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Regional Differences in Growth of Output in MSMEs - A Study With Reference to Northern and Southern Regions of Kerala

Shacheendran V.¹, Tomy Mathew²

Abstract: Entrepreneurship enables to channelize savings into productive investment, generate employment opportunities, employ resources optimally, bring balanced regional development thereby promote economic development and growth. Any economy requires various goods and services for its people. Increasing output (value of goods and services produced or rendered by enterprises in the form of MSMEs) is a positive sign for any economy. In a State governed by same set of rules and regulations is supposed to have uniform development of entrepreneurship throughout. However the research paper proves that in Kerala State there is regional difference in the output (value of goods and services produced or rendered by entrepreneurship in form of MSMEs).

Keywords: Entrepreneurship; MSMEs; Value of goods and services; Regional Difference; Northern Region; Southern Region

JEL Classification: L26

1. Introduction

Economic growth and development requires vibrant and visionary participation of entrepreneurial community. As an iterative, business churning process, entrepreneurship stimulates economic development and generates social wealth through opportunity discovery and exploitation (Venkataraman, 1997). Entrepreneurship is generally perceived as an engine of social and economic growth (Acs & Audretsch, 2005). They act as nursery of entrepreneurial and managerial skills. MSMEs form the fulcrum of job creation and income generation in many developing economies. As per the 4th Census of MSME sector (2011), in India, MSME sector employs 59.7 million persons spread over 26.1 million enterprises and in terms of value, the sector accounts for about 45 per cent of the manufacturing output and around 40 per cent of the total exports. MSMEs contribute about eight per cent of the GDP of the country.

The status and growth of MSME form of entrepreneurship can be measured by the variables such as the number of MSME units set up and output (value of goods and services produced or rendered them). The available data show that these measures are lower in the northern region as compared to that of the southern region. The table 1 shows the number of MSME units set up and number of employment generated by MSMEs in the northern and southern regions of Kerala up to 31.03.2014.

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Table 1. MSME Units Registered in the Northern and Southern Regions of Kerala upto 31.03.2014

District/Region	Value of Goods and Services Produced (in Lakhs)	Number of MSMEs set up
Thiruvananthapuram	314680	31365
Kollam	315794	16249
Pathanamthitta	142041	9764
Alappuzha	178060	17456
Kottayam	271636	23747
Idukki	1169114	5124
Ernakulam	1031199	30851
Thrissur	364961	30461
Southern Region Total	3787485	165017
As % of Total of Kerala	75.98	70.49
Per Capita	0.202	0.009
Palakkad	390868	15917
Malappuram	176221	12702
Kozhikode	306829	18271
Wayanad	66874	3543
Kannur	198433	12070
Kasaragod	58117	6731
Northern Region Total	1197342	69234
As % of Total of Kerala	24.02	29.56
Per Capita	0.082	0.005
Kerala Total	4984827	234251

The southern region consists of 56 per cent of the population and 55 per cent of the geographical area of Kerala State. The northern region accommodates 44 per cent of the population and has 45 per cent of the geographical area of the state. The gap between these two regions is only of 10-11 per cent. However 70.44 per cent of the total MSMEs in the state are in the southern region as against only 29.56 per cent in the northern region. The per capita MSMEs promoted in the southern region were 0.009 as against only 0.005 in the northern region. Thus it indicates that as on 2014, the status of entrepreneurship in MSMEs is lower / backward in the northern region as compared to that in the southern region. The table also shows that 75.98 per cent of the value of goods and services produced by MSMEs in the State is in the southern region as against only 24.02 per cent in the northern region. The per capita value of goods and services produced by MSMEs in the southern region was ` 0.202 as against only ` 0.082 in the northern region. Thus it indicates that the northern region has not achieved proportionate status in MSME entrepreneurship as compared to that of the southern region.

