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## A STUDY ON THE POSITION OF SMALL AND MEDIUM ENTERPRISES IN KERALA VIS A VIS THE NATIONAL SCENARIO

**N. RAJEEVAN**  
**RESEARCH SCHOLAR**  
**ANNA UNIVERSITY OF TECHNOLOGY**  
**COIMBATORE**

**DR. M. M. SULPHEY**  
**PROFESSOR**  
**T.K.M INSTITUTE OF MANAGEMENT**  
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### ABSTRACT

*Small and medium enterprises sector constitute an important segment of the Indian Economy. Results of Third All India Censuses of SSI units show a declining growth trend at the All India Level and in Kerala growth in this sector shows an increasing trend. Except in the Fourth census, growth of employment in the SME sector of Kerala has shown a rising trend. Growth of SSI Sector can do a lot for solving Kerala's acute problem of unemployment. Sickness among the SME units of Kerala is a major problem. Lack demand is the major cause of sickness. Prevention of sickness and rehabilitation of sick SSI Units requires more attention while framing the future programs of SME development.*

### KEYWORDS

All India Census of Small Scale Industries, Kerala, MSMEs, Growth Rate, Sickness.

### INTRODUCTION

 SMEs play a vital role in the economic growth of developing nations. They have proved to be a primary source of job/employment creation and output growth, especially in Asian countries (Tampunan, 2009). In the industrial sector, small firms play a prominent role in the developed nations also. SME sector enterprises constitute fifty percent in China and twenty nine percent in USA (Bala, 2007). In Japan, fifty two percent of manufacturing output is from SMEs (Prasad, 2004).

In India SME's, occupy a dominant place in the economy. They contribute substantially to the nation in diverse fields like industrial production, export, employment creation, entrepreneurial base, etc. (Govt. of India, Ministry of MSME – Annual Report 2006 –07). Since independence, the Central and State Governments have been implementing various programmes and schemes for the development of SME's. During the last six decades, this sector has emerged as an important vehicle for attaining inclusive growth in the country (Malla, 2010). As per the fourth All India Census of Micro Small and Medium Enterprises (MSMEs) with reference to the year 2006-2007, the number of working MSMEs in the country is 26100797. These units provide employment to over 594.41 lakhs people. The contribution of the state of Kerala to this is 14, 68,104 MSMEs. The employment generation of these units is 30, 31,272 (Leghu Udyog Samachar, 2010). In the present study investigates the position of MSMEs in Kerala Vis a Vis the national scenario.

### RELEVANCE OF THE STUDY

Development Economists refer Kerala as a state 'characterized by high social achievement with weak economic base' (Grass root Development 2007; Murali, Brody and Antony, 2007). Though the human development index is high in Kerala (first in India), as against the other Southern States, the industrial sector is not developed. Kerala's position is 12<sup>th</sup> in the industrial ranking among the major sixteen states in India (Envis Centre Kerala 2009). Further, majority of the contribution to the industrial sector in Kerala comes from MSMEs. Since SME sector is a major constituent of the economy a study of the SME sector of India as against that of Kerala is relevant. Such a study will be helpful for the policy makers to identify the major problems of this sector. It would also enable them in framing future programmes for the development of MSMEs.

### OBJECTIVES OF THE STUDY

The objectives identified for the present study are:

1. To investigate the position of the MSME sector of Kerala as against that of India.
2. Analyze the demographics of the MSMEs at the State and National level.
3. Analyze the gravity and causes of sickness among MSME's.

### METHOD

The present study attempts to analyze the data of the All India Census of Small Scale Industries, Reports of SIDBI, etc. The data helps in knowing about the position of Kerala in the overall national MSME scenario.

### THE TRENDS OF MSMEs

Prior to 2006, the small-scale sector included Tiny and Small Scale Industries (SSIs). Thereafter, the scope of the sector has broadened to include Medium Scale Industries and Enterprises too. Presently it is named as as Micro, Small and Medium Enterprises (MSMEs). MSMEs can be registered or unregistered. Registered MSMEs are those units registered with the Directorate of Industries and Commerce, and those not registered with the Directorate is know as unregistered MSME.

