

AN ANALYSIS ON MICRO, SMALL AND MEDIUM ENTERPRISES IN KARNATAKA

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ABSTRACT

The current article examines how Micro, Small, and Medium Enterprises (MSMEs) serve as the cornerstone of the Indian economy, especially in Karnataka. The nation's progress depends not just on big industries but also heavily on MSMEs, which play a crucial role in economic development by serving as a vital sector for jobs, particularly for youth, exports, diversification, innovation, and mobilization of resources. MSMEs constitute a crucial and growing part of Karnataka's industrial landscape. The research has three primary goals: to examine the performance of the micro, small, and medium enterprises sector in Karnataka, to assess the trends in the growth and advancement of MSMEs in Karnataka, and to analyze the effect of MSMEs on job creation in Karnataka. The current article employs a research approach primarily utilizing secondary data sources. Statistical methods including percentages, Compound Annual Growth Rate (CAGR), and correlation were examined utilizing Excel and SPSS 21 statistical software. The research timeframe ranges from 2011-12 to 2020-21.

Keywords: Performance, MSMEs, Units, and Employment Opportunities,

INTRODUCTION

MSMEs in Karnataka play an essential role in the industrial framework of the state, aiding in economic expansion, job creation, and industrial progress. The support from the government and different initiatives are aiding in addressing challenges and fostering the growth of MSMEs. In terms of statistics, MSMEs in India account for nearly 40% of employment and contribute 45% to the nation's manufacturing production. These businesses are vital in creating millions of jobs, particularly at the entry-level skill range. India's 1.3 million MSMEs contribute to 40% of the country's overall exports. Karnataka, possessing the seventh largest Gross State Domestic Product (GSDP) in India, has considerable potential to enhance its economy via industrialization and augment its contribution to the national GDP. The state government sees industrial development as a crucial approach to reduce poverty and joblessness. Growth in industry, commerce, and the service sector encourages greater capital accumulation, enhances per capita income, and utilizes excess labor. Karnataka's New Industrial Policy outlines the state's plan to create a minimum of five industrial zones each year, with each zone covering 5,000 to 8,000 acres. The Department of Energy and Water Resources will be responsible for supplying the required electricity and water to these specified industrial zones.

CONCEPT OF MSME'S

Micro, Small, and Medium Enterprises (MSMEs) are vital to the Indian economy and hold an important position in Karnataka. MSMEs are enterprises that function on a smaller level than large companies, and they are usually categorized according to their investment in machinery or equipment and their yearly revenue.

These businesses significantly enhance economic growth by creating jobs, encouraging exports, supporting diversification and innovation, and utilizing resources. MSMEs create a variety of job prospects, particularly for semi-skilled and unskilled laborers, establishing them as an essential sector for generating employment. They additionally assist major companies by providing necessary input products and services, thereby aiding in the overall advancement of the industry.

Alongside their economic impact, MSMEs are essential for regional growth. By encouraging industrial development in rural and underdeveloped regions, they assist in minimizing regional inequalities and foster balanced regional expansion. MSMEs tend to be adaptable and creative, quickly responding to shifts in market conditions and needs, thereby enhancing economic diversification and innovation.

Governments, including India's, provide numerous types of aid to MSMEs, including financial support, subsidies, training initiatives, and favorable regulations to foster their development and sustainability. This assistance is essential for enabling MSMEs to tackle issues such as restricted access to funding, technological limitations, and competitive markets.

Micro, Small, and Medium Enterprises (MSMEs) in the manufacturing sector are classified based on their investment in plant and machinery. Here is the classification:

1. **Micro Enterprises:** Investment in plant and machinery up to ₹25 lakhs.
2. **Small Enterprises:** Investment in plant and machinery ranging from ₹25 lakhs to ₹5 crores.
3. **Medium Enterprises:** Investment in plant and machinery ranging from ₹5 crores to ₹10 crores.

These categories help in understanding the scale of operations and the extent of investment in these enterprises. The classification aids in providing appropriate support and incentives from the government to promote the growth and sustainability of MSMEs.