2. Methodology

The study has been conducted in Kerala State. Kerala State, covering a geographical area of 38863 Square Kilometer (Sq. Km) which is only 1.18 per cent of the Indian Union but accounts for 2.76 per cent of the total population. Prior to the formation of Kerala state in 1956, there were two distinct regions (princely states) viz., Travancore-Cochin and Malabar. Hence the present study has classified the State into the northern (Malabar) and southern (Travancore- Cochin) regions. The southern Region (erstwhile Travancore-Cochin Region) consisting of Thiruvananthapuram, Kollam, Pathanamthitta, Alappuzha, Idukki, Kottayam, Ernakulam and Thrissur, and The northern Region (erstwhile Malabar Region) consisting of Palakkad, Wayanad, Kozhikode, Malappuram, Kannur and Kasaragod.

Objective of the Study

To examine whether there is any regional difference in respect of status and growth of value of goods and services produced or rendered by MSMEs in the Northern and Southern Regions of Kerala.

Hypotheses of the Study

H₀: There is no significant difference in the status and growth of value of goods and services produced or rendered by MSMEs between the northern and southern regions of Kerala.

H₁: There is significant difference in the status and growth of value of goods and services produced or rendered by MSMEs between the northern and southern regions of Kerala.

Data Used and Method of Analysis

The study is analytical in nature. It is based on secondary data. In order to examine the regional difference in the status and growth of employment generation by MSMEs, a comparison using the data relating to a decade period 2014 and 2004 on per capita and per square Kilometre basis is done. The comparison using per capita and per Sq. Km. measures assumes significance because number-wise, the southern region of Kerala consists eight districts as against only six districts in the Northern Region. Since the reliable population data of the regions are available only in respect of census years, for computing per capita figures of 2014, population data of Census 2011 and for computing per capita figures of 2004, population data of Census 2001 are used uniformly throughout the study. Quantitative data relating to selected variables are analysed using average, standard deviation and Compounded Annual Growth Rate (CAGR). The CAGR is computed with the formula- $CAGR = [(t_n / t_1)^{1/n}] - 1$. The significance of difference in the absolute status of MSME entrepreneurship has been analysed using 't' test. For this purpose secondary data for a period of 23 years from 1991 to 2013 has been used.

3. Analysis and Findings

One of the major reasons for promoting entrepreneurship is that the entrepreneurial units produce goods/renderers services for a variety needs. In order to increase standard of living of people, diversified type of goods and services are inevitable. The status of entrepreneurship in MSMEs can be examined in terms of value of goods and services of those enterprises. The table 2 shows the value of goods and services produced by MSME Units in the decadal periods 2004 and 2014.

Table 2. Decadal Comparison of Value of Goods and Services Produced in MSME Units in the Northern and Southern Regions of Kerala in 2004 and 2014 (in Lakhs)

Particulars	2004		2014		Gap Between Regions	
	North	South	North	South	2004	2014
Value of goods and services produced	365324	1089719	1197342	3787485	724395	2590143
Per Capita output#	0.027	0.038	0.082	0.202	0.011	0.120
Per Sq. Km. output	20.920	50.921	68.565	176.985	30.002	108.421

Source: Economic Review 2004 and 2014

#Population figures of 2004 are based on Census 2001 and that of 2014 are based on Census 2011

The table shows that in 2004, in the southern region, the per capita value of goods and services produced by MSME units was 0.038, while in the northern region it was only 0.027. By 2014, in the southern region, the per capita value of goods and services produced by MSME units has become 0.202, while in the northern region it is only 0.082. Thus it shows that over the decade period, the gap between these two regions has increased, from 0.011 to 0.120 and the per capita value of goods and services produced in the northern region is lower than that in the southern region. In 2004 in the southern region, per Sq. Km. value of goods and services produced by MSME units was 50.921, while in the northern region it was only 20.92. By 2014, the figures have become 176.985 and 68.565 respectively.

Table 3. Growth of Value of Goods and Services Produced by MSME in the Northern and Southern Regions of Kerala from 1991 to 2013

