

# A Study on Growth and Distribution of Medium Scale Enterprises in Karnataka

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### Abstract

*Micro, Small, and Medium Enterprises (MSMEs) have been accepted as the engine of economic growth and encouraging equitable development. MSMEs constitute over 90% of total enterprises in most economies and have been credited with creating the highest rates of employment and account for a large share of industrial production and exports. In India, too, the MSMEs have been the backbone of the Indian economy. Karnataka is one of the Top Five Industrialized States in the country. It has achieved substantially in promoting hi-tech industries in sectors like Electronics, Telecommunication, Information Technology, Precision Engineering, Automobiles, Readymade garments, and Food Processing. It has a history of pioneering industrial growth initiatives since the Princely State of Mysore and subsequently in the post-independence era. The paper is based on secondary data and aims at studying the growth and distribution of Medium Scale Enterprises in the state of Karnataka.*

### Introduction

#### Medium Scale Enterprises

Micro, Small, and Medium Enterprises (MSMEs) have been accepted as the engine of economic growth and promoting equitable development. MSMEs constitute over 90% of total enterprises in most economies and are credited with creating the highest rates of employment growth.

In India, the MSMEs have been the backbone of the Indian economy and play the predominant role in the industrial economy of the country. MSMEs in India account for more than 80% of the total number of industrial enterprises and produce over 8000 value-added products. This sector accounts for 45% of the manufacturing output and 40% of the total export of the country and employs over six crore people. Further, in recent years the MSME sector has consistently registered a higher growth rate than the overall industrial sector. The main advantage of the sector is its employment creation at low capital cost. Labor intensity in the MSME sector is estimated to be almost four times higher than the large enterprises.

It is significant to study the growth and distribution of Medium Scale Enterprises since these Enterprises play a crucial role in job creation, infrastructural development, and equitable development.

Furthermore, gaining an insight on the growth and distribution helps in tracking the progress achieved by the sector and knowledge of regions with high concentration and the regions lagging, thereby suggesting suitable solutions to bring them on track.

By the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the Micro, Small and Medium Enterprises (MSME) are classified into two types:

- a) **Manufacturing Enterprises** -The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.
- b) **Service Enterprises** -The enterprises engaged in providing services and are defined in terms of investment in equipment.

Enterprise (Type)	Investment in Plant & Machinery (Manufacturing) INDIAN RUPEES	Investment in Equipment (Service) INDIAN RUPEES
Micro	Up to 25 lakhs	Up to 10 lakhs
Small	Above 25 lakhs up to 5 crores	Above ten lakhs up to 2 crores
Medium	Above 5 crores up to 10 crores	Above 2 crores up to 5 crores

### Objectives of the Paper

1. To analyze the growth of Medium Scale Enterprises.
2. To analyze the distribution of MSEs across the different districts.

### Literature Review

**Christopher Ehinomen and Adepoju Adeleke (2012)**, this paper argues that International trade liberalization and the general globalization of the world economy over the past two decades have meant that all countries have to focus attention on ensuring that their industries are globally competitive. There is a mirage of problems confronting Nigerian industries, especially the small and medium scale enterprises (SMEs) sector of the economy these problems constrain the sector from being effective not only in the internal market but also in the international market. This paper calls for the repositioning of Nigerian SMEs for global competitiveness and mainly focuses on the options and strategies for repositioning the sector.

**DR.P. Uma (2013)** notes the role and relevance of SMEs in the economic development of India. It argues that Small and Medium enterprises are an effective means for the development of entrepreneurship. This sector is a solution to poverty, insecurity, and unemployment; due to its high contribution to domestic production, low investment requirements, employment generation, large contribution to foreign exchange earnings of the nation. The article further notes the growth and performance of SMEs in India, along with the strength and weaknesses of SMEs. It concludes that SMEs must take the responsibility to meet the standards, qualities, technological up-gradation, skills technical know-how needed in the global market. To face the challenges posed by globalization.

**Rose Mary Anga (2014)** argues that small and medium scale industries usually develop and grow into medium and large scale industries. This form of growth yields to the development of the economy. However, the path to the development of the economy has some challenges, are classified into internal and external factors. study theoretically and empirically examined the various factors that affect the performance of SMEs in Nigeria. It employed the logistic regression method to establish that corruption is the major external factor that affects SMEs' growth. The study recommended that to achieve the desired objective of functional SMEs, the fight against corruption must be tackled from the foundation and then to the leadership position.

## **Medium Scale Enterprises in Karnataka**

Karnataka has been a pioneer in the industry. For several years now, the State has had the distinction of building a power full industrial base, which combines the intrinsic power of large industrial public sector undertakings, large and medium privately owned industries.

In recent years, Karnataka has emerged as the knowledge and technology capital of the country, making rapid strides in the new economy. IT and related industries, biotechnology, and strong research and development institutions have given Karnataka pride in the global market. Karnataka is one of the Top Five Industrialized States in the country.

