

# A Performance Analysis of Indian MSMEs

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### ABSTRACT

**Purpose:** *Over the decades MSMEs have been reckoned as the driving force of the Indian economy and they have geared up the industrialization process to a large extent. This sector contributes about 40 percent towards the export of the country and attracts Foreign Direct Investment. India is privileged as a global manufacturing corridor by encouraging and supporting MSMEs to create employment opportunities, especially in rural areas, and to increase the purchasing power of individuals at the bottom of the pyramid. In this scenario, efforts have been made: one, to study the role of MSMEs in the Indian economy, and two, to do the Strengths, Weaknesses, Opportunities, and Challenges (SWOC) analysis, for understanding the internal and external factors which influence the MSMEs.*

**Design/Methodology/Approach:** *Present paper adopted conceptual research, based on the secondary data gathered from various statutory bodies like RBI and annual reports of the Government Ministry of MSME, research papers published in refereed journals and websites.*

**Findings/Results:** *MSMEs contribute to generating employment, by mitigating regional imbalances through the development of business in economically backward areas. Likewise, they generate a significant contribution to improving the Gross Domestic Product of India. During the recent pandemic period, it contributed 30% towards GDP. Within the MSME sector, while 630.52 lakh enterprises are operating in a micro-sector, 3.3 lakh and 0.05 lakh enterprises are operating in the small and medium sectors respectively. More than 51% of MSMEs are established in rural regions and 49% in urban regions. The study observes that there is parity between rural and urban areas. At present, MSMEs provide 110 million employments, out of which 76% are male and 24% female based on gender. This sector has many strengths and weaknesses. Likewise, it also provides greater opportunities to uplift the Indian Economy by initiating the activities like Atmanirbhar Bharat and Production Linked Scheme (PLC), incentives, subsidies, and funding support. These policy changes will push the MSMEs to face global competition and facilitate India as the manufacturing hub of the world.*

**Value:** *Apart from providing a broad view of MSMEs' performance in India, this paper attempts to analyze such performance within the Strengths, Weaknesses, Opportunities, and Challenges (SWOC) framework. Researchers, who would like to have an impressionistic view of the MSME sector in the Indian economy during the recent past, can make the best use of this paper.*

**Paper Type:** *Case study.*

**Keywords:** Performance of MSMEs, SWOC analysis, MSMEs, SMEs.

### 1. INTRODUCTION :

Ever since the days of the new economic policy of the 1990s, the development debates were focused on analyzing and appreciating the different facets of small enterprises of all forms and sizes. These small enterprises contribute significantly to the country's economic and social growth by encouraging entrepreneurship and creating enormous job opportunities at a low capital cost, second only to agriculture [1]. India is a country with a highly valued and expanding demographic dividend often

characterized by the growth of many Micro Small and Medium Enterprises (MSMEs). Over the last six decades, MSME has evolved into a vibrant sector of the Indian economy. It not only assists to industrialize rural and underdeveloped areas but also reduces regional disparities. They assure that national revenue and wealth are distributed more equitably. They also contribute to the creation of a large number of jobs at a lesser cost than large corporations. Apart from it, these MSMEs function as ancillary units for big businesses and contribute considerably to the country's socio-economic progress. The Ministry of Micro, Small, and Medium Enterprises (M/o MSME) anticipates a thriving MSME sector by accelerating economic development, providing assistance to existing businesses, and encouraging the creation of new business in association with relevant Ministries/Departments, State Governments, and other stakeholders. They are the supporters of India's traditional and historic industries, such as agriculture and natural medicine, and therapeutic products and services, to flourish and expand their global markets [2]. They play a vital role in manufacturing and service sectors like packing, food, beverages, etc., as they comprise a large component of the economy's secondary and tertiary sectors. There are no limitations in the operations of a business as a result a variety of ownership patterns in MSMEs can be found, including Sole Proprietorships, Partnerships, Hindu Undivided Family, Cooperatives and Corporations, and others. They have aided the expansion and development of numerous product segments and industries by producing and manufacturing a wide range of items for both home and foreign markets [3]. According to the MSMEs annual report for 2020, they contribute 6% and 24% of the GDP in the manufacturing and service sector respectively. In India, both registered and unregistered MSMEs cross 63 million and contribute nearly 40 percent of national income. It endeavors social responsibility by creating employment for over 110 million rural and underprivileged areas to eradicate regional disparities. To increase the export potential of MSMEs, Special Economic Zones and Export Promotion Zone have been created [4]. These enterprises encourage a new breed of entrepreneurs hailing across society who have the prospects to build globally competitive enterprises [5]. For the sustainable development of MSMEs, credit facilities are easily accessible to enterprises along with priority being given to basic infrastructure facilities, and efforts are made to develop the competency of human resources. According to the Federation of Indian Chamber of Commerce and Industries (FICCI) survey, 60% of MSMEs are affected by the Covid-19 pandemic. The enterprises with weak consumer demand struggled for survival. The pandemic affected economic activities and caused supply-side disruptions in the market which created panic buying by the public. This further resulted in the push up the price level in the economy which later resulted in a demand shock. Hence, the double whammy of supply-demand disruptions has arisen [6]. To revitalize the sector government made many interventions and 45 lakh business units resumed their activity through the collateral-free loan facility. Foreign tenders up to Rs200 crore were disallowed by the Indian Government to avoid unfair foreign competition. The Covid-19 problem offered them a once-in-a-lifetime opportunity to break out of the sad situations write their destiny and regain their economic ability with the aid of government subsidies [7].

**2. REVIEW OF LITERATURE :**

Using various methodologies, researchers have made major contributions to analyzing the MSME sector. The below table review of literature related to the Industrial analysis, in general, and the MSME sector has been presented.