### REGISTERED SSI/MSME UNITS

In India, census of SSI units has initiated in the year 1972-73. The census showed that nationally there was 1,39,577 registered working units. In the corresponding period those present in the state of Kerala was a mere 6205 (4.4 per cent). The second All India census of SSI units conducted in the year 1987-88 presented a figure of 5, 82,368 working units in India as against 25,717 in Kerala. This figures showed a growth of 317.23 per cent at the national level and 314.45 percent in Kerala. The third census conducted in the year 2001-2002 showed that the total number of working SSI units grew to 13, 74,974 at the national level and 1, 46,988 at the state level. It is found that Kerala has about 10.69 per cent of the total working units. A comparison of the second and third census revealed a growth of 136.10 per at the National level and 471.55 percent in Kerala.

As per the latest statistics published, based on the Fourth All India Census of MSME's there are 15, 28,347 registered working MSMEs in India. In Kerala, the figure stands at 149013. The latest figures show that Kerala has 9.74 per cent of the total units. It is significant to note that the growth rate of working MSMEs

at the all India level is 11.15 percent, while that of Kerala is a mere 1.37 per cent. Further, it can be seen that, there is a decline from 317.23 per cent to 136.10 per cent in the Second and Third census. However, in the same period Kerala showed an increase from 314.45 percent to 471.55 percent. The Fourth census report showed a decline in growth rate both at the national and state level. Comparative data of four-census period has shown in Table 1.

**TABLE 1: WORKING SSIs/MSMEs IN KERALA AND INDIA IN THE REGISTERED SECTOR**

Name of census	SSIs/MSMEs in Kerala (nos.)	% change	SSIs/MSMEs in India (nos.)	% change	% of SSIs / MSMEs in Kerala to SSIs/ MSMEs in India
First Census	6205		139577		4.44
Second Census	25717	314.45	582368	317.23	4.41
Third Census	146988	471.55	1374974	136.10	10.69
Fourth Census	149013	1.37	1528347	11.15	9.74

(Source SIDBI report on MSME, 2010)

The phenomenal rise in the number of registered units in the third census can be attributed to the implementation of Prime Ministers Rozgar Yojana (PMRY), launching of various infrastructure development schemes such as Industrial Estates, Development Areas/Development plots, etc. The decline in the number of SSI units at the fourth census period occurred due to a change in the policy. With the enactment of the MSMED Act, 2006 which came into force on 2nd October 2006, the system of SSI registration has been done away with and the new system of filing of Entrepreneurs Memorandum (EM) has been introduced. The Government of India implements this as part of new Liberalization policies.

### UNREGISTERED SSI/ MSMEs

Unregistered SSI's constitute a major component of this sector. Only registered SSI units have been covered until the second census. From the third census onwards unregistered SSI units were also included. This practice has continued in the fourth census also. The growth of unregistered units depicted in Table 2

**TABLE 2: WORKING SSI/MSME UNITS IN THE UNREGISTERED SECTOR**

Name of census	SSIs/MSMEs in Kerala (nos.)	% change	SSIs/MSMEs in India (nos.)	% change	% of SSIs / MSMEs in Kerala to SSIs/ MSMEs in India
Third census	305838		9146216		3.34
Fourth Census	1319091	331.30	24572450	168.66	5.36

(Source: SIDBI Report on MSME Sector 2010)

As per the result of Third census, 86.93 percent of the total units at All India level are in the un-registered sector and it is 95.14 in the Fourth Census Report. In Kerala it is 67.54 and 89.95 percent in the Third and Fourth census respectively. Fourth census results show compared with third census growth in unregistered sector was 331.30 percent in Kerala and 168.66 percent at the national level. Percentage of unregistered SSI/MSME units in Kerala to SSI/MSMEs in India was 3.34 and 5.36 respectively.

### EMPLOYMENT GENERATED

One of the major advantages of SSI/MSME sector is its ability to create more employment with less investment compared to large-scale sector. Considering the problems of large scale Unemployment, Underemployment and scarcity of capital, Central and state Governments have always provided special priority through different programmes for the growth of this sector (Mathur 1999). In terms of employment generation, this sector comes next to agriculture. It provides employment to sixty million persons.

As per the fourth census 94.72 lakh persons employed in the registered working MSMEs. In Kerala, this is 6.3 lakhs. Out of the total employment generated Kerala's share as per the First census is 7.65 percent, 4.62 percent in Second census, 8.76 percent in the Third census and in the Fourth census this is 6.66 percent. Comparing the figures of First and Second census the growth in employment at the National level is 121.74 percent and in Kerala it is 33.82 percent. According to the Third census results, the growth is 68.13 percent at All India level and 219.09 percent in Kerala. In the Fourth census, the growth rate declined to 53.66 percent at National level and 16.62 percent in Kerala (Table 3).