### **Entrepreneurs Memorandum**

After implementing Micro, Small, and Medium Enterprises Development Act, 2006, with effect from October 2006, the filing of Entrepreneurs Memorandum Part-I and Part-II came into vogue. As per the provisions of the Act, MSMEs file Entrepreneurs Memorandum (Part-I) at District Industries Centers (DICs). After the commencement of the project, the entrepreneur concerned files Entrepreneurs Memorandum (Part-II) / [EM-II]. Since September 2015, the same has been replaced with Udyog Aadhaar online filing system.

Registration of enterprises known as Entrepreneur's Memorandum (EM) This is an important Program of the Government of India with the sole purpose of creating and maintaining reliable and authentic data in respect of Industrial Projects set up or proposed to be set up in the district. It serves as data for policy makers at the highest level in the state as well as central government. Moreover, various clearances and Incentives are granted by the central or state Government only to such units registered under this program. These Entrepreneur's Memorandum is of two stages:

#### **Entrepreneur's Memorandum Part – I (EM Part – I)**

This Entrepreneur's Memorandum number is granted to a new entrepreneur for enabling him to take various effective steps like getting power connection, Import Export License, clearance from Pollution Control Board, Bank loans & other statutory approvals. This Entrepreneur's Memorandum number is valid for two years from the date of issue or commencement of production, whichever is earlier. Obtaining an EM number is optional for Micro, Small enterprises and mandatory for Medium Enterprises.

#### **Entrepreneur's Memorandum Part – II (EM Part – II)**

Once an enterprise commences its production, then EM part II is granted at the request of the entrepreneur. This EM part II is also optional for Micro, Small enterprises and mandatory for Medium Enterprises. EM part II enables an entrepreneur to obtain various benefits available under the Schemes of the Central Government and state government like Capital Subsidy, Interest Subsidy, Modernization subsidy, reimbursement under ISO 9000 program, CC limit from banks, Export- Import benefits, purchase preference in government supplies, etc.

### **Government Initiatives**

Central and state governments have taken some initiatives in terms of policies or schemes with a view of creating an environment where the support and sustainability and of Micro Small Medium Enterprises (MSMEs) is attained. Though there is a wide range of schemes and policies, they mainly emphasize the micro and small sector. The various projects undertaken by the Ministry of Micro Small & Medium Enterprises and other ministries are Market Development Assistance, Growth Capital, and Equity Assistance and National Manufacturing competitiveness program, which includes several schemes.

### Recent Trends in Growth of MSEs

MSEs have shown consistent growth in the number of Entrepreneurs Memorandum (Part II) / [EM-II] filed every year. The number represents that the MSEs sector registered a consistent growth in terms of the number of EM-II filed every year. Though it took a downturn for the years 2008-09, 2009-10 and 2010-11 again, it showed an increase for the years that followed. Number of EM-II filed during 2007-08 in the DICs across the state was 32 units. This has increased continuously during 2011-12 to 2014-15 periods.

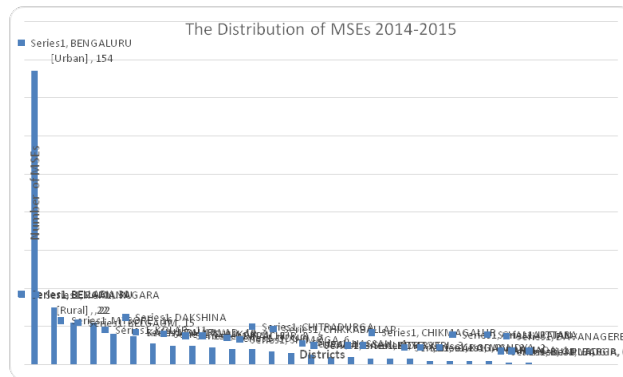
**Table 1 District-wise distribution of number of EM-II filed during 1st April, 2007 up to 31st March, 2015 is as noted below**

Name of the District	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Bagalkot	0	0	0	0	0	1	1	1	3
Belgaum	2	1	2	1	0	0	5	4	15
Bellary	9	1	2	1	0	0	5	12	30
Bengaluru [rural]	1	2	4	2	1	1	4	7	22
Bengaluru [urban]	10	9	8	10	21	37	37	22	154
Bidar	0	0	0	0	0	2	0	1	3
Bijapur	0	0	0	0	0	0	0	0	0
Chamarajanagar	0	0	1	0	0	0	0	0	1
Chikkaballapura	0	0	0	0	0	1	1	2	4
Chikmagalur	0	1	0	0	0	0	1	0	2
Chitradurga	0	0	0	0	1	1	3	0	5
Dakshina									
kannada	1	2	0	2	3	0	1	1	10
Davanagere	0	0	0	0	0	0	0	0	0
Dharwad	1	3	1	0	2	1	2	0	10
Gadag	0	0	0	0	2	0	0	0	2
Gulbarga	0	0	0	0	0	0	0	0	0
Hassan	0	0	0	0	0	2	1	1	4
Haveri	2	0	0	0	1	0	0	0	3
Kodagu	0	0	0	0	1	0	1	0	2
Kolar	2	0	1	1	0	1	3	3	11
Koppal	0	0	3	0	2	1	1	1	8
Mandya	0	0	1	0	0	0	0	1	2
Mysore	2	0	1	3	2	1	2	5	16
Raichur	0	0	0	0	1	2	2	3	8
Ramanagara	0	2	0	5	2	5	4	4	22
Shimoga	0	0	1	1	0	1	1	2	6
Tumkur	1	1	0	1	1	0	0	5	9
Udupi	0	2	1	1	1	0	1	1	7
Uttara kannada	1	0	0	0	0	0	0	0	1
Yadgir	–	–	–	0	0	0	0	0	0
Total	32	24	26	28	41	57	76	76	360