**Table 1:** Review of articles related to MSME and SWOT analysis

S. No.	Field of Research	Focus	Outcome	Reference
1.	Revival of MSME	The revival of MSMEs after Covid-19 in the light of government measures toward revitalization.	Researchers critically analyzed the new MSME definition, relief package, and eligibility criterion from the stakeholders' point of view.	Jha et al., (2020). [7]

2.	Performance of Small Scale Industries.	The paper highlights the development of Small Scale Industries (SSI) in India with the help of government schemes and policies.	It identified the major problems faced by the SSI. The study found that these units in India failed to accept the challenges of globalization.	Shashank et al., (2021). [8]
3.	Initiatives of MSME	The paper explained the MSMEs in India and their contributions to Make in India.	It highlighted the government initiatives like 59 minutes loan portal SAMPARK etc to promote this sector. It was concluded that the government is required to provide registration benefits to this sector for the development of the Indian economy.	Aswathy et al., (2019) [9]
4.	Demographic profile of Indian MSME	In this paper, an effort has been made to investigate the demographic profile of Indian MSMEs.	It was found that the country's socially disadvantaged sections own a relatively small number of enterprises. Those enterprises are under micro sectors and almost all are community-based enterprises.	Paramasivan, (2020). [10]
5	Role of Women in the MSME sector	The paper examines the current status of women-owned SMEs in India. It analyzed the problems faced by women in establishing and managing SMEs. An effort has been made to study the Government schemes specially designed to support women-owned enterprises.	The study found that there is a lack of awareness regarding government schemes for women-owned SMEs. Due to this smaller section of society are benefited from government-sponsored activities.	Khan, (2014). [11]
6.	Semi-Log Growth model of MSME	In this paper, the researcher determined the Growth Model of MSME in India by using the Annual Growth Technique.	It considered fourteen years of data from 2001 to 2014. Researchers used Least Squares, Breusch-Godfrey Correlation, and Durbin-Watson as a statistical tool and concluded that there is no discernible change in the growth model, and with significant	Saravanan et al., (2018). [12]

			effort; the economy will be able to achieve full employment.	
7.	Future prospectus of MSME	The paper explores the growth and challenges of MSMEs in India. The researcher considers fifteen years of data from 2001 to 2015 to study the growth. Also, an effort was made to examine the contribution made by the government to strengthen this sector.	The study identified that there is an improvement in return on investment and growth rate which attracts foreign investment. At the same time, there is more demand for Indian handmade articles.	Zanjurne, (2018). [13]
8.	SWOT technique to analyze MSME strategies.	The study explains the internal and external factors of MSMEs in Indonesia by using the survey method. It analyzed the factors by selecting 39 enterprises in this sector as samples.	The study found that this sector lags in good administration and management and has limited access to financial resources.	Jatmiko et al., (2021). [14]
9.	MSME reforms-SWOT analysis	The study explains the SWOT analysis based on the primary data collected from 163 MSMEs in the Peenya Industrial area of Bangalore. The data was collected through email and personal interviews.	Researchers found that MSME units are very negligent towards training and lack long-term planning. Meeting customer expectations is a major challenge and at the same time, employee cooperation is the biggest strength.	Hedge et al., (2018). [15]
10.	MSME in rural society-SWOT analysis	The detailed SWOT analysis of MSME in Odisha was conducted through primary data collected from rural areas of the Ganjam district.	It identified micro, small and medium industries in that area and conducted a personal interview of entrepreneurs, and made an analysis. For the development of this sector, it recommended a district-based cluster model to avoid the concentration of talent and products in a single area.	Das, (2017). [16]

11.	Performance Evaluation of MSME	The evaluation of production, employment, and export of MSME in pre and post-globalization period.	The study found that the growth of MSME has a negative impact after globalization.	Venkataramanaiah et al, (2019). [17]
12.	Lean manufacturing concept in MSME	The researcher used SEM and TOPSIS models to evaluate the performance of MSME	The researchers identified the Critical success factors and ranked the selected industries.	Ravikumar et al, (2016). [18]
13.	Performance of MSME	The MSME's contribution to GDP is measured by considering the data from 2006 to 2013	The researcher identified that the growth rate of MSMEs is decreasing.	Shaik et al, (2017). [19]
14.	Growth and Prospects of MSME	The growth of MSMEs was studied from 2002 to 2012.	Based on the growth and prospects it is recommended that government should identify barren land and sanction MSME at a reasonable rate.	Dey et al, (2014). [20]
15.	Role of MSME	The study explained the growth of MSMEs and identified the opportunities.	The researcher found that there is a need for a specialized quality testing center that will help to promote the export.	Syal et al, (2015). [21]
16.	Indian MSME	The paper highlights the Opportunities and Constraints of Indian MSME	The researcher found that government assistance through various programmes is a major opportunity and the lack of information on schemes is the main constraint.	Biswas, (2015). [22]
17.	Role of MSME	The paper analyzes the employment opportunities and challenges faced by MSME	The study identified that a focused policy is necessary to improve the competitiveness of MSMEs.	Vibhuti et al, (2016). [23]
18.	Performance of MSME	The study examines the position and growth of MSMEs in India.	The researcher found that the lack of awareness among entrepreneurs is a major hindrance to the development of MSMEs.	Kulkarni et al, (2010). [24]
19.	Performance of MSME	The paper explains the socio-economic status and operational performance of	The study revealed that the MSME units in Coimbatore contribute to industrial	Jayanthi, (2020). [25]

