarkable landmark in development of small and medium sized industries.

India has a vibrant micro and small enterprise sector that plays an important role in sustaining the economic growth, by contributing around 39 per cent to the manufacturing output and 34 per cent to the exports in 2004-05. It is the second largest employer of human resources after agriculture, providing employment to around 29.5 million people (2005-06) in the rural and urban areas of the country. Their significance in terms of fostering new entrepreneurship is well-recognized. This is because, most entrepreneurs start their business from a small unit, which provides them an opportunity to harness their skills and talents, to experiment, to innovate and transform their ideas into goods, and services and finally nurture it into a larger unit.

Over the years, the small-scale sector in India has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, microwave components, electro medical equipments, etc. The process of economic liberalisation and market reforms
has further exposed these enterprises to increasing levels of domestic and global competition. The formidable challenges so generated for them have led to a novel approach of cluster development for the sector. As a result, private and public sector institutions, both at the Central and State levels are increasingly undertaking cluster development initiatives.

**MSME: DEFINITION**

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 is the first single comprehensive legislation in India, covering micro, small and medium enterprises. Under the Act, the terms medium sector and micro enterprises have been defined for the first time. Also, the concept of Industries has been widened to that of ‘Enterprises’. Enterprises have been classified broadly into two categories, namely, enterprises engaged in the manufacture/production of goods pertaining to any industry; and enterprises engaged in providing/rendering of services. The term "enterprise" has been defined in terms of investment in plant and machinery for manufacturing industries and equipments for the service industries (excluding land & building). Accordingly, the definition of micro, small and medium enterprise is shown in the table 1.1.

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TABLE 1.1
DEFINITION OF THE MICRO, SMALL AND MEDIUM INDUSTRIES

<table>
<thead>
<tr>
<th></th>
<th>Investment in plant and machinery/ equipment (excluding land and building)</th>
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<tbody>
<tr>
<td></td>
<td>Manufacturing Enterprises</td>
</tr>
<tr>
<td><strong>Micro</strong></td>
<td>Up to Rs. 25 lakh in Plant and Machinery</td>
</tr>
<tr>
<td><strong>Small</strong></td>
<td>More than Rs. 25 lakh and up to Rs. 5 crore in Plant and Machinery</td>
</tr>
<tr>
<td><strong>Medium</strong></td>
<td>More than Rs. 5 crores and up to Rs. 10 crores in Plant and Machinery</td>
</tr>
</tbody>
</table>

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

The MSMEs are important to almost all economies in the world, but especially to those in developing countries and, within that broad category, especially to those with major employment and income distribution challenges. In developing countries with large informal or micro enterprise sectors, MSME sector constitutes the middle of the size range, a fact that explains much of their strategic importance. In terms of organizational structure, Small Enterprises are, on average, considerably more complicated than micro enterprise, which involve largely the self-employed, sometimes accompanied on the job by a few family workers and hence usually having
fewer than five workers. On the other hand, Small Enterprises are, on average, a good deal less complicated structurally than are corporations and other large firms, with their layers of management, high division of labour, etc.

Depending on the case, output share of the MSMEs may be greater or smaller than its employment share. Labour productivity rises monotonically with size across broad groups of firms, so whether the Small Enterprises Sector has above or below average labour productivity depends, among other things, on the relative size of the large firm and micro enterprise sectors.

As with any other component of an economy, the size and importance of the MSME sector varies from country to country; the last few decades have seen an increasing recognition of the role it plays in industrial countries, something already more obvious for developing nations from the 1970s or so. The MSMEs, of course, includes firms in all of the major types of economic activity outside agriculture, from manufacturing to services. Despite the natural differences associated with the nature of the final product, small enterprises across these activities still share quite a few features. Policy, including tax policy, can make a considerable difference to how well the Small Enterprises Sector fulfils its potential role in contributing to a healthy economy.

The importance and potential contribution of the MSME are supported by both theoretical and empirical arguments and evidence. We turn first to the former. Part of the contribution of the MSME both to the overall total factor productivity (efficiency, as usually defined) of an economy and to employment generation and distributional
equality comes by virtue of its pattern of technology choice. Technology of the small enterprises tends to be intermediate between the highly labour intensive technologies of micro enterprise, which as a result achieve only low average labour productivity, and the highly capital intensive technologies of large firms which thereby achieve high labour productivity, but use more capital per worker than is available for the economy as a whole. Given this correlation between size and capital intensity, that an economy that applies a high share of its capital to a small group of workers must necessarily have, as the other side of the coin, a large informal or micro enterprise sector that uses very little capital with the large amount of labour.