LITERATURE REVIEW

The study attempts to review the literature related to growth and performance of micro, small and medium enterprises

Nalla Bala Kalyan Kumar and Sardar Gugloth (2012) conducted a study focusing on the advice for MSMEs amidst ongoing changes in the business environment. They highlighted the impact of both local and international liberalization on MSMEs, emphasizing that these enterprises have emerged as the most dynamic sector of the Indian manufacturing economy. Their research underscores the importance of adapting to liberalization policies to harness opportunities for growth and innovation.

Dr. Prakasha (2019) noted that smaller enterprises often learn about technological advancements through visits to more advanced units or via word-of-mouth. These enterprises require long- and medium-term financing for purchasing long-term commodities, such as land, buildings, machinery, cookware, furniture, and other items. The timely and appropriate acquisition of finance is crucial for the success of small-scale enterprises.

Reetu Kumar (2020), examined the policies and practices of small-scale industrial units, particularly the differences between exporting and non-exporting units. The study identified gaps in practices that hindered acceptance and highlighted that the sector is still developing in

terms of marketing activities. Effective marketing strategies are crucial for expansion and sustainability.

Vidya Suresh and P. (2018), Shashidhar focused on enhancing productivity by addressing the shortcomings in small industries. They concluded that the small-scale industry sector has significantly contributed to industrial growth and diversification, employment generation, and rural industrialization. The sector's success depends on ideal investment in technology, production processes, R&D, and marketing. However, infrastructure bottlenecks remain a challenge, and promotional activities should focus on improving credit flow, HR development, technology, and modernization funds.

RESEARCH GAP

The review of existing literature reveals how previous research on small-scale enterprises was structured and highlights the evolution of focus areas over time. This current study addresses this gap by examining data collected between 2010–11 and 2021–22. The investigation aims to provide an updated analysis of the performance and challenges faced by small-scale enterprises. By focusing on the most recent decade, this study offers new insights and suggestions that are relevant to the current business environment and economic conditions.

OBJECTIVES OF THE STUDY

1. To study the growth and performance of the micro, small, and medium enterprises sector in Karnataka.
2. To analyse the trends in growth and development of the micro, small, and medium enterprises district-wise in Karnataka.
3. To examine the MSME's and Employment Opportunities in Karnataka

HYPOTHESIS

1. MSME's have a significant performance in the creation of employment opportunities in Karnataka state.

RESEARCH METHODOLOGY

The present article primarily relies on secondary data collected from various sources. These include annual reports, pamphlets, action plans, and expert committee reports from the Government of India and the Ministry of MSMEs. Additional sources include the Handbook on MSMEs Statistics (2021), Karnataka State at a Glance 2020-21, Directorate of Economics and Statistics, Economic Survey of India and Karnataka, and World Bank Reports. The study also references articles published in scholarly journals, specialized articles, and seminal books by authorities on the MSMEs sector. The statistical tools used for analysis include percentages, Compound Annual Growth Rate (CAGR), and correlation, all of which were analyzed using Excel and SPSS 21 statistical software.

GROWTH AND PERFORMANCE OF SMES IN KARNATAKA

Micro, Small, and Medium Enterprises (MSMEs) play a critical role in the economic landscape of Karnataka. The state is home to over 8.5 lakh MSMEs, which provide employment to more than 55 lakh individuals. These enterprises are essential for fostering entrepreneurship, generating jobs, and supporting large firms by supplying essential input goods and services.

During the fiscal year 2019-20, Karnataka witnessed the registration of 97,232 MSME units, with an investment of ₹1,85,972.7 lakh. These enterprises provided employment

opportunities to 702,325 people. This marked a nearly 40% increase in the number of registered units, a 25% increase in investment, and a 20% rise in employment compared to the previous year. These statistics highlight the dynamic growth and significant economic contribution of MSMEs in the state.

The Karnataka government has implemented various policies and programs to support MSMEs, including financial assistance, training programs, and incentives. The state aims to establish at least five industrial areas annually, covering 5,000 to 8,000 acres each. These initiatives reflect the government's commitment to industrial growth and its efforts to enhance the competitiveness of MSMEs.