		MSMEs in Coimbatore.	development in the district.	
20.	Growth and performance of MSME in Jammu and Kashmir.	The study considered employment as the dependent variable and the number of units as the independent variable.	The researcher used a linear regression model to check the model. Problems in MSME are identified and ranked them using Garrett's rank.	Ahmed et al, (2018) [26]
21.	Industrial analysis	The paper describes the procedure to conduct Industrial Analysis as a case study method.	It throws light on more than twenty different types of industrial analysis. It recommends case study analysis for management research.	Aithal, P. S. (2017). [27]
22.	SWOT analysis	The overall analysis of Telegram services	The study reviewed the features, competitors, and strategy of telegram services. An effort has been made to evaluate this sector through SWOT analysis.	Thomas et al., (2022) [28]
23.	SWOT analysis	Digital Payment services in India	Unified Payment Interface analyzed using SWOT analysis.	Mahesh et al., (2021) [29]
24.	SWOT analysis	Case study of Paytm	The SWOT analysis helped to find that procedures and strategies are necessary for sustaining in the financial field.	Puneeth et al., (2021) [30]
25.	SWOT analysis	The E-Commerce industry in India	Through SWOT analysis it was found that the E-Commerce market has the maximum opportunity to grow more quickly with the support of the government.	Pallivalappil, et al., (2021) [31]
26.	SWOT analysis	Challenges of the Bicycle industry in India	Adaptation of Artificial Intelligence in manufacturing bicycles is the main requirement identified through SWOT analysis.	Puneeth et al., (2021) [32]

### 3. RESEARCH GAP :

MSMEs are the backbone of the economy, and for its development, many schemes and initiatives are undertaken by the government [7, 8, 9]. All categories of society including socially disadvantaged sections and women play an important role and contribute to the development of this sector [10, 11]. The researcher used a growth model to prove the growth of this sector [12]. Also, studies are conducted to analyze the challenges by considering the data till the year 2015 [13]. Although many studies were

made on SWOT analysis related to specific regions with certain industries of that specific area, SWOT analysis at the pan India level has not been made [14, 15, and 16]. Many studies were conducted on the growth and performance of MSMEs in India [19, 20, 21, 22, 23, and 24] and efforts were also made to study MSMEs in different States [25 and 26] by considering data till 2015. Moreover, an effort was made to study the post-globalization period performance of MSME mainly focused on employment and export [17]. In the year 2020, the MSME demarcation has been modified and many industries were added under the MSME category. Apart from it, the changing paradigm in the economy brought new opportunities like Make in India, Digital India, and *Atmanirbhar Bharat*. In the light of changed circumstances, there is a need for studying the recent performance of the MSME sector in India by considering the recent years' data till 2021.

**4. RESEARCH AGENDA :**

The study aims to address the following research agenda:

- (1) What is the governance framework of Indian MSME?
- (2) What is the role of MSME in the development of the Indian economy?
- (3) What are the strengths and opportunities of Indian MSME?
- (4) What are the weakness and challenges of Indian MSME?

**5. OBJECTIVES OF THE STUDY :**

The study has made with the following objectives:

- (1) To understand the governance framework of the Indian MSME sector.
- (2) To study the role of MSME in the development of the Indian economy.
- (3) To identify the strengths and opportunities of the Indian MSME sector.
- (4) To identify the weakness and challenges of Indian MSMEs.

**6. RESEARCH METHODOLOGY :**

The present study is based on secondary data collected from various statutory agencies such as the RBI and the Government Ministry of MSME's annual report, as well as research papers published in scholarly journals and websites. The past seven years' data from 2014 to 2021 is considered to study the role of MSMEs in the development of the Indian economy.

**7. REVIEW OF GOVERNANCE FRAMEWORK FOR INDIAN MSMEs :**

Before Indian independence MSMEs were known as Small Scale Industries (SSI). The SSI's contribution to economic growth at the national level was identified in the year 1938 by the National Planning Committee. At that time SSI was a composite group of Village and Small Industries consisting of varieties of industries [33]. After independence, SSI was further divided into many entities as shown in Table2. Each new government has made efforts in framing policies and programmes that not only fostered but also safeguarded entrepreneurs. Governments supported MSMEs from time to time, through their reservation policies, technical advancements, fiscal and marketing help, and revisions of investment ceilings [34]. For administrative purposes in 1999, the Government of India created the Ministry of Small Scale Industries Agro and Rural Industries. Later on, to manage in a better way the ministry was further split into the Ministry of SSI and the Ministry of Agro and Rural Industries. In 2007, both ministries were merged under a single ministry named the Ministry of MSME.

**Table 2:** Division of MSMEs in Different Periods [33]

Before Independence	1947 SSI as	After the 1950's SSI as	2006 act MSMEs as
Village and Small Industry	1. Auxiliary Industry	1. Cottage Industry	Manufacturing & Service enterprises as 1. Micro 2. Small 3. Medium
	2. Service Enterprises	2. SSI	
	3. Manufacturing Enterprises	3. Tiny Industry	
		4. Ancillary	
		5. Agro base Industry	
		6. Khadi village Industry	



		7. Coir Industry	
		8. Small Scale Service Enterprises	
		9. Small Scale Service & Business Enterprises	
		10. Export-oriented unit	

**7.1 Micro, Small, and Medium Enterprises Development Act:**

The initial version of this Micro, Small, and Medium Enterprises Development Act was passed in 2006 to facilitate the growth and development of micro, small, and medium-sized businesses and also to encourage them to compete among themselves on an equal footing [35]. The provisions of this statute make it simple to get small business loans. Micro Small and Medium Enterprises Development Act 2006 classifies MSMEs into Manufacturing and Service Enterprises. These enterprises were further classified, based on annual turnover and investment in plant and machinery for manufacturing enterprises and investment in equipment. Later on, this classification was again modified and investment in plants and machinery was removed. To bring more enterprises under this category and to make part of *Atmanirbhar Bharat Abhiyaan*, the demarcation was done based on investment and turnover. Table 3 shows the demarcation of Indian MSMEs according to MSME Act.