Its intermediate technology characteristic is what gives the MSME a special role (together with small-scale agriculture) in the generation of adequate or decent employment. When most jobs are in the micro enterprise sector, too many of them are destined to be low productivity and hence low income in character. The MSMEs can be substantially more productive, so in terms of the potential to generate “decent” jobs this sector competes with large private firms and the government, but it has the advantage of being able to generate many more such jobs for a modest input of capital. The key mechanism in generating decent employment in most developing countries involves the expansion of this sector fast enough to absorb people previously unemployed (a few) or engaged in low productivity informal sector jobs (the bulk).

Developing countries without substantial Small Enterprises Sectors (hence often described as having a “missing middle” in their firm size structure) tend not only to have capital and the income from it concentrated in the larger firms but also to have a “labour elite” in that sector, able to bargain for wages much higher than elsewhere in
the economy. With the economy’s capital stock almost completely used up by the 
large firms (usually a result of capital market imperfections), there is little remaining 
capital to be distributed among the many workers not hired by large firms; this 
produces a large micro enterprise sector with the Small Enterprises Sector squeezed 
out for lack of capital. The equilibrium wage in the micro enterprise sector is very low 
and capital incomes are low there as well. In short, income is very unequally 
distributed. When the Small Enterprises Sector is large, these extremes in the 
distribution of both capital income and labour income are avoided.

The MSMEs tend to dominate a country’s new and fast growing industries. 
Economies which discourage Small Enterprises in any general sense are therefore 
likely to discourage some newer dynamic industries from putting down the roots they 
might otherwise do. In this respect, and in others, Small Enterprises are associated 
with dynamism. An economy composed essentially of older larger firms runs the risk 
of becoming complexity.

The MSME particularly in developing countries are the backbone of the 
nation's economy. They constitute the bulk of the industrial base and contribute 
significantly to their exports as well as to their Gross Domestic Product (GDP) or 
Gross National Product (GNP).

Micro, Small and Medium Enterprises (MSMEs) have a significant role in the 
Indian economy in terms of output, employment generation, export etc. A recent 
concept note prepared by United Nations Development Project (2010) observes that 
the MSMEs in Indian economy contribute 40% in terms of volume, 80% in terms of
employment, 60% in terms of export and 92% in terms of number of enterprises. While comparing the MSME sector with big industries some interesting facts emerge. As per the third census document of MSME, employment-investment ratio is about seven times for MSMEs as compared to big ones. Moreover, investment-output ratio is better for MSME industry.

DEFINITIONAL ASPECT OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

The definition of small scale industries has undergone changes for many times. The main criterion for definition was mainly the investment level and number of employees. The chart below shows the changing pattern of SSI definition.

**TABLE 1.2**

CHANGING PATTERN OF INVESTMENTS IN SSI

<table>
<thead>
<tr>
<th>YEAR</th>
<th>INVESTMENT LIMIT (in Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>Up to Rs. 0.5 million in fixed assets</td>
</tr>
<tr>
<td>1966</td>
<td>Up to Rs. 0.75 million in Plant &amp; Machinery</td>
</tr>
<tr>
<td>1975</td>
<td>Up to Rs. 1 million in Plant &amp; Machinery</td>
</tr>
<tr>
<td>1980</td>
<td>Up to Rs. 2 million in Plant &amp; Machinery</td>
</tr>
<tr>
<td>1985</td>
<td>Up to Rs. 3.5 million in Plant &amp; Machinery</td>
</tr>
<tr>
<td>1991</td>
<td>Up to Rs. 6 million in Plant &amp; Machinery</td>
</tr>
<tr>
<td>1997</td>
<td>Up to Rs. 10 million in Plant &amp; Machinery</td>
</tr>
<tr>
<td>1999</td>
<td>Up to Rs. 30 million in Plant &amp; Machinery</td>
</tr>
</tbody>
</table>

Source: Report of Ministry of Small Scale Industries
A major change took place in 2006 with the enactment of MSME Development Act, 2006. In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified into two categories viz., manufacturing enterprises and service enterprises.

**ENACTMENT OF THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT (MSMED) ACT, 2006**

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of “enterprise” which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium.

The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions. Establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a
scheme for easing the closure of business by these enterprises are some of the other features of the Act.