**TABLE 3: EMPLOYMENT GENERATED IN THE REGISTERED SSI/MSME SECTOR**

Name of census	Kerala (in numbers)	% change	India (Nos.)	% change	% employment in Kerala to total employment in the SSIs/ MSMEs in India
First Census	126514		1653178		7.65
Second Census	169309	33.82	3665810	121.74	4.62
Third Census	540260	219.09	6163479	68.13	8.76
Fourth Census	630088	16.62	9471186	53.66	6.65

(Source: SIDBI Report on MSME Sector 2010)

When the Fourth census has compared to the Third one, the growth of employment in the unregistered sector is 168.83 percent at national level and 318.03 percent at state level. As per the Third and Fourth census Kerala's contribution to employment, generation in the unregistered sector is 3.07 and 4.78 percent respectively (Table 4).

**TABLE 4: EMPLOYMENT GENERATED IN THE UNREGISTERED SSI/MSME SECTOR**

Name of census	Kerala (in numbers)	% change	India (Nos.)	% change	% employment in Kerala to total employment in the SSIs/ MSMEs in India
Third Census	574401		18694433		3.07
Fourth Census	2401184	318.03	50257035	168.83	4.78

(Source: SIDBI report on MSME Sector 2010)

Comparing the employment generated in the registered and unregistered segments it has been found that at the National level unregistered units create three times more employment than the registered segment as per Third census results. It was five times more as per fourth census. In Kerala, also unregistered units generate more employment than the registered ones. It was five times more than the registered segments as per fourth census.

### WOMEN ENTERPRISES

Women constitute nearly half of India's population. In this respect, Kerala has another distinction of always maintaining sex ratio in favor of women (census reports 1901 to 2011). Central and State governments are given much attention for integrating women into development process through various programmes. Women status can be elevated only when they participate equally with men in the public world of work and they have economic control over production.

Women participation in business has considered as a major indicator of gender development. Table 5 shows that in the Third census, with reference to the year 2001-2002, women enterprises constituted only 10.11 percent at National level. However, in Kerala the figure was as high as 30.38, which is a positive sign. The remarkable growth of women enterprises in Kerala is largely due to the implementation of women Industries programme that offers various types of financial incentives offered to SSI units started by women.

TABLE 5: WOMEN ENTERPRISES

Segment	Kerala		India	
		%		%
Registered	28960	19.70	137534	10.00
Unregistered	108601	35.51	926187	10.13
Total Unit	137561	30.38	1063721	10.11

Source: Final Results: Third All India Census of Small Scale Industries (2001-2002), Results of 3<sup>rd</sup> census of small scale industries kerala-2001-2002

At the National level while, the registered sector women enterprises have found to be only 10 per cent, in Kerala it is 19.70 percent. In the unregistered sector, also there is phenomenal difference. While it is 10.13 at the National level, in Kerala it stood at 35.51percent. This is a welcome sign as it denotes that Kerala has more women enterprises than the National level, which augments well in the direction of women empowerment.

## TYPE OF ORGANIZATION

Ownership pattern of SSI units are broadly proprietary concerns in nature. (SIDBI Report on SSI 2001). Proprietary firms, which stood at 61 per cent in the first census, reached 80.48 percent in the second census. The Third All India Census showed a marked increase in this direction as 88.85 per cent units at the National level and 92.87 per cent of the units in Kerala in the registered segments have found to be Proprietary concerns in the registered segment. In the unregistered segment, proprietary concerns formed 96.9 per cent at the national level and at the state level; it was marginally low at 95.35 per cent. It has found that partnership concerns at the national and state levels stood at 7.21per cent and 4.73 percent respectively in the registered sector. In Kerala SSIs in the registered segment managed by single person is higher than the All India average. The data is in Table 6.

TABLE 6: TYPE OF ORGANIZATION

	Registered Units				Unregistered Units			
	India	%	Kerala	%	India	%	Kerala	%
<b>Proprietary</b>	1221702	88.85	136511	92.87	8862548	96.9	291617	95.35
<b>Partnership</b>	99190	7.21	6953	4.73	103662	1.13	8545	2.80
<b>Private company</b>	33284	2.42	1034	0.71	38153	0.42	824	0.27
<b>Co-operatives</b>	4715	0.34	1313	0.89	9854	0.11	2516	0.82
<b>Others</b>	16083	1.17	1177	0.80	131999	1.44	2336	0.76

Source: Final Results: Third All India Census of Small Scale Industries (2001-2002), Results of 3<sup>rd</sup> census of small scale industries Kerala-2001-2002.