**Table 2 District wise distribution of the number of EM-II filed by the MSEs 2007-08 to 2014-15. (In descending order)**

Name of the District	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Bengaluru [urban]	10	9	8	10	21	37	37	22	154 (42.8 %)
Bellary	9	1	2	1	0	0	5	12	30 (8.3 %)
Bengaluru [rural]	1	2	4	2	1	1	4	7	22 (6.1 %)
Ramanagara	0	2	0	5	2	5	4	4	22 (6.1 %)
Mysore	2	0	1	3	2	1	2	5	16 (4.4 %)
Belgaum	2	1	2	1	0	0	5	4	15 (4.2 %)
Kolar	2	0	1	1	0	1	3	3	11 (3.1 %)
Dakshina Kannada	1	2	0	2	3	0	1	1	10 (2.8 %)
Dharwad	1	3	1	0	2	1	2	0	10 (2.8 %)
Tumkur	1	1	0	1	1	0	0	5	9 (2.5 %)
Koppal	0	0	3	0	2	1	1	1	8 (2.2 %)
Raichur	0	0	0	0	1	2	2	3	8 (2.2 %)
Udupi	0	2	1	1	1	0	1	1	7 (1.9 %)
Shimoga	0	0	1	1	0	1	1	2	6 (1.7 %)
Chitradurga	0	0	0	0	1	1	3	0	5 (1.4 %)
Chikkaballapura	0	0	0	0	0	1	1	2	4 (1.1 %)
Hassan	0	0	0	0	0	2	1	1	4 (1.1 %)
Bagalkote	0	0	0	0	0	1	1	1	3 (0.8 %)
Bidar	0	0	0	0	0	2	0	1	3 (0.8 %)
Haveri	2	0	0	0	1	0	0	0	3 (0.8 %)
Chikmagalur	0	1	0	0	0	0	1	0	2 (0.6 %)
Gadag	0	0	0	0	2	0	0	0	2 (0.6 %)
Kodagu	0	0	0	0	1	0	1	0	2 (0.6 %)
Mandya	0	0	1	0	0	0	0	1	2 (0.6 %)
Chamarajanagar	0	0	1	0	0	0	0	0	1 (0.3 %)
Uttara kannada	1	0	0	0	0	0	0	0	1 (0.3 %)
Bijapur	0	0	0	0	0	0	0	0	0 (0.0 %)
Davanagere	0	0	0	0	0	0	0	0	0 (0.0 %)
Gulbarga	0	0	0	0	0	0	0	0	0 (0.0 %)
Yadgir	-	-	-	0	0	0	0	0	0 (0.0 %)

The top five districts in terms of the number of EM-II filed by MSEs are Bengaluru [urban], Bellary, Bengaluru [rural], Ramanagara, and Mysore. This district together accounts for nearly 70 % of the total number of EM-II filed.



**Chart 1 District- wise distribution of MSEs in Karnataka**

As the pie chart depicts, there is a high distribution of MSEs in Bengaluru [urban], Bellary, Bengaluru [rural], Ramanagara, Mysore, and Belgaum in comparison with the remaining districts of the state.

### Trends and Implications

From the above -given facts, there is a high concentration of MSEs in Bengaluru [urban], Bellary, Bengaluru [rural], Ramanagara, Mysore, and Belgaum in comparison with the remaining districts of the state. Thesesix alone account for nearly 72 % of the total number of EM-II filed, and the remaining 28 % is distributed across the 24 districts throughout the state. And such disparities in terms of the distribution of MSEs can arise due to infrastructural development, easy access to resources and the availability of a qualified workforce.

The implications of high concentration of MSEs in certain regions results in an unbalanced regional development, leading to inequalities in terms of employment opportunities, income, wealth creation, and infrastructural development, thereby affecting the likelihood of future investment.

### Conclusion

The number of medium scale enterprises has shown an increase in number in the period between 2007 to 2015 as per the filling of Entrepreneurs Memorandum (EM-II) in the state of Karnataka still;this growth is limited to certain districts while others have a very small number of MSEs to none at all in some other districts. Hence to achieve job creation, poverty reduction, wealth creation, income distribution, and reduction in income disparities thereby leading to equitable development, investment in the districts lagging in terms of MSEs should be encouraged.

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