The Ministry of Small Enterprises has also taken a view, in the light of the liberalized provisions of the MSMED Act 2006, to do away with the restrictive 24% ceiling prescribed for equity holding by industrial undertakings, whether domestic or foreign, in the erstwhile Small Scale Industries (now MSEs). This coupled with the expected legislation on Limited Liability Partnerships (introduced in the Parliament by the Ministry of Corporate Affairs) should pave the way for greater corporatisation of the Small and Medium Enterprises – thereby enhancing their access to equity and funds from the market.

With the introduction of new MSME Act 2006, the Govt. has tried to resolve some major issues related to the MSMEs like complicated bureaucratic registration procedures, lack of finance, lack of managerial skills etc. The most important thing the Act has done is to increase the significance of the sector and to offer a clear definition of MSMEs. Further, the act mandated the composition of the National Board of MSME with clear long run objective of overseeing and regulating the development of micro, small and medium enterprises in India. The broad functions of this board are to manage cluster development, train entrepreneurs, develop infrastructure and promote financial access to this sector.

The MSME Act 2006 has a strict rule regarding payment of dues by increasing penalties substantially for delay in payment. For example, the Act mandates that all payments be made within 45 days failing which the creditor must pay compound
Interest which is higher than the bank rate notified by the RBI. As noted in Section 2.1 of the Act, registration in the MSME sector is voluntary and unregistered firms constitute a significant proportion of the total firms constitute a significant proportion of the total. As a result, proper maintenance of records becomes extremely difficult. The new MSME Development Act 2006 has made the registration procedure much simple and less time taking.

NEED FOR MSME POLICY

Government policy must facilitate a seamless movement from small to medium and large scale sectors. This process must also ensure that the employment intensity of operations, which is crucial to MSMEs, is retained. The opening up of Indian markets to global competition implies that sub standard products would be faced with dwindling space in the Indian market. The basic policy thrust in the MSMEs sector must, therefore, be on ‘enhancing competitiveness’ and ‘promoting job creation’. In this setting, it has become imperative for Government to create a supporting environment for the Industry and the Industrial policy needs to define the role of Government as a facilitator and a catalyst. One has to ensure that while those sub-sectors which have the resilience and strength to cope and thrive get the encouragement to do so, others which need help to adjust to the pace of change or to even just to survive, are given the subsidies and supports needed to do so. In other words, in a country where mobility of employment is limited, where de-skilling and skilling are happening at a rapid rate, a sector which employs a large workforce and manufactures a range of products ranging from pins to aircraft components, cannot be viewed from a perspective of growth which applauds only the fittest of the traditional
and the brightest of the sunrise sub sectors. This is even more compelling when most
developed countries are proactive in market support to MSMEs and have strong
support systems in place to help technology upgradation, skill building and
networking. If increasing competitiveness and being part of a larger production chain
is crucial to Small and Medium Scale sector in the State, in Micro sector, issues of
marketing, technology upgradation, designing and arresting the decline in the
production have become critical. MSMEs should be enabled to access the latest
technology, indigenous R & D and innovation trends need to be encouraged and
infrastructure improved. Government, industry, research institutions and academia
interaction should be facilitated and encouraged to work in collaboration to improve
industry capabilities. Firms should be able to obtain credit easily and cheaply and
should invest in developing technology.

In a labour surplus economy like India, the need for policies and programmes
to promote employment generation is of paramount importance. Manufacturing Sector
has to carry the major burden of increasing employment opportunities in the coming
decades directly or indirectly. This is particularly valid for the unemployed persons
coming from rural and agricultural sectors. Growth of manufacturing sector lends
greater support to Agriculture through more intensive efforts on agro based Industries.
It also creates strong multiplier effects in the services sector in areas like traditional
trading, financial services, transport etc.

Therefore, the overall employment effect of manufacturing would have to
include the indirect generation of employment in the services sector. Besides, within
the service sector those of the sub-sectors that are linked to the manufacturing directly
need to be concentrated upon as they provide substantial job opportunities. It is, therefore, necessary that robust growth of the manufacturing sector is ensured for creating overall growth and employment possibilities in the economy.

Considering the fact that the Micro, Small and Medium Enterprises sector accounts for the major share in number of industrial units, output in manufacturing sector and exports in the State besides being a major employment provider next only to agriculture, the need for vitalising this sector assumes greater importance. Further the Micro and Small Industries Associations in the State have been continuously pressing for a separate Policy for the development of Micro and Small Enterprises in the State. All these have warranted a separate policy for the first time, exclusively for Micro, Small and Medium Enterprises sector.