Year	Northern Region		Southern Region	
	Value(`in Lakhs)	Growth Rate (%)	Value (`in Lakhs)	Growth Rate (%)
1991	90501		146043	
1992	96249	6.35	162253	11.10
1993	81876	-14.93	223020	37.45
1994	100539	22.79	263605	18.20
1995	122858	22.20	307826	16.78
1996	139644	13.66	369224	19.95
1997	168966	21.00	464045	25.68
1998	198148	17.27	546693	17.81
1999	226446	14.28	633998	15.97
2000	262786	16.05	714282	12.66
2001	294977	12.25	804849	12.68
2002	325730	10.43	895706	11.29
2003	353019	8.38	1055355	17.82
2004	365324	-7.84	1089719	3.26
2005	387026	18.96	1184383	8.69
2006	415816	7.44	1256361	6.08
2007	318649	-23.37	939252	-25.24
2008	325341	2.10	958976	2.10
2009	355760	9.35	1034296	7.85
2010	400835	12.67	1145117	10.71
2011	618065	54.19	1457356	27.27
2012	738133	19.43	1778935	22.07
2013	983349	33.22	2152043	20.97
CAGR	10.929		12.408	

Source: Economic Review 1991- 2013

Thus it shows that over the decade period, the gap between these two regions has increased, from 30.002 to 108.421 and per Sq. Km. value of goods and services produced in the northern region is very lower than that in the southern region. Thus the table shows that in respect of both per capita and per Sq. Km. output, the northern region has shown very lower status as compared to that in the southern region in both the decade periods.

The table 3 shows the value of goods and services produced by MSMEs in the northern and southern regions of Kerala from the year 1991 to 2013, along with their annual growth rates and Compounded Annual Growth Rate (CAGR).

The table shows that in the first half of the analysis period, in both the regions, annual growth rate of value of goods and services produced by MSMEs in both the northern and southern regions of Kerala were fluctuating. In 1993, the northern region recorded a negative annual growth of 14.93 per cent. But in that year, enterprises in the southern region have recorded the highest ever growth (37.45 per cent) in the value of goods and services produced. It can be observed that CAGR of the value of goods and services produced by MSME enterprises in the northern region (10.929 %) is lower than that in the southern region (12.408 per cent). Thus, to conclude, it can be observed that in both the regions there are ups and down in annual growth of value of goods and services produced by MSMEs and the CAGR of output in the northern region is lower than that in the southern region.

The figure 1 shows the trend line of growth of value of goods produced by MSMEs in the northern and southern regions of Kerala.

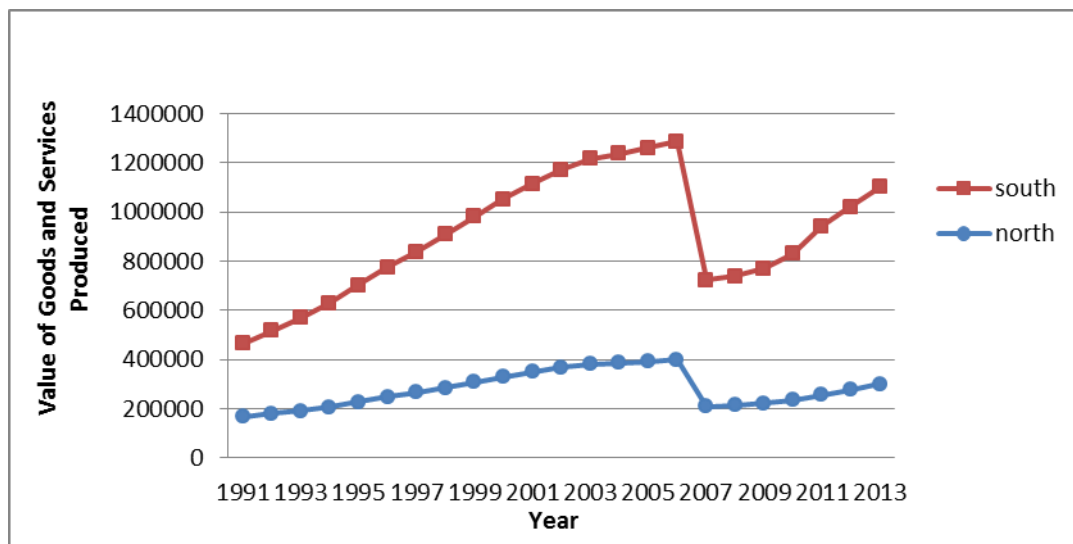


Figure 1. Trend Lines of Growth of Value of Goods and Services Produced by MSME Entrepreneurs in the Northern and Southern Regions of Kerala from 1991-2013

Source: Economic Review 1991- 2013

The chart shows that the value of goods and services produced by MSME units is lower in the northern region as compared to that in the southern region. The trend lines show that though, there was a sharp decline in value of goods and services produced by MSMEs in the southern region in 2007, the northern region is still remains at a very lower level than that in the southern region.

