



Psychological and Economic Correlates Affecting Growth of MSMEs in Punjab: A Theoretical Perspective

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Abstract

Economic psychology is the interdisciplinary evaluation of the interface between Psychology and Economics. It is inclined towards the psychological foundations of the economic behaviors of individuals and the effects of economic processes on individuals' psychology. This paper endeavors to investigate the interplay between psychological and economic factors that influences the development and sustainability of Micro, Small, and Medium Enterprises (MSMEs) in Punjab. This paper is a theoretical proposition on the psychological mechanisms underlying economic growth and development of Micro, Small and Medium Enterprises in Punjab by focusing upon different aspects such as entrepreneurship, motivation, challenges and governmental initiatives. Development in MSMEs is a complex and multifaceted topic, and its psychological correlates with context to Punjab, requires a comprehensive analysis.

Keywords: Economic Correlates, Psychological Correlates, MSMEs , Punjab

Introduction

Micro, Small and Medium Enterprises (MSMEs) sector in India has appeared as a vibrant and dynamic sector for the economy. It has been recognized as a catalyst in promoting the growth and development. MSMEs are playing a pivotal role in creating a huge amount of employment at meager cost of capital in comparison to large industries, helping in establishment of industries in economically backward regions and truncating regional inequalities, promising justifiable dispersion of national income and wealth. In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as: (i) a micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees; (ii) a small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and (iii) a medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees. The new classification has come into effect from 1st July, 2020.



As for India, Micro, Small, and Medium Enterprises (MSMEs) are pivotal to the economic landscape of Punjab, India. Historically, the state's economy was predominantly agrarian, but the post-1947 era saw a significant transformation. The partition led to the displacement of many, prompting a shift towards industrialization. The establishment of the Punjab Small Industries Corporation (PSIC) in 1962 marked a concerted effort to promote and support MSMEs, fostering industrial growth and employment opportunities. Today, MSMEs in Punjab contribute significantly to the state's economic development, employment generation, and export activities. The MSMEs act as important node for backward and forward linkage in the local and global value-chains. Punjab has a rich MSME base across sectors such as auto components, agricultural implements, bicycle and bicycle parts, cotton ginning and processing, electrical goods, hand tools, IT and ESDM, pharmaceuticals, rubber goods, sports goods, yarn and textiles, sewing machines, etc.

Despite its importance, the major bottleneck in the growth of the MSME sector in has been the lack of adequate access to finance. Shortage of working capital is an important reason for the sickness of these units which can easily be correlated with other problems like non availability of raw material, lack of demand, power shortage, labour, marketing and equipment problems, etc. In the aftermath of COVID-19 pandemic, Government of India was quick to recognize the role of MSMEs in building the nation. As such, MSMEs formed a very prominent part of the announcements made under the Atmanirbhar Bharat Abhiyaan. Under this package, the MSME sector has not only been given substantial allocation but has also been accorded priority in implementation of the measures to revive the economy. To provide better access to finance for MSMEs under Atmanirbhar Bharat Package, Government of India will provide a support of Rs. 4,000 Cr. to Credit Guarantee Trust for Micro and Small Enterprise. Further, it will make provisioning of Rs 20,000 crore as subordinate debt to provide equity support to the stressed MSMEs. Similarly, for the development of MSME ecosystem in the state of Punjab, the Punjab government has signed a memorandum of understanding (MoU) with the Small Industries Development Bank of India (SIDBI) for a period of three years to launch an umbrella programme 'Mission Swavalamban'. All these measures are meant to pave a path for long-term sustainability and profitability of MSMEs which in turn will help the country to move towards becoming a strong, resilient and 'Atmanirbhar' economy.

Economic Significance of MSMEs in Punjab

The MSME sector in India is a dynamic and vibrant component of the economy. As of 2024, there are over 6.3 crore MSMEs across the country, contributing approximately 6.11% to the manufacturing Gross Domestic Product (GDP) and 24.63% to the GDP from service activities. In Punjab, MSMEs have been instrumental in driving economic growth, providing employment, and enhancing export activities. The sector's contribution to the state's GDP is significant, reflecting its vital role in the economic development of Punjab. Punjab has made significant strides in promoting entrepreneurship, with over 100,696 registered MSME units, which includes



1057 Large and medium-sized enterprises and 99,639 Micro and small businesses. This remarkable growth highlights Punjab's dedication to economic inclusivity and fostering a thriving entrepreneurial ecosystem. The rapid growth of MSMEs in Punjab has been a key driver of employment generation, creating nearly 1.2 million jobs and providing economic stability to numerous families. This surge has established Punjab as an attractive hub for business growth, with new manufacturing units and thriving small-scale industries contributing to the state's economic prosperity. MSMEs play a commutual role for Punjab industries as supportive organizations, providing more opportunities of vertical integration in rural remote areas and thus contributing tremendously to the fiscal progress of the state. MSMEs provide the economy with a continuous supply of ideas, skills and innovations which promote entrepreneurship, competition and efficient allocation of scarce resources. Therefore, MSMEs impact on Punjab's economy is multifaceted, as it is contributing significantly to the state's Gross Domestic Product (SGDP). Their diverse activities and production output boost economic growth. It provides livelihoods to a substantial portion of Punjab's population. Further, export earnings from MSMEs earn foreign exchange for the state and the country, helping to strengthen the balance of payments. Along with this, innovation and entrepreneurship in this sector fosters innovation and entrepreneurship, which are crucial for sustained economic growth.