**INDIA'S MSME SCENARIO**

Micro, Small and Medium Enterprises (MSMEs) have a significant role in Indian economy in terms of output, employment generation, export etc. A recent concept note prepared by UNDP observes that Small Enterprises in Indian economy contribute 40% in terms of volume, 80% in terms of employment, 60% in terms of export and 92% in terms of number of enterprises. If we compare our small enterprises industry with big industries, some interesting facts emerge. As per the third census document of MSME, employment-investment ratio is about seven times for Small Enterprises as compared to big ones. In addition, investment-output ratio is better for small enterprises.
India has nearly three million Small Enterprises, which account for almost 50 percent of industrial output and 42 percent of India’s total exports. A special role for these enterprises was earmarked in the Indian economy with the advent of planned economy from 1951 and the subsequent industrial policy followed by government. Largely, the enterprises developed in a manner, which made it possible for them to achieve the objectives of high contribution to domestic production significant export earnings low investment requirements operational flexibility low intensive imports capacity to develop appropriate indigenous technology import substitution technology-oriented industries competitiveness in domestic and export markets. However, as a result of globalization and liberalization, coupled with World Trade Organsiation (WTO) regime, the small enterprises have been passing through a transitional period. With enhanced competition from China and a few low cost centers of production from abroad many units have of late been facing a tough time.

However, those small enterprises that had a strong technological base, international business outlook, competitive spirit and willingness to restructure themselves withstood the current challenges and came out successful to make their own contribution to the Indian economy.

It is the most important employment-generating sector and is an effective tool for promotion of balanced regional development. These account for 50 percent of private sector employment and 30 to 40 percent of value-addition in manufacturing. It produces a diverse range of products (about 8000 odd items), including consumer items, capital and intermediate goods.
At the same time, the Small Enterprises in India, which constitute more than 80 percent of the total number of industrial enterprises and form the backbone of industrial development, are yet, in technological backwaters vis-á-vis advances in science and technology. These suffer from problems of suboptimal scales of operations and technological obsolescence.

Most of the large companies, even in developing countries, have financial as well as technical capacity to identify technological sources and evaluate alternate technologies that would suit their requirements. However, unfortunately, this capacity is conspicuously missing in most Small Enterprises because of the features of Small Enterprises that make them an ideal target for technological upgradation through technological cooperation with foreign and local enterprises, with R&D institutions and centers of technology development.

Therefore, what these MSMEs enterprises need today is primarily access to new technology? Poor financial situations and low levels of R&D, poor adaptability to changing trade trends, non-availability of technically trained human resources, lack of management skills and lack of access to technological information and consultancy services and isolation from technology hubs, etc. are some of the reasons why these Small Enterprises are not being able to surge ahead.

Today, governments worldwide recognize the importance of small and medium enterprises and their contribution to economic growth, social cohesion, employment and local development. Theses enterprises account for over 95% of enterprises and 60%-70% of employment, and generate a large share of new jobs in
OECD economies. As globalization and technological change reduce the importance of economies of scale in many activities, the potential contribution of smaller firms is enhanced.

However, many of the traditional problems facing the small enterprises i.e. lack of financing, difficulties in exploiting technology, constrained managerial capabilities, low productivity and regulatory burdens, etc., become more acute in a globalized environment. As all economies have the potential to gain from a more dynamic small business sector, and because this sector has specific strengths and weaknesses, policy frameworks and the role of government must evolve for the small enterprises to adapt to new pressures and reap the benefits of globalization.

Encouraging entrepreneurship is high on the agenda of governments in OECD member countries and in transition, emerging, and developing economies, as entrepreneurs are the catalysts of growth, combining capital, innovation and skills. The importance of entrepreneurship stands out in this time of innovative change, and fostering a climate to help the dynamism in firm creation is considered fundamental worldwide.

The government considers the increasingly important role that innovative start-ups and Small Enterprises play in job creation and growth. It addresses issues related to: business environment and regulatory framework, innovation, financing, taxation, human resources, access to markets, electronic commerce, and women’s entrepreneurship. The Group is also strengthening its co-operation with international organisations/institutions and regional bodies, including APEC, International Labour 

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The Indian market is growing rapidly and Indian industry is making remarkable progress in various Industries like Manufacturing, Precision Engineering, Food Processing, Pharmaceuticals, Textile & Garments, Retail, IT, Agro and Service sectors. Small Enterprises are finding increasing opportunities to enhance their business activities in core sectors.