**Table 3:** Demarcation of Indian MSMEs (in Rupees)

Enterprises	Act of 2006		Revised on 2020 (All enterprises)	
	Manufacturing Sector	Service Sector	Investment in Plant and Machinery or Equipment	Turnover
	Investment in Plant & Machinery	Investment in Equipment		
Micro	Max limit 25 Lakhs	Max 10 Lakhs	Max 1 Crores	Max 5 Crores
Small	Min 25 Lakhs Max 5 Crores	Min 10 Lakhs Max 2 Crores	Max 10 Crores	Max 50 Crores
Medium	Min 5 Crores Max 10 Crores	Min 2 Crores Max 5 Crores	Max 50 Crores	Max 250 Crores

Source: MSME Annual Report [36] and MSME e-book [37]

Under this Act, the government has implemented several policy measures and programmes to encourage MSMEs, which are as follows:

- Easy approval of bank loans
- Charging a low rate of interest on MSME loans
- Exemption from excise duty
- Low rate of direct taxes
- Priority in site allotment in industrial estates
- Low rate of power tariffs
- Subsidies for capital investment

**8. ROLE OF MSMEs IN THE DEVELOPMENT OF THE INDIAN ECONOMY :**

MSMEs contribute considerably to the country's economic and social growth by encouraging entrepreneurship and creating large job opportunities at a cheap capital cost. They act as support units to big companies, and this sector makes a considerable contribution to the nation's inclusive industrial growth. They are expanding their economic sphere of influence, generating a diversified series of products and services to meet the needs of both home and foreign markets.

**(1) Contribution to GDP:** MSMEs are considered an engine of growth by contributing 30% to Gross Domestic Product (GDP) and generating employment opportunities. The government has realized the importance of MSMEs and new policies were framed for the benefit of industries. Government initiatives may contribute to increasing the GDP percentage in the future. Table 4 gives statistics on GDP in the country for the past seven years.

**Table 4:** Contribution to GDP

Year	Contribution to GDP (in %)
2014-15	29.34
2015-16	29.48
2016-17	29.25
2017-18	29.75
2018-19	30.2
2019-20	30.5
2020-21	30

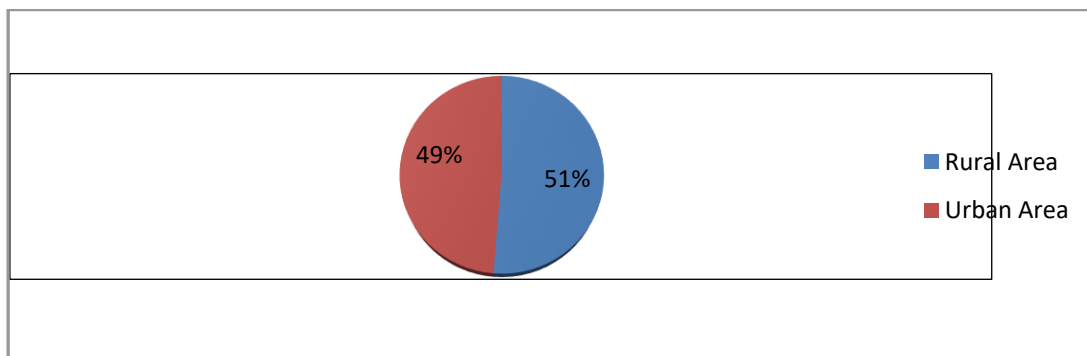
Source: Annual report of Ministry of MSME 2020-2021 [36]

**(2) Removes Regional Imbalances:** Generally, business enterprises were started and established only in urban areas whereas MSMEs are encouraged and started in rural areas to remove the regional imbalances and allow rural development. They were established in urban and rural areas almost in the same proportion and led to rural area prosperity. It minimizes the income disparity between urban and rural areas, reduces migration, and encourages regional growth. Sector-wise distribution of enterprises is shown in table 5 and figure 1.

**Table 5:** Sector-wise Distribution of Enterprises

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.1	0.8	0.01	324.9	51.25 or 51
Urban	306.4	2.5	0.04	309.0	48.75 or 49
All	630.5	3.3	0.05	633.9	100

Source: Annual report of Ministry of MSME 2020-21 [36]



**Fig. 1:** Percentage of rural & urban MSMEs in India [36]

**(3) Employment:** Financial capital may be limited in India, but human capital is abundant. MSMEs' capital-labour ratio is less compared to large enterprises, making them better suited for growth and employment. Since 1960, India's MSME sector has risen drastically, with an annual growth rate of 4.62 percent in terms of employment (currently employing 110 million). It not only creates jobs but also helps to prevent rural-urban migration by providing a stable source of employment for those living in rural areas.

**Table 6:** Employees working in MSME for the year 2020 (Number in millions)

Enterprises	Rural	Urban
Micro	48.93	58.69

Small	0.79	2.41
Medium	0.06	0.16
Total	49.78	61.21
Source: Statista.Com [38]		