Psychological Dimensions of MSMEs and Development

The development of MSMEs in Punjab is not solely an economic phenomenon; it also has profound psychological implications. Entrepreneurs and workers in the MSME sector often face unique challenges, including limited access to capital, technological constraints, and market competition. Efficient human resource management is another common challenge. As the limited resources and the lack of dedicated HR personnel often result in ineffective talent acquisition, training, and retention processes. However, upskilling and reskilling employees can be challenging due to time and resource constraints. These challenges can impact their motivation, decision-making processes, and overall psychological well-being. Understanding these psychological correlates is essential for formulating policies and strategies that support the sustainable growth of MSMEs in the region.

The MSME sector in Punjab has undergone significant transformation, evolving from a nascent industry to a cornerstone of the state's economy. While economic factors have driven this growth, the psychological aspects of entrepreneurship and workforce dynamics play a crucial role in shaping the sector's development. Addressing these psychological correlates through targeted interventions can further enhance the resilience and sustainability of MSMEs in Punjab, contributing to the broader goal of inclusive economic development.

Objectives of the Study

1. To investigate the interplay between psychological and economic factors that influences the development and sustainability of Micro, Small, and Medium Enterprises (MSMEs)



in Punjab.

2. To analyze the socio-economic impact of MSMEs on employment generation, rural development, and the psychological well-being of stakeholders in Punjab.

Results and Discussion

This section presents an analysis of the two primary objectives of the study: (1) examining the interplay between psychological and economic factors influencing the development and sustainability of Micro, Small, and Medium Enterprises (MSMEs) in Punjab, and (2) assessing the socio-economic impact of MSMEs on employment generation, rural development, and the psychological well-being of stakeholders in Punjab.

1. Psychological and Economic Factors Influencing MSMEs Development in Punjab

Psychological Factors:

Psychological capital, encompassing self-efficacy, optimism, hope, and resilience, significantly influences entrepreneurial success. Entrepreneurial success is not just financial but also psychological. Entrepreneurial success is defined as a set of positive outcomes from the utilization of internal human strengths guided by virtue (Seligman & Csikszentmihalyi, 2000). A study on Malaysian SME entrepreneurs found a moderate positive relationship between psychological capital and entrepreneurial success, particularly among first-generation and partnership firm entrepreneurs. Similarly, research in Jatiningor District, Indonesia, revealed that psychological capital positively affected entrepreneurial performance, with a contribution of 53.2 percent. Moreover, the psychological factors such as environmental mastery, self-acceptance, life purpose, and positive relationships with others have a significant and positive impact on the performance and growth of MSMEs. In order to enhance psychological well-being, MSME employees should strive to be content with their accomplishments, be open to personal growth and self-improvement, and fulfil their duties efficiently. Additionally, they should nurture strong friendships, clarify their life goals and direction, and cultivate a positive outlook on past experiences. Moreover, Highly skilled entrepreneurs drive economic development by introducing innovative products, services, and organizational models. They create value in various aspects, including personal, economic, social, and cultural domains. Entrepreneurship is particularly crucial for developing countries like India, where a large youth population and limited employment opportunities exist. By fostering entrepreneurship, individuals can develop essential skills and knowledge to launch and manage successful business ventures, ultimately contributing to the country's economic growth and development

Economic Factors:

Access to finance is a critical economic factor affecting MSME growth. Limited access to finance is a significant challenge for MSMEs in Punjab. A study comparing credit flow to MSMEs in Punjab and Haryana highlighted that inadequate access to formal finance hampers the



growth of MSMEs in Punjab. Financial institutions' stringent loan procedures, high interest rates, and collateral requirements hinder MSMEs' growth. Moreover, the availability of skilled labor is crucial for MSMEs' success. Punjab's MSMEs face challenges in finding skilled workers, which affects their quality of work and productivity. Government initiatives, such as access to credit, subsidies, and ease of doing business, can significantly impact MSMEs' development in Punjab. Furthermore, skilled workforce is crucial for MSMEs to uphold quality standard and productivity as without skilled labor, MSMEs risk stagnation and struggle to grow. A skilled workforce is vital for MSMEs' success and competitiveness.

By adopting digital technologies such as e-commerce, digital marketing, and cloud computing, MSMEs can broaden their reach, streamline operations, and connect with a larger audience of potential customers. MSMEs can gain economies of scale, pool resources, and enhance competitiveness through collaborations and partnerships. Business clusters and incubators serve as vital platforms for these initiatives. With a growing emphasis on sustainability, MSMEs have the opportunity to adopt eco-friendly practices that attract environmentally conscious consumers and reduce operating costs

Interplay