The ownership pattern also revealed a peculiar pattern. It is well know that the state of Kerala has achieved much progress than other Indian states with respect to the growth of Co-operative institutions but in the SSI sector of Kerala SSI units managed by co-operatives is only less than one percent, which is more or less at par with the national figures.

## NATURE OF ACTIVITY

Analysis of the activities engaged by the unit's shows that, at the All India level 63.45 percent of Registered SSI Units are engaged in Manufacturing / processing activity while it is 77.98 percent in Kerala. In the unregistered sector, this is 36.12 percent at the National level and 32.41 percent in Kerala. Units engaged in repairing and maintenance at the national was only 2.10 in the registered sector and 18.50percent in the unregistered sector. It is 0.23 and 7.27 percent respectively in the registered and unregistered sectors of Kerala. Second major activity is service sector. 34.45 percent of the units at the National level and 21.79 percent in Kerala are doing service activity in the registered segment. In the unregistered sector 60.32 percent of the units at the national level and 45.78 percent units in Kerala are engaged in service activities (Table 7).At the national and state level majority of the units are engaged in manufacturing activity.

TABLE 7: NATURE OF ACTIVITY

	Registered Units				Unregistered Units			
	India	%	Kerala	%	India	%	Kerala	%
<b>Manufacturing/And Processing</b>	872449	63.45	127762	77.98	3303366	36.12	23896	32.41
<b>Repair and Maintenance</b>	28843	2.10	377	0.23	1692663	18.50	5360	7.27
<b>Service</b>	473682	34.45	35704	21.79	4150187	45.78	44475	60.32

Source: Final Results: Third All India Census of Small Scale Industries (2001-2002), Results of 3<sup>rd</sup> census of small scale industries Kerala 2001-2002.

It can be seen that Small Scale industries have a dominant place in the manufacturing sector of India.

## SICKNESS IN THE SSI SECTOR

Sickness in the SSI sector is a serious concern of policy makers. The definition of sick units has been undergoing changes. The Reserve Bank of India(RBI) has appointing committees from time to time to assess the sickness in the SSI sector .Third census adopted the definition of sick units given by Kohile Committee – the working group on rehabilitation of sick units appointed by RBI. Central and State governments are introduced several programmes for the revival of sick SSI units. RBI has issuing detailed guidelines to Banks and Government agencies regarding the steps to follow for rehabilitation of sick units. Figures arrived through the Third All India census of SSI units, in the registered segment sick units at the National level was 13.98 percent where as this is 37.32 percent in Kerala. In the unregistered segment, this is 6.89 percent at the National level and 29.80 percent in Kerala (Table 8).

TABLE 8: SICKNESS IN THE SSI UNITS

	Registered Units				Unregistered Units			
	India	%	Kerala	%	India	%	Kerala	%
<b>Number of Sick units #</b>	192328	13.98	54853	37.32	630568	6.89	91143	29.80

Source: Results: Third All India census of SSI unit (2001-02), Results of 3<sup>rd</sup> census of small scale industries Kerala -2001-2002.

#with erosion of net-worth by more than 50% or delay in repayment of institutional loan by more than 12 months or decline in gross output over three consecutive year's

From the above analysis, it has inferred that sickness among the SSI units is a major problem in the SSI sector of Kerala. In the registered and unregistered SSI segments of Kerala percentage of sick units are more than the the national level. It is being concluded that sickness and closing down of SSI units are the two major factors adversely affecting the sustained growth of the SSI sector of Kerala.