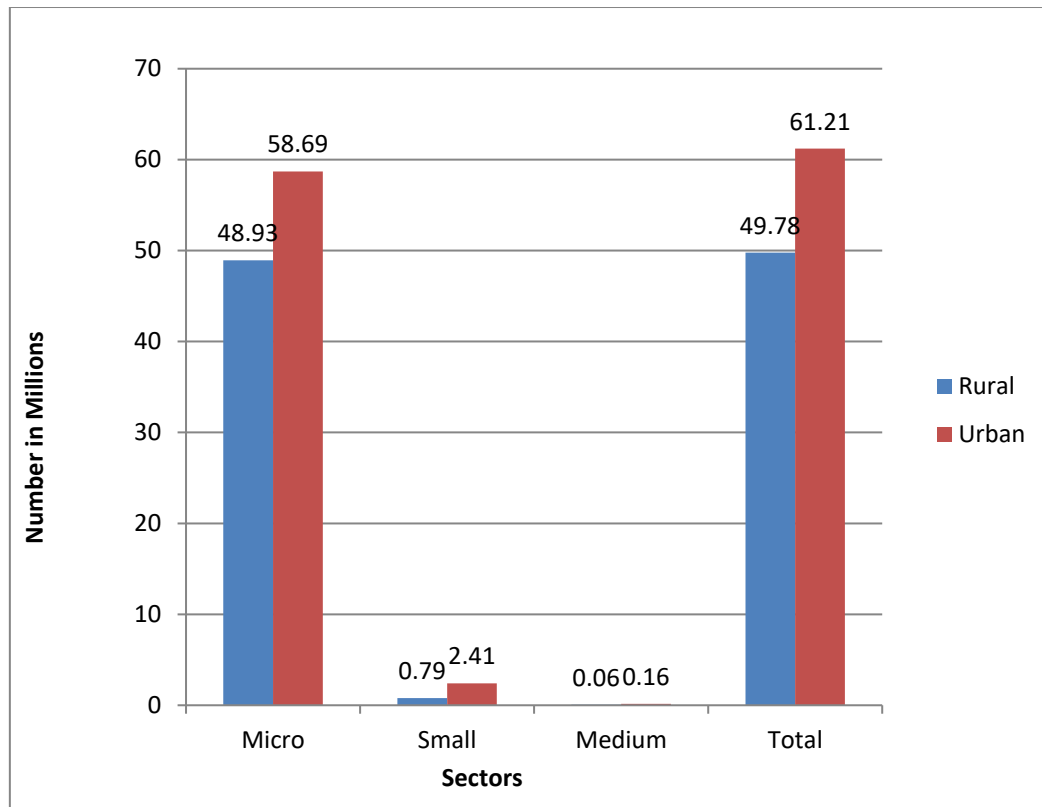


Fig. 2: Number of employees working in MSME [38]

(4) **Socio-economic development:** They have helped to industrialize these areas at a low cost of capital. MSMEs have been crucial in offering employment opportunities in rural areas for both men and women. In comparison with mega industries owned by big companies, these MSMEs have helped to industrialize backward areas at a minimal cost of capital. This sector has made a significant contribution to the country's socio-economic growth as a complement to major industries. Table 7 and Figure 3 provide information about the category-wise distribution of employment.

Table 7: Category-wise Distribution of Employment

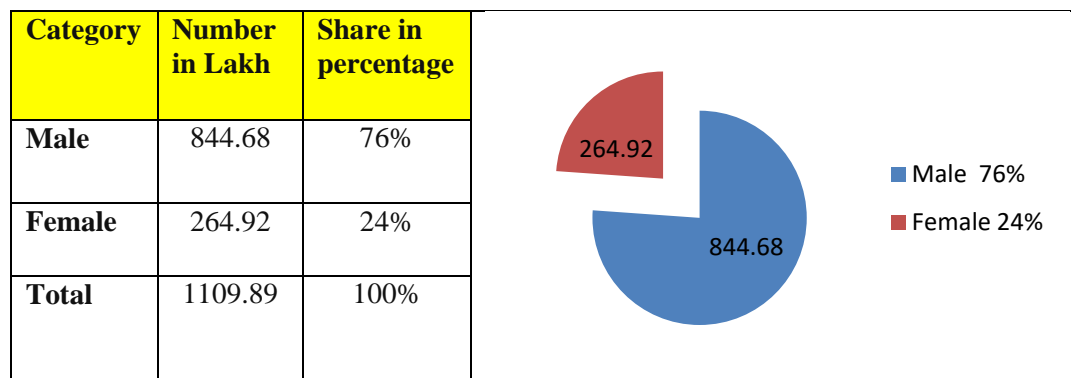


Fig. 3: Category-wise distribution of employment

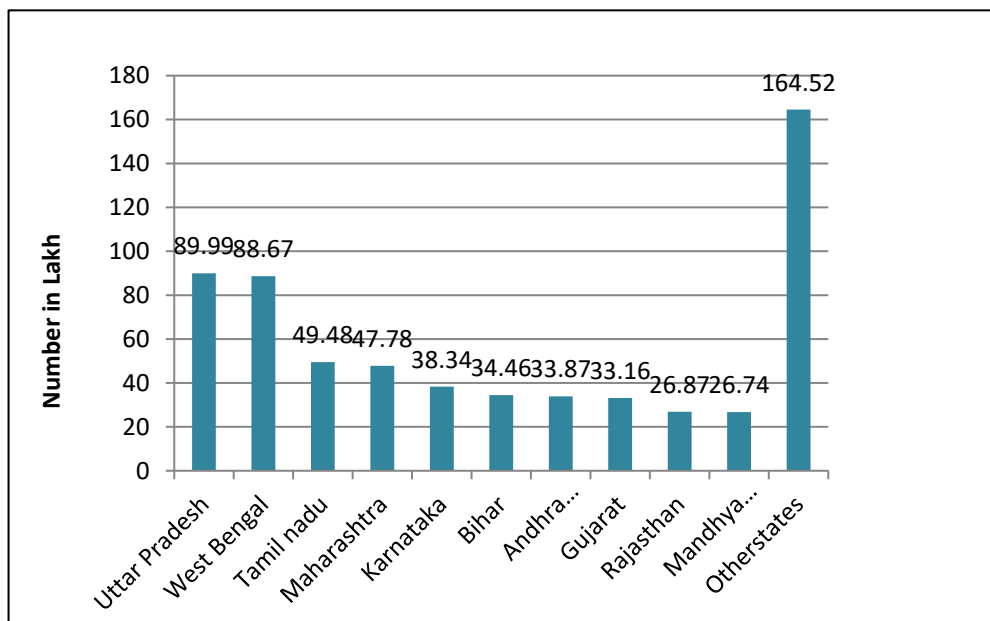
Source: Annual Report of Ministry of MSME (GOI) 2020-2021 [36]

(5) **State-wise Distribution of MSMEs:** In India, the state of Uttar Pradesh occupies a prominent position in the establishment of MSMEs; its share is 14%. Table 7 gives details of the top ten states which occupy 74% of the country’s share and other states that take 26% share. The scenario has been depicted in the form of figure number 4 given below.