ROLE OF THE MSME SECTOR

The Micro, Small and Medium Enterprises (MSME) sector has been an integral component of the industrial sector. The MSME sector has been accorded special status and importance in the Five-Year Plans since inception in view of the advantages it offers for better utilisation of resources of capital and skill at the local level. The continuous support provided to the sector in the form of incentives, infrastructural facilities and other assistance in the industrial policy resolutions has facilitated the sector to acquire a place of prominence in the socio-economic development of the country. The number of enterprises in the MSE sector is estimated to be over 13 million, providing employment to estimated 42 million persons. As per the latest estimates, MSMEs accounts for about 39 percent of the manufacturing output and 33 per cent of the national exports of the country. Further, in recent years the Small Scale Industries Sector has consistently registered higher growth rate compared to the overall industrial sector.
For achieving the objective of inclusive growth, creation of large employment opportunities is of significant importance. However, the declining employment trend in the organized sector has resulted in agriculture sector continuing to provide employment to almost two-third of the Indian population. With the land holding declining substantially, there is considerable surplus population engaged in the agriculture sector and needs to be provided gainful employment in the industrial and service sectors of the economy. The major advantage of the Small Scale Industries Sector lies in its significant employment potential at low capital cost and the labour intensity in the Small Scale Industries Sector is estimated to be considerable higher than the large enterprises. Hence, the Small Scale Industries Sector provides one of the most viable avenues for absorbing the large surplus population engaged in the agriculture sector.

However, in today’s liberalized and globalized environment, there are several preconditions to enhancing the global competitiveness of the Small Scale Industries. These relate mainly to simplified systems and procedures, easy access to capital, positioning the Small Scale Industries in the global value chain by enhancing their productivity (involving issues like technology upgradation, quality improvement, skill development, etc.) and access to markets (both domestic and global). For the promotion and development of the small and medium industries, the Government has put in place policy measures as well as implemented several schemes/programmes to address the requirements of the Small Scale Industries Sector in these areas.

The Government has been encouraging and supporting the sector through policies for infrastructural support, technology upgradation, preferential access to
credit, reservation of products for exclusive manufacture in the sector, preferential purchase policy, etc. It has been offering packages of schemes and incentives through its specialized institutions in the form of assistance in obtaining finance; help in marketing; technical guidance; training and technology upgradation, etc.

IMPORTANCE OF THE STUDY

The MSME sector has been recognised as an engine of growth all over the world. The sector is characterized by low investment requirement, operational flexibility, location wise mobility, and import substitution. In India, the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 is the one-step forward towards the development of the industrial development.

In most developing countries, as also in India, Small Enterprises have been viewed as an engine of employment generation. Therefore, the MSME Sector in India creates largest employment opportunities for the Indian population, next only to Agriculture. The Sector has emerged as dynamic and vibrant sector of Indian economy and it has been making significant contribution to industrial production, export and employment generation. India has a vibrant micro and small enterprise sector that plays an important role in sustaining the economic growth, by contributing around 39 per cent to the manufacturing output and 34 per cent to the exports in 2004-05. It is the second largest employer of human resources after agriculture, providing employment to around 29.5 million people (2005-06) in the rural and urban areas of the country. Their significance in terms of fostering new entrepreneurship is well-recognized. This is because, most entrepreneurs start their business from a small unit that provides them
an opportunity to harness their skills and talents, to experiment, to innovate and transform their ideas into goods and services and finally nurture it into a larger unit.

With the opening up of the economy and the introduction of economic reforms, the challenges faced by and opportunities to this sector have increased manifold. Reduction in trade barriers and improvement in information technology and communication now allow companies to source products and services from the cheapest and most efficient sources across the globe. The process of opening up of the economy and competition in the market has accelerated and must be taken into account when formulating new policy initiatives. The MSMEs should have the ability to respond effectively to change.

Global practices have come to the Indian market and a high level of technological sophistication is being expected of MSMEs. In this process of forced and accelerated metamorphosis, it is necessary to look at MSMEs in a disaggregated manner. Upgradation of standards is also enabling these MSMEs to export in their own right. To remain competitive MSMEs must constantly upgrade technology and make fresh investments.

Over the years, the MSME sector in India has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro wave components, electro medical equipments, etc. The process of economic liberalisation and market reforms has further exposed these enterprises to increasing levels of domestic and global competition. The formidable challenges so generated for them has led to a novel
approach of cluster development for the sector. As a result, private and public sector institutions, both at the Central and State levels are increasingly undertaking cluster development initiatives.