The table 4 shows the mean, standard deviation and results of 't' test in respect of value of goods and services produced by MSMEs in the northern and southern regions of Kerala.

Table 4. Analysis of Value of Goods and Services Produced by MSME Entrepreneurs in the Northern and Southern Regions of Kerala from 1991-2013

Region	N	Average (in Lakhs)	Standard Deviation (in Lakhs)	t	*p
South	23	851449	521594	4.501	0.0001
North	23	320436	219266		
H ₀ : Rejected					

Source: Economic Review 1991- 2013

*Significant at 0.05 level

The table shows that the average value of goods and services produced by MSME units from the year 1991 to 2013 in the southern region is `8,51,449 Lakhs as against only `3,20,436 Lakhs in the northern region and their standard deviations are `521594 Lakhs and `219266 Lakhs respectively. Thus the table shows that the average value of goods and services produced by MSME units are lower in the northern region as compared to that in the southern region. The t test results shows that, since $p=0.00<0.05$, there is significant difference between the regions in respect of value of goods and services produced by MSME units and the northern region produces only lesser value than that by the unit in the southern region.

Thus the analysis has shown that, value of goods and services produced by MSME units are lower (absolute status and CAGR) in the northern region than that in the southern region and the difference is significant.

Status of entrepreneurship can also be evaluated in terms of relative parameters like per unit employment generated, per unit output and per unit investment made in MSMEs in northern and southern regions of Kerala. The table 5 shows selected efficiency parameters relating to MSMEs in the northern and southern regions of Kerala.

Table 5. Decadal Comparisons of Efficiency Parameters of MSMEs in the Northern and Southern Regions of Kerala

Particulars	2004		2014		Gap Between Regions	
	North	South	North	South	2004	2014
Per Unit Employment	4.789	4.365	4.727	5.234	-0.424	0.506
Per Unit Output (in Lakhs)	4.519	5.594	17.294	22.952	1.074	5.658
Per Unit Investment (in Lakhs)	1.357	1.506	6.090	6.143	0.149	0.052

Source: Economic Review 2004 and 2014

The table shows that in 2004, in the southern region, per unit employment provided by MSME units was 4.365 as against 4.789 in the northern region. However, by 2014, in the southern region per unit employment provided by MSME units has increased to 5.234 as against a fall in the northern region to 4.727. It shows that over the decade period, the southern region has generated more employment per unit than that in the northern region. As result the gap between the regions has widened from -0.424 (2004) to 0.506 (2014) and the northern region has went backward in generating per unit employment as against an increase in the southern region.

In 2004, per unit output by MSME units was lower in the northern region (4.519) as compared to that in the southern region (5.594). By 2014, the figures have increased to 17.294 and 22.952 respectively. Thus, the gap between the regions in respect of per unit output was only 1.074 in 2004. But by 2014, the gap has widened to 5.658. It indicates that over the decade, MSMEs in the southern region has attained higher levels of efficiency than that in the northern region.

In 2004, per unit investment in MSME units in the southern region was 1.506, while in the northern region it was 1.357. By 2014, per unit investment in MSME units in the southern region became 6.143, while the northern region it is at 6.09. The table shows that over the decade period, the gap in respect of per unit investment, between the regions has reduced from 0.149 to 0.052. It implies that investment in MSMEs occur in both the regions. In spite of that, gap in respect of per unit employment and per unit output are increasing. Since CAGR of investment in MSMEs is higher in the northern region, it also implies that investment made in MSMEs in the northern region are not efficient enough to generate employment and output as compared to that in the southern region.

4. Concluding Remarks

To conclude, it can be stated that in the northern region value of goods and services produced or rendered by MSMEs is lower than that in the southern region and their difference is statistically significant. Serious efforts are needed to increase entrepreneurial growth in the Northern region. Industrial backwardness can be removed only with the help an exclusive MSME package for the northern region. Special schemes and relaxations are needed for the region. In the Northern Region, improved efficiency of MSME units also called for in order to increase per unit output.

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