**Table 8:** State-wise Distribution of MSMEs

S. No.	State	Number in Lakh	Share (in %)
1	Uttar Pradesh	89.99	14
2	West Bengal	88.67	14
3	Tamil Nadu	49.48	8
4	Maharashtra	47.78	8
5	Karnataka	38.34	6
6	Bihar	34.46	5
7	Andhra Pradesh	33.87	5
8	Gujarat	33.16	5
9	Rajasthan	26.87	4
10	Madhya Pradesh	26.74	4
11	Total of above ten states	469.36	74
12	Other states	164.52	26
13	All	633.88	100

Source: Annual Report of Ministry of MSME (GOI) 2020-2021 [36]



**Fig. 4:** State-wise distribution of MSMEs [36].

(6) **Export Performance:** To promote the export of Indian manufactured goods, the Government has introduced the Merchandise Exports from India Scheme (MEIS). For the encouragement of export, a reward will be given to MSMEs who participate in export. Due to the effort of the Government MSMEs take a 45% share in the total export of India.

(7) **MSMEs and Digitalisation:** There are currently 42.5 million MSMEs in India, with 43 percent of them using a variety of online platforms to sell and advertise their products and services. MSMEs operating in the most remote parts of the country can reach a national market with the help of online retail stores [39]. At present, our country has about 700 million Smartphone users whose number has been increasing at the rate of 25 million per quarter. This gives MSMEs a huge opportunity to reach out to their clients directly, avoiding middlemen and marketing their products and services. They can

receive easy business loans and raise capital with little guidance and advice or by finding a company partner. Government E-Marketplace and other digital platforms are providing MSMEs to attain economies of scale in their places. By placing their products and services on the Government website, they can easily secure large government projects. Previously, this service was only available to larger companies.

**9. SWOC ANALYSIS :**

The SWOT analysis of an enterprise system is common among business researchers at big corporations. Many organizations use SWOT analysis in strategic planning and quality control. In the digital era, SWOT activities are of vital importance to organizations. In 1960, Albert Humphrey created the Strengths, Weaknesses, Opportunities, and Threats (SWOT) framework at the Stanford Research Institute. SWOT analysis, PESTEL, BCG matrix, and Porter’s five force models are used in analyzing the individual and organizational effectiveness which also helps in the exploration of challenges [40]. The SWOT analysis of an enterprise system is common among business researchers at big corporations. Many organizations use this technique to analyze strategic planning and quality control. In the digital era, SWOT activities are of vital importance to organizations. The term threat is replaced by the challenge. The threat originated from military strategy and challenge is used to build a more optimistic approach. SWOC is a tool to analyze the micro and macro environment of the industry. The micro-environment is influenced by internal factors like S-Strength and W-weakness which are influenced by marketing, human resources, finance, management information system, research and development, and business culture factors. The macro-environment is influenced by external factors. It covers O-Opportunity and C-Challenge, influenced by the politics, industrial environment, legislation, economy, technology, demography, and socio-culture factors [41]. “It covers all positive and negative factors that influence the firm’s success, both inside and outside the company. A systematic study of the environment in which the firm works assists in forecasting changing trends as well as incorporating them into the organization’s decision-making process” [42].

**Table 9:** SWOC Analyses of Indian MSMEs

	Positive Factors	Negative Factors
Internal Factors	<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>▪ Low Investment</li> <li>▪ Flexibility</li> <li>▪ Closeness to market</li> <li>▪ Less gestation period</li> <li>▪ Innovation</li> <li>▪ Capacity to operate in rural areas</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>▪ Low production capacity</li> <li>▪ Ineffective marketing strategy</li> <li>▪ Lack of skilled labour</li> <li>▪ Less scope for expansion</li> <li>▪ Lack of global competitiveness</li> <li>▪ Lack of Knowledge</li> <li>▪ Lack of creditworthiness</li> </ul>
External Factors	<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>▪ Joint Venture</li> <li>▪ Make in India</li> <li>▪ Digital India</li> <li>▪ Export opportunities</li> <li>▪ Easy availability of credit</li> <li>▪ Development of the sunrise sector</li> <li>▪ Government assistance</li> </ul>	<p><b>CHALLENGES</b></p> <ul style="list-style-type: none"> <li>▪ Alteration of credit policies</li> <li>▪ Financial inclusion</li> <li>▪ Automation</li> <li>▪ Compete with large companies</li> <li>▪ Gain Market share</li> <li>▪ Atmanirbhar Bharat</li> </ul>

Source: Compiled by the researcher

**9.1 Strengths:** The study identified the following strength of Indian MSMEs through the literature review.

**(1) Low investment:** MSMEs need less investment compared to large enterprises. Micro enterprises can be established with investments not exceeding Rs One crore, small enterprises with capital not more than Rs Ten crore, and medium enterprises require less than Rs 50 crore. This strength motivates entrepreneurs to establish units in this sector.

**(2) Flexibility:** MSMEs are not having complex organizational structures and many are run by individuals. They can easily respond and adapt to the changing environment. The change of product

line to manufacture masks, PPE kits, and sanitizers during COVID-19 by some MSMEs is the best example of flexibility.

**(3) Understand and cater to the needs of domestic consumers:** A larger number of MSMEs have been established in the domestic market by local entrepreneurs. They can keenly understand the local market and the pulse of customers as well. It helps to produce and market their products and services according to domestic requirements.

**(4) Less gestation period:** It is the time taken by the business to get its returns from investment. MSMEs are established with less investment and start getting the return on their investments within a few years.

**(5) Innovation:** Innovation in business plans is the surviving factor of any business unit. MSMEs understand customer preferences and needs through market observation. They provide products and services innovatively to meet their needs [43].

**(6) Capacity to operate in rural areas:** Big enterprises frequently find it logistically challenging to set up their business in rural areas, and when they do, they limit themselves to particular industrial and commercial zones. These restrictions do not apply to MSMEs. These enterprises can operate in villages and small towns because of minimal investment, better access to small business loans, and often even lower skill, demand encourage enterprises to start in rural areas

**9.2. Weaknesses:** Following are the weaknesses of MSMEs arrived at by the study literature review.

**(1) Low production capacity:** The majority of the MSMEs are labour-intensive in nature and lag in using technology, which causes the low production capacity of these units.