SCOPE OF THE STUDY

In India, MSMEs are given due importance in the process of industrialization as far back as 1951 when post-independence economic planning was initiated. The Industries Development and Regulation Act legislated by the Centre in that year, became the framework for the small-scale industrial sector's development. The Act determined licensing policies for the sector and the reservation of products, among several other important provisions. The definition of small-scale industries is mainly in terms of investment ceilings, which have changed over the years to keep pace with economic development. Though employment and turnover are also used to define small industries these indicators are implicit in the requirement for registration under the Factories Act, the core definition of SSIs in India remains based on investment limits - "historical costs of plant and machinery."

ERODE DISTRICT: GEOGRAPHICAL AREA OF THE RESEARCH

Erode district is the geographical of the present research. It is one among the industrialised districts in Tamil Nadu and it is fifth among the districts in Tamil Nadu as far as Small Scale Industries concerned. Cotton Textiles in this District dominate the district at present. It accounts for 20.2% of the registered SSI units in the district. Next comes to Hosiery & Readymade Garments industry, which is accounting for 18.7% followed by food products with 11.4% Small Scale Industries are providing
large-scale employment next to Agriculture in this district. It has played a vital role in the district’s economy by providing large scale employment opportunities at relatively low capital cost, a wide entrepreneurial base, easy dispersal of industries in rural areas and concentration of certain industrial groups at specific areas. The notable feature of the SSI sector is its easy dispersal in wide areas. In Erode district, SSI units are spread all over the district even though concentration of the units can be seen in some of the places. Therefore, the district is appropriate for the present research.

**STATEMENT OF THE PROBLEM**

MSMEs play an important role in the development of the country. However, these industries face difficulty in accessing adequate finance for their businesses. Currently, the Indian micro, small and medium enterprises are facing challenges at every stage of their operation, whether it is buying of raw materials, manufacture of products, marketing of goods or raising of finance. These industries are, not in a position to secure the internal and external economies of scale. (A.Selvakumar and Dr.J.A Arul Chellakumar, 2010). Apart from the traditional modes of financing like banks and money lenders, newer sources of financing such as venture capital investment, can take care of their financing requirements. In the case of India, the government has taken several initiatives at both the national and the international levels to improve the availability of finance. However, there are still certain impediments that the units face that are required to be addressed by the government. Those organisations that have properly selected employees will continue to enjoy competitive advantage over others, which have poor selection methods, which have
accumulated non-performing / non-productive staff. (Ongort Henri and Temtime Z (2009).

With the introduction of reform measures in India since 1991, the Govt. has framed many protective policies for the Micro, Small and Medium Enterprise (MSMEs) and introduced promotional policies to increase competitiveness of the sector. Though globalization process has expanded the market facilitating supply of superior technology, this has also forced the MSMEs to face ruthless competition from large domestic firms and the MNCs.

Annual Average Growth Rate (AAGR) has been used as the major statistical tool to compare the performances of MSMEs during pre and post-liberalization period with the help of four economic parameters namely No. of units, production, employment and export. But, the data show that except marginal increase in growth rate in employment generation, the growth rate in other parameters is not encouraging during the liberalization period. So, the prospects of the MSM units are questionable still and no remarkable radical changes take place in this sector.

In the light of these aspects, it is inferred that the every nook and corner of the business functions of the small enterprises is the problem to the units. MSMEs functioning in Erode district are not exceptions to this. The MSMEs face their problems in every functional area of business i.e, finance, production, marketing, labour and other related issues. So, these are considered as the research problems of the present study.
OBJECTIVES OF THE STUDY

Following are the objectives of the present study:

1. To study the growth and performance of the MSM Enterprises.
2. To study socio economic profile of the Micro, Small and Medium Enterprises in Erode district
3. To analyse financial, marketing, production and labour problems of the MSM Enterprises in Erode district
4. To identify the causes for the problems of the MSM Enterprises
5. To measure the satisfaction, awareness and study the attitude of the MSM Entrepreneurs towards their business and
6. To render suitable suggestions to the MSME sector

HYPOTHESES

1. Experience of the entrepreneurs and their level of satisfaction towards profitability of the business measures are associated.
2. Marital status of the respondents and their level of satisfaction towards financial Condition are associated

RESEARCH METHODOLOGY

The present study is an attempt to study problems and prospects of the MSMEs. For this, Erode district has been selected as the geographical area of the study. Now Erode District consists of 5 taluks viz., Erode, Perundurai, Gobichettipalayam, Sathyamangalam, and Bhavani. All taluks are covered in this research.
POPULATION AND SAMPLES

The concept of MSMEs emerged in 2006 as per the MSMED Act, 2006. Total number of registered MSMEs was 1,386 as on during the year (2006-07). Population of the study is restricted as the units registered in the year of 2006-07 only in the DIC, Erode. As the MSMEs spread allover the district, it is advisable to cover the entire district to select samples. As per a survey, conducted by Tara Nat Shaw (2010) in Harahan, the present research takes sample MSM Entrepreneurs from all the talks of Erode district randomly. The Table No. 1.3 shows the details of population and samples. From every talk, 50% sample MSMEs were selected by using simple random sampling technique.