Despite the positive growth, MSMEs in Karnataka face challenges such as the impact of COVID-19, which caused significant disruptions, leading to losses and stagnant exports. Additionally, MSMEs often struggle with limited access to finance, raw materials, and organized marketing. The state and central governments have provided assistance, but the recovery process is ongoing.

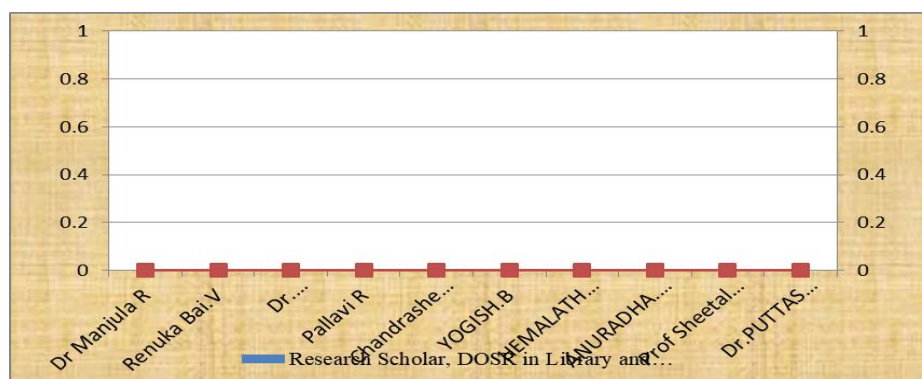
Recent developments indicate that Karnataka continues to focus on economic and industrial development, with MSMEs being a key component of this strategy. Efforts are being made to identify weaker MSMEs and provide them with financial assistance and support. These measures aim to enhance their competitiveness and ensure sustained growth.

Table –1 : Growth in Trends of MSMEs in Karnataka (Between: 2011-12 to 2020-21)

Year	MSME Units	AGR	Employment	Employment Per Unit
2011-12	21021	-	128387	6.1
2012-13	23548	12.02	142541	6.02
2013-14	25966	10.27	167347	6.44
2014-15	28742	10.69	175469	6.1
2015-16	25656	-10.74	221706	8.64
2016-17	39170	52.67	508966	12.99
2017-18	48482	23.77	440476	9.08
2018-19	69278	42.89	582943	8.41
2019-20	97232	40.35	702325	7.22
2020-21 (Up to June)	82227	-15.43	542890	6.6
CAGR (%)	19.29		22.86	

Source: Government of Karnataka (2020), Directorate of Micro, Small and Medium Industries (2011-12 to 2020-21).

Graph –1: Growth in Trends of MSMEs in Karnataka (Between: 2011-12 to 2020-21)



The growth in trends of MSMEs in Karnataka from 2011 to 2020 is presented in Table-1 and Graph-1. The number of MSMEs unit was 21021 in 2011-12, which increased to 97232 in 2020-21, and it has sharply decreased to 82227 in 2020-21. Whereas, the total number of employments from MSMEs was 128387 in 2011-12, which positive increased to 2019-20, it has suddenly decreased to 542890 in 2020-21.

MSMEs UNITS IN KARNATAKA: DISTRICT-WISE DATA ANALYSIS

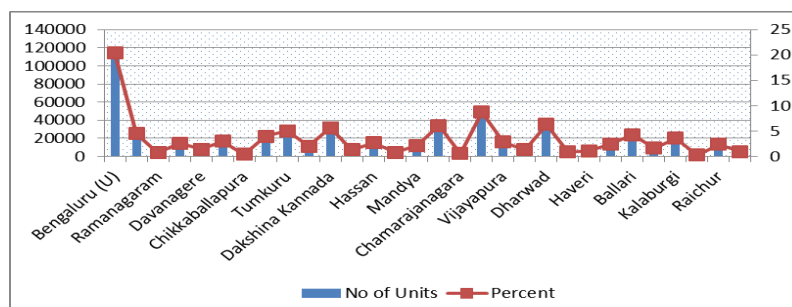
MSMEs play a significant role in the economic development of Karnataka by contributing to production, employment generation, and exports. The district-wise distribution of MSME units in Karnataka is varied, with some districts having a high concentration of MSMEs while others have fewer. As of 2020-21, Bangalore (Urban) led with the highest number of MSME units, followed by Belagavi, Dharwad, Mysuru, Dakshina Kannada, and Tumkuru. These units collectively drive economic activities across the state, providing vital employment opportunities and supporting local economies. The total investment and number of employment opportunities provided by MSMEs are detailed in Table-2 and Graph-2, highlighting their crucial role in the state's industrial landscape.