**(2) Ineffective marketing strategy:** MSMEs are having demand for their products and services in domestic as well as in foreign markets. It requires developing and implementing different marketing strategies [44]. Generally, more units manage their markets with improper plans and strategies.

**(3) Lack of skilled labour:** Many MSMEs belong to labour-intensive industries. The skilled labour force is a valuable asset to this industry. In India, labourers are available at a low cost and are not skilled. Proper training is required to be given to make the unskilled workers into skilled workers. Generally, this sector failed to provide the proper training [45].

**(4) Less scope for expansion:** The majority of the micro-businesses are owned by sole entrepreneurs. They struggle to survive in the business and have very little scope to expand their business. According to the Economic Times report 'during the life cycle of MSMEs, 99% of business stays in micro-enterprises.

**(5) Lack of global competitiveness:** MSMEs are afflicted by low productivity, lack of standardization, inefficiency, limited resources, poor design, less consistency, poor quality, and lack of modernization has reduced the competitive capacity.

**(6) Lack of knowledge:** Several schemes are available to MSMEs and many entrepreneurs are unaware of the schemes and market assistance. They failed to obtain the benefits provided by the government due to a lack of knowledge.

**(7) Lack of creditworthiness:** Banks and Non-Banking Financial Corporations provide financial assistance to MSMEs, only after checking their creditworthiness. Credit facilities are denied to MSMEs if they failed to meet the credit requirements. Banks and other financial intermediaries give preference only to Government backing schemes. Many enterprises availed of the credit facilities and failed to repay the amount in the stipulated period and this creates a high level of NPA from MSMEs. This risk of lending is evident from the segment-wise NPA graph given in figure 5.

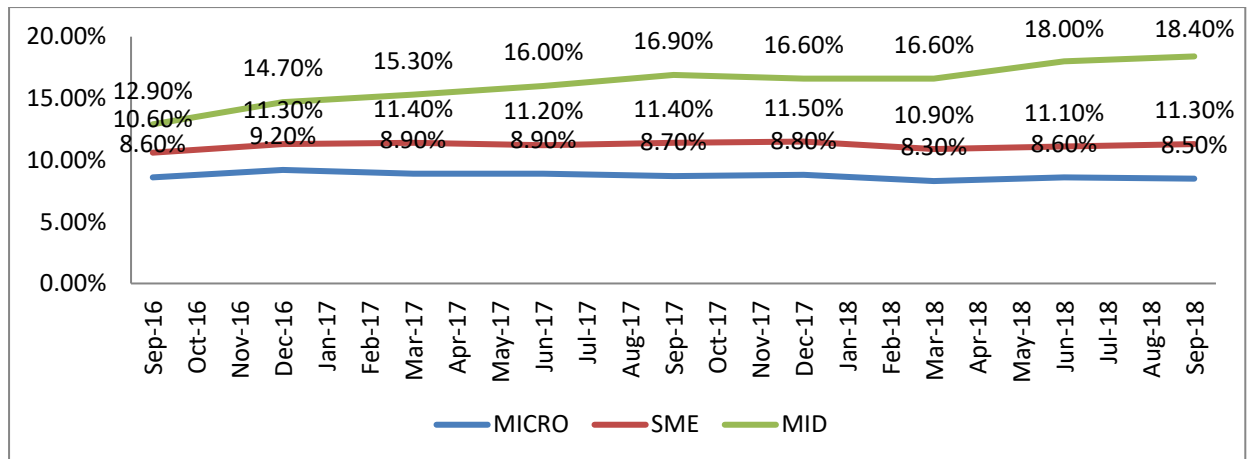


Fig. 5: Segment-wise NPAs Source: RBI report 2019-2020 [46]

**9.3 Opportunities:** The study identified through the literature reviews, the following opportunities for Indian MSMEs.

**(1) Joint venture:** Indian MSMEs are attracting foreign investors. Many of the foreign markets are saturated and turning towards India to expand their business and at the same time, they experience cumbersome regulatory mechanisms. For this purpose, they show interest in partnership with the Indian medium sector which expects local companies to look after regulations and they bring technology by signing MOU. Indian MSMEs can make use of this golden opportunity.

**(2) Make in India:** It is a mega program of the government to develop India. Make in India encourage domestic entrepreneur to start their industries and many initiatives will be provided by the government from investment to enhancement of skill also encouraging them to export the goods to any part of the world.

**(3) Digital India:** The core purpose of this mission is “Power to Empower” India digitally. It involves the development of online infrastructure, digital service, and digital literacy and making the country empowered digitally. This helps MSMEs to develop and sell products and render services through digital mode.

**(4) Export opportunities:** While globalization posed several obstacles for manufacturing MSMEs, it also provided numerous chances to boost the manufacturing sector's growth. India can take advantage of the opportunities presented by globalization's dynamics as a result; there was a rapid shift in the manufacturing sector. India's export portfolio may be greatly expanded, both in terms of goods shipped as well as regional coverage. The government provides this opportunity by participating in International Exhibitions and assistance to exporters.

**(5) Easy availability of credit and collateral-free bank loans:** Finance is the lifeblood of every business and this finance facility is easily available to MSMEs through different government schemes like Credit Linked Capital Subsidy Scheme, collateral-free bank loans, etc. providing easy credit to MSMEs.

Table 10: Credit Flow to MSME Sector (Amount in Rupees Billion)

Year ended	Public Sector Banks	Private Sector Banks	Foreign Banks	Scheduled Commercial Banks	Non-Bank Finance Co
	Amount Due	Amount Due	Amount Due	Amount Due	Amount Due
2014	7583.78	2471.22	344.30	10399.30	85.76
2015	8526.89	2815.48	367.87	11710.26	286.48
2016	8205.48	3590.87	363.73	12160.07	880.13
2017	8289.33	4309.62	365.02	12963.98	1113.10
2018	8645.98	4107.60	488.81	13242.39	1441.40

2019	9367.24	5717.04	691.37	15775.66	1622.17
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Source: RBI report 2019-2020 [46]

**(6) Development of Sunrise sector:** The new scheme known as the Production Linked Scheme (PLS) is provided to MSMEs, it helps to develop domestic manufacturing units by providing incentives on incremental sales from products manufactured in domestic units. PLS help in the development of new sector like automobile, Fin-tech, chemical, etc.