TABLE NO. 1.3
DETAILS OF SAMPLE MSMEs

<table>
<thead>
<tr>
<th>Sino</th>
<th>Name of Taluk</th>
<th>Number of MSMEs (N= 1,386)</th>
<th>No. of Samples (50%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Erode</td>
<td>432</td>
<td>216</td>
</tr>
<tr>
<td>2</td>
<td>Perundurai</td>
<td>304</td>
<td>152</td>
</tr>
<tr>
<td>3</td>
<td>Gobichettipalyam</td>
<td>223</td>
<td>112</td>
</tr>
<tr>
<td>4</td>
<td>Sathyamangalam</td>
<td>146</td>
<td>73</td>
</tr>
<tr>
<td>5</td>
<td>Bhavani</td>
<td>281</td>
<td>140</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>1,386</strong></td>
<td><strong>693</strong></td>
</tr>
</tbody>
</table>

Source: Records of DIC Erode.
VARIABLES USED

This study takes two types of variable viz., socio economic variables and research variables.

The socio economic variables are the background information of the MSMEs such as

- Age of the Firm
- Locality of the enterprise
- Investment size
- Type of business (manufacturing, service)
- Type of product/ service offered
- Nature of ownership (sole proprietorship/ partnership/ joint stock company/ cooperative society)
- Number of workers
- Annual turnover
- Profit / loss

The research variables are related to the practical problems of the enterprises in terms of finance, production, marketing, labour and other related aspects.

PILOT STUDY

A preliminary investigation into the research problem was undertaken in the district among various groups i.e, entrepreneurs / managers of MSMEs, District Industries Center, Erode and commercial banks. The study has revealed that the many
MSMEs suffer from loss for many years and some of them are the sick units. In addition, the survival of the units is a question in the competitive environment.

**DATA USED**

The present study has based on both primary and secondary data. The secondary data have been collected from the website of the Ministry of Small and Medium Enterprises, the Government of India, journals, reports, books and web sites. The primary data were collected through the questionnaire distributed among the entrepreneurs of the MSME industries located in Erode district.

**QUESTIONNAIRE**

A questionnaire has been used to collect the primary data. It has two main sections i.e, socio-economic profile and functional areas. The first section asks the details of the units relating to the background information and historical data of the industries. The second section covers all the functional areas of the business such as finance, production, marketing, labour, accounting and other related functions.

**ANALYSIS OF DATA**

The data have been analysed through SPSS (15.0) version. The researcher classified the data on various basis and the processed data are presented in tables. In this analysis, the questions of the questionnaire were taken in the chronological order. Responses of every question were tabulated and then analysed for percentage analysis. In the percentage analysis, responses for every question were analysed with the help of percentages. The first section is the simple percentage analysis that is done with the responses of the 693 selected MSM entrepreneurs of Erode district in order of the
questions contained in the questionnaire. The percentage is a common tool to use make inferences from analysis of data. It reveals the characteristics of the data so that it is used and it is useful to decide whether a particular aspect is desired or opposed by majority respondents or not. The inferences are made from the percentage analysis from majority percentages or minority percentage of a segment of particular variable. The second section is concerned with the testing of the hypotheses with the help of chi square test. The third section includes advanced statistical tools such as Factor Analysis, Multiple Regression Analysis, Multi Discriminant Function Analysis (M.D.F.A) and Discriminate Analysis

Analysis of level of satisfaction of the MSM Entrepreneurs is one of the objectives of the present study. This is done in this section with the help of Likert’s Five Point Scale viz., highly satisfied, satisfied, neutral, dissatisfied and highly dissatisfied. For this analysis the following dimensions have been taken for consideration:

1. Profitability of the business
2. Financial Conditions
3. Banker’s Support
4. Market Condition of the Product
5. Performance of Labour
6. Present Price Level of Product
7. Advertising Pattern

The analysis is done on the basis of number of MSM Entrepreneurs for every point of the scale (percentage analysis).
ANALYSIS OF LEVELS OF AWARENESS

Analysis of level of awareness of the MSM Entrepreneurs is one of the objectives of the present study. This is done in this section with the help of Four Point Scale viz.,