## REASONS FOR SICKNESS

Analysis of the reasons for sickness (Table 13) among the SSI units in the registered and unregistered sectors, it is seen that major cause for sickness is lack of demand (66 per cent in all India and 78.59 per cent of Kerala). Researchers, Panam and Jayanthi (2008) have also found that main reason for sickness in the SSI sector is lack of demand. A case study conducted by Naidu and padmathy (1986) for identifying the reasons for sickness among the SSI units in Andhra Pradesh inferred that 67.7 percent of the units were sick due to lack of demand and financial problems. Other researchers Mathur and Sathish (1999), Panda and Meher

(1992) opined that shortage working capital and marketing problems often leads to sickness in the SSI sector. Deshmukh and Lakhe (2009) also conclude that lack of demand and shortage of working capital are reasons for sickness of SSI'S. Study shows Second major factor for sicknesses is shortage of working capital. 46 percent SSI units in India and 38.4 percent in Kerala face this problem. Thirty six percent of SSIs in India and 33.62 percent of units in Kerala are sick due to marketing problems, which is the third reason.

The other reasons for sickness are non-availability of raw materials, shortage of power supply, labour problems, equipment problems and management problems.

TABLE 9: REASONS FOR SICKNESS \*

	Registered Unit		Unregistered Unit		Total Unit	
	India %	Kerala %	India %	Kerala%	India %	Kerala %
Lack of demand	58	74.32	69.1	81.16	66	78.59
Working capital shortage	57	50.19	43	31.30	46	38.40
Non availability of raw materials	12	13.40	12	16.97	12	15.63
Power supply	17	9.37	12	4.70	13	6.45
Labour problems	6	3.73	4	2.44	5	2.92
Marketing problems	37	37.65	36	31.20	36	33.62
Equipment problems	9	8.32	12	8.45	11	8.40
Management Problems	5	4.06	3	3.16	4	3.50

Source: Results: Third All India Census of SSI unit (2002-2003), Results of 3<sup>rd</sup> census of small scale industries Kerala-2001-2002.

\* The total in each column will exceed 100%, as some units have reported more than one reason for sickness

## FINDINGS OF THE STUDY

Based on the data presented above, following are the findings of the study:

- As per the Third All India Census, Growth of SSI Units in the registered sector declined from 317.23 percent to 136.10 per cent at the All India level. At the same time, in Kerala there was a phenomenal increase from 314.45 per cent to 471.55 per cent. All India growth rate further declined as per the Fourth census. This decline can be attributed to the changes implemented as part of the New Economic Policy. As per Fourth census Report SSI units in the unregistered sector of Kerala has achieved higher growth than the National Level.
- According to the Second, Third and Fourth census growth of employment in the registered SSI/MSME sector at the National level declined. As far as Kerala is considered, during Second Census it showed a growth rate of 33.82 per cent. During Third census, this has increased to 219.09 per cent. However, the growth rate has declined to 53.66 in the Fourth Census at the National Level and by 16.62 per cent at State level. This decline can be attributed to the impact of the New Economic Policies. In the fourth census Report the growth of employment in unregistered sector of SSI/MSME's is 168.83 percent at the National level and in Kerala this is 318.03 percent.
- Kerala has more women enterprises than in the National level. This shows Kerala has attained better progress in gender equity and women empowerment.
- Proprietary concerns dominate at the National and state level in the SSI/MSME sector. Even though Kerala has a strong co-operative movement, SSI units managed by co-operative societies are only less than one percent, which is more or less par with national figures.
- Manufacturing is the major activity of SSIs at the National level and state level and this shows that SSIs has a strong presence in the manufacturing sector of India.
- Sickness of SSI units is a major problem at the National and state level. Both in the registered and unregistered segments number of sick units are higher in Kerala than the All India figures. As per the Third census, in the registered segment this is 37.32 percent in Kerala, as against the 13.98 percent at the National level. Major causes of sickness, both at the national and state level, may be attributed to lack of demand, shortage of working capital and marketing problems.

## CONCLUSION

Sustained growth of SMEs is crucial for the overall performance of the economy. Kerala has achieved remarkable growth in this direction. Unemployment is a serious problem facing Kerala economy. Latest statistics published by State Planning Board shows there are 45.2 lakhs of employment seekers in the Live Register of Employment Exchanges of Kerala as on 30-6-2009. Since SME sector creates more employment opportunities with less investment, it can play a major role in solving Kerala's unemployment problem. Ninety per cent of SSI/MSME units are proprietary concerns and there by this sector has a mass entrepreneurial base. In Kerala, growth of women enterprises in SSI/MSME sector is remarkable. This is a positive sign of women empowerment and gender equity. The number of sick and closed units are more in Kerala than the All India per cent. Lack of demand is, in most cases, the major cause of sickness in the SSI sector. Future promotional policies of Kerala for this sector should address the problem of sickness among the SSI units.

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