**(7) Government assistance:** To promote the MSME government undertook many schemes like Prime Minister Employment Generation Programme, Credit Guarantee Scheme, procurement and marketing support, and the special cluster is developed. The government also takes initiative in Entrepreneurship Skill development. It undertakes Export Market Promotion on behalf of MSMEs to create space in the global market. In the domestic market, *Udyam* Registration Portal helps to acquire government tenders [37].

**9.4. Challenges:** Following are the challenges of MSMEs that arrived after a study thorough literature review.

**(1) Alteration of credit policies:** In India, many financial institutions and Governments offer credit facilities to MSMEs but in this process, these lenders alter the credit policy frequently. It is challenging to keep up with the modification and results in fetching credit at a higher interest rate which affects their budget negatively.

**(2) Financial inclusion:** Even after a major portion of financial assistance is provided by the government the MSMEs still face nearly Rs22 Crores of funding gaps. This is the right time to think of financial inclusion through other sources, as government support alone is not sufficient.

**(3) Automation:** Present industries demand automation and most of them invest in R&D to make changes in their production process. Automation is the need of an hour as most MSMEs are labour intensive. Hence they require urgent modification in their production process through automation and digitization [47].

**(4) Compete with large companies:** Government assists MSMEs to a certain extent this assistance is given mainly to micro and small entrepreneur. At present 6.6 crore units are registered under micro and small entrepreneurs whereas only 1,000 entrepreneurs are registered under the medium division. Medium entrepreneurs deprive of opportunity from provisions that are enjoyed only by micro and small entrepreneur. As they become medium they have to compete with large corporations and laws related to medium and large companies are the same.

**(5) Gain market share:** Providing products and services is not enough to hold the market. To gain market share MSMEs are required to involve in research and development [48]. Meanwhile, it is essential to gain goodwill in the market with brand building.

**(6) Atmanirbhar Bharat:** Under this programme 'India calls for self-reliance' for this India is required to manufacture its products which are earlier imported by the nation [49]. This responsibility is also on the shoulders of MSMEs for this it has to reduce costs without sacrificing the quality with up-gradation of technology.

## 10. FINDINGS :

The following are the findings of this study after thorough analysis:

- (1) In India, 51% of MSMEs are situated in rural areas and 49% in urban areas this helps to remove regional imbalances in the long run.
- (2) Among MSME-micro, small, and medium enterprises sector, 94% of enterprises are operating under the micro-segment.
- (3) The highest percentage of MSMEs was established in the states - of Uttar Pradesh and West Bengal.
- (4) Male employees occupy 76% of employment in MSMEs whereas female employees cover the remaining balance of 24%.
- (5) Flexibility is the strength of this sector that helped it to adjust the business according to the changing marketing requirement easily.



- (6) Minimal investment, lower skill, and better access to small business loans helped to build the capacity of MSMEs to operate in rural areas.
- (7) Indian medium enterprise sector has offered more opportunities to undertake business in a joint venture with foreign companies.
- (8) MSMEs are the base industries of local India and it has shouldered more responsibility to make India self-reliant.

### 11. RECOMMENDATIONS :

In the background of this piece of research, the researcher would like to make the following recommendation

- (1) Proper training is to be given to labourers to provide standardized products or services to the market.
- (2) In the globalized world MSMEs are required to build a competitive position by improving the design and maintaining consistency with the qualitative products.
- (3) To make India self-reliant, the government provides financial assistance to this sector at the same time it is required to maintain the creditworthiness of MSMEs.
- (4) Government scheme Digital India is a big opportunity for MSMEs to gain digital market share and break the barrier of time and space.
- (5) Many of the MSMEs are not aware of the government schemes and assistance. Therefore the government is required to create awareness through advertisements on radio and television.
- (6) Government provides financial assistance to MSMEs through fund transfers by banks. Government has to verify that the deprived MSMEs get the benefit of the schemes.
- (7) Development of Medium enterprises leads to industrial development. At present medium enterprises contributes only one percent to the MSME sector. Government has to take initiative in the uplifting medium sector.
- (8) After the pandemic, government assistance may push the MSMEs production and it may be wasted in the absence of demand. The government, therefore, has to take steps to enhance the spending capability of the consumers.

### 12. CONCLUSIONS :

In all these years, the MSME sector significantly contributed to the creation of employment opportunities, rural development, and Gross National Product in terms of greater industrial production. Both the Central and State government have taken many steps to support MSMEs' growth and ensure their sustained contribution to national industrial output, economic growth, and employment. The potential of this sector to stimulate India's economic development can be reaped to the brim only through the combined efforts of the Central Government in the form of labour legislation, regulatory approvals, and incentives. Simplified regulation processes and offering clear guidance on future regulatory requirements make it easier for enterprises to operate in India. Many Indian enterprises started their operations in the micro sector, and over the years, they have grown many folds to achieve progress and proved their caliber. Like other sectors, MSMEs have to face many challenges and setbacks in the future too. If MSMEs work with a renewed strategy, definitely they can overcome all the problems and would create a new milestone in the Indian economy. The majority of entrepreneurs are not aware of all incentives and subsidies offered these days to MSMEs. The time has come to educate and inform these entrepreneurs so that they can benefit from government incentives for their businesses. It will assist them in taking steps to establish MSME to achieve the goals of growth, equity, and inclusion. MSMEs help to accelerate the pace of rural industrialization while also assisting with poverty reduction and job creation. With the aid of *Atmanirbhar Bharat* MSMEs have become the bulwark of our economy and contribute to the country's development in the days to come.

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