1. Fully Aware
2. Sufficiently aware
3. Partly aware
4. Not aware

For this analysis the following dimensions have been taken for consideration:

1. Incentives and subsidies
2. Role of D.I.C / Other Institutions
3. Governmental Policy on MSME
4. Change in The Business
5. Competitors’ Movement

ANALYSIS OF ATTITUDE OF THE MSM ENTREPRENEURS

Analysis of the attitude of the MSM entrepreneurs of Erode district is one of the objectives of the study. For this purpose, seven attitude statements were set and they are studies with the help of 5 point scale such as strongly agree, agree, moderate, disagree and strongly disagree. The following attitude statements are studied in this section.

1. My business has a bright future
2. Competition is not a problem to me
3. Attractive advertising develops the business
4. Training programme is useful to develop skill
5. Credit sale extends the business
6. Changes in business can not be predetermined
7. LPG is favourable to develop the business

STATISTICAL TOOLS USED

CHI SQUARE TEST

Chi square test is an important test amongst the several tests of significance developed by statisticians. It is a statistical measure used in the context of sampling analysis for comparing a variance to a theoretical variance. As a non-parametric test, it can be used to determine if categorical data shows dependence or the two classifications and the actual data when categories are used. The present study takes the chi square test to test the hypotheses. Experience of the MSMEs and level of satisfaction on profitability on one hand and marital status and financial conditions of the firm on the other hand have been taken into consideration for the test in this study.

FACTOR ANALYSIS

Factor analysis is a method used to transform a set of variables into a small number of linear composites, which have maximum correlation with original variables. Factor analysis is used to study the nature of products manufactured in MSMEs, in order to identify the major characteristics or factors considered important by the respondents.
Statistics associated with factors analysis

Bartlett’s test of sphericity can be used to test the null hypothesis to conclude that the variables are not correlated with the population. The test of sphericity is based on the Chi-square transformation of the determinant of the correlation matrix.

Kaiser-Mayer-Olkin-measure of sampling adequacy

This index compares the magnitude of the observed correlation co-efficient to the magnitude of partial correlation co-efficient.

Eigen-values and communalities

A factor’s Eigen value or latent route is the sum of the squares of its factor loading. It helps us explain how well a given factor fits the data from all respondents on all the statements. Communalities are the sum of squares of a statement’s factor loading, i.e. it explains how much each variable is accounted for by the factors taken together.

Bartlett’s test of sphericity and Kaiser Meyer Olkin measures of sample adequacy is used to test the appropriateness of the factor model.

MULTIPLE REGRESSION ANALYSIS

The relationship between the level of satisfaction of the entrepreneurs with functions of MSMEs in Erode District and seven independent factors are studied. The 7 independent variables used in multiple regression analysis are shown below. They are age, category, education, experience, financial Sources, marital status and no of dependents.
MULTI DISCRIMINANT FUNCTION ANALYSIS (M.D.F.A)

In order to find the degree of variations against the level of satisfaction perceived by the entrepreneurs on MSMEs in Erode District, Mahalanobis Multi Discriminate Analysis has been made out of 693 respondents of the study area who are divided into two groups, one is with low level of satisfaction and the other is with high level of satisfaction on functions practiced by MSMEs in Erode District.

RELATIVE DISCRIMINATING INDEX

For each variable the respective D.F. co-efficient, its mean for each group and $R_j$ are given. $R_j$ called relative discriminating index is calculated from the discriminant function coefficient and group means. $R_j$ tells us how much each variable is contributing (%) to the function.

LIMITATIONS OF THE STUDY

1. This study is concerned mainly with the primary data collected from the 693 sample MSM entrepreneurs towards the prospects and problems. Their perception may change as their experience changes in due course. So, their satisfaction, awareness, attitude and perception are not static and they may change in future.
2. The study takes the registered MSMEs only which have been registered during the 2006-07 in the DIC, Erode.
3. No comparative study has been made among the micro, small and medium enterprises. These firms are viewed as one sector.
4. As the research has been made in Erode district, the findings may not be appropriate to other areas of the country as the areas have different geographical and demographical conditions.
CHAPTERISATION

The present study is organized into five chapters as per the details given below:

The first chapter deals with the design and execution of the study.

The second chapter is Review of Literature.

The third chapter is the Growth and Performance of the MSMEs.

The fourth chapter is devoted to the analysis of the problems, level of satisfaction, level of awareness and attitude of the MSM entrepreneurs in Erode district.

The last chapter summarises the findings and Suggestions of the study.