Table-2 : District-wise Distribution of MSMEs units in Karnataka (As on 2020-21)

S. No	Districts	MSMEs Units		Employment	
		Nos.	%	Nos.	%
1	Bengaluru (U)	117717	20.36	1242662	33.11
2	Bengaluru (R)	26219	4.54	212603	5.66
3	Ramanagaram	4370	0.76	39203	1.04
4	Chitradurga	15167	2.62	74708	1.99
5	Davanagere	8021	1.39	33552	0.89
6	Kolar	17410	3.01	116687	3.11
7	Chikkaballapura	2472	0.43	15841	0.42
8	Shivamogga	23005	3.98	106980	2.85
9	Tumkuru	28933	5.00	159785	4.26
10	Chikkamagaluru	11528	1.99	45472	1.21
11	Dakshina Kannada	32403	5.60	210479	5.61
12	Udupi	7508	1.30	64031	1.71
13	Hassan	15681	2.71	70235	1.87
14	Kodagu	4619	0.80	29054	0.77
15	Mandya	12464	2.16	59559	1.59
16	Mysuru	35129	6.08	192936	5.14
17	Chamarajanagara	3291	0.57	17911	0.48
18	Belagavi	50341	8.71	235562	6.28
19	Vijayapura	16292	2.82	78556	2.09
20	Bagalkot	7809	1.35	38942	1.04
21	Dharwad	36346	6.29	197663	5.27
22	Gadag	5108	0.88	23534	0.63
23	Haveri	6431	1.11	24469	0.65
24	Uttara Kannada	14217	2.46	68474	1.82
25	Ballari	24749	4.28	137625	3.67
26	Bidar	9275	1.60	56646	1.51
27	Kalaburgi	20939	3.62	89286	2.38
28	Yadgiri	1455	0.25	5793	0.15
29	Raichur	13631	2.36	76079	2.03
30	Koppal	5587	0.97	28608	0.76
Total		578117	100.00	3752935	100.00

Source: Government of Karnataka, Karnataka at a Glance, Directorate of Economics and Statistics, Bengaluru - 2021

Graph –2 : District-wise Distribution of MSMEs units in Karnataka



The district-wise registration of MSME units in Karnataka for the year 2020-21 highlights the significant role of seven districts. Bangalore (Urban) led with a share of 20.36% of the total number of units. Belagavi came second with 50,341 units (8.71%) registered in 2020. Dharwad was third with 36,346 units (6.29%) registered in 2016. Mysuru followed with 35,129 units (6.08%) registered in 2016. Dakshina Kannada secured the fifth position with 32,403 units (5.60%) registered. Tumkuru was sixth with 28,933 units (5%) registered. The remaining districts registered fewer units compared to these leading six districts, as detailed in Table-2.

MSME'S AND EMPLOYMENT OPPORTUNITIES IN KARNATAKA

Micro, Small, and Medium Enterprises (MSMEs) have demonstrated remarkable performance in generating employment opportunities in Karnataka. This sector is particularly vital for the state's economic health, as it provides numerous job opportunities, especially for the younger population. Here's a detailed explanation of their impact:

1. **Diverse Job Opportunities:** MSMEs create jobs across various industries, including manufacturing, services, and agriculture. This diversity ensures that a wide range of skills and talents can be employed, from unskilled labor to highly skilled professionals.
2. **Support for Entrepreneurs:** MSMEs often serve as a launchpad for entrepreneurs, allowing them to start and grow their businesses. This entrepreneurial activity not only creates jobs but also stimulates innovation and economic dynamism.
3. **Local Economic Development:** By establishing businesses in both urban and rural areas, MSMEs help in the decentralization of economic activities. This localized development means that employment opportunities are created closer to where people live, reducing migration to urban centers and promoting balanced regional development.
4. **Flexibility and Adaptability:** MSMEs are typically more flexible and adaptable than larger companies. This allows them to respond quickly to market changes and consumer demands, which in turn can lead to the creation of new job roles and opportunities.
5. **Training and Skill Development:** Many MSMEs invest in training and skill development for their employees. This not only enhances the productivity and efficiency of their workforce but also equips workers with valuable skills that can be used throughout their careers.

6. **Economic Diversification:** By contributing to various sectors, MSMEs help diversify the economy. This reduces dependency on a few large industries and spreads economic risk.
7. **Sustainability:** MSMEs often focus on sustainable practices and local resource utilization. This can lead to more environmentally friendly business operations and sustainable economic growth.
8. **Innovation and Competitiveness:** The competitive nature of MSMEs drives innovation. Small businesses are often at the forefront of new technologies and processes, which can lead to more efficient and productive industries overall.

TESTING OF HYPOTHESIS

H0: Small and Medium Enterprises have no significant role in the creation of employment opportunities in the Karnataka state.

H1: Small and Medium Enterprises have a significant role in the creation of employment opportunities in the Karnataka state.

Table -3 : Correlation Results Between MSMEs and Employment Opportunities in Karnataka

Variables	Mean	Std. Devi	Pearson Correlation	Sig.
MSMEs units	46132.2000	27432.20713	.920*	0.000
Employment Opportunities	361305.0000	216079.7337		

*. Correlation is significant at the 0.01 level (2-tailed).

The above Table-3 understood that the correlation between MSMEs units and employment generation in Karnataka. The calculated mean values of MSMEs units and employment generation are 46132.2000 and 361305.0000 respectively. The tested standard deviation values of MSMEs units and employment generation are 27432.20713 and 216079.7337 respectively. The tested Pearson correlation value is .920, at significant 1% level. However, the null hypothesis accepted and the alternative rejected. Hence, it implies that Small and Medium Enterprises have a significant role in the creation of employment opportunities in the Karnataka state.

SUGGESTIONS

- ❖ Simplify the process of obtaining loans and increase the availability of credit facilities. Implement schemes to provide low-interest loans specifically designed for MSMEs.
- ❖ Offer subsidies and grants for startups and existing MSMEs to encourage innovation and expansion.
- ❖ Develop dedicated industrial zones with necessary infrastructure, such as power, water, and transportation, to support MSMEs.
- ❖ Implement comprehensive training programs to enhance the skills of MSME employees. Focus on both technical and managerial skills.
- ❖ Provide marketing support to help MSMEs reach broader markets. Organize trade fairs and exhibitions to showcase their products.

- ❖ Encourage MSMEs to adopt digital tools and technologies to improve efficiency and competitiveness.
- ❖ Formulate policies that create a conducive environment for MSMEs, including tax incentives, regulatory simplification, and ease of doing business.
- ❖ Provide support for research and development activities to help MSMEs innovate and stay competitive.
- ❖ Create platforms to connect MSMEs with local and global markets. Utilize e-commerce platforms to expand their reach.
- ❖ Encourage MSMEs to adopt sustainable and environmentally friendly practices.

CONCLUSION

MSMEs are crucial for entrepreneurship and job creation, providing more satisfaction than larger companies. They support local economies by keeping money within communities. These enterprises play a significant role in reducing unemployment globally and contribute to GDP growth and economic stability. MSMEs offer quality services at lower rates and thrive in stable economies but struggle in unstable ones. They are essential for generating additional revenue and employment, driving economic growth, especially in developing countries. MSMEs account for a large portion of global production and employment, significantly impacting emerging economies by contributing up to 40% of their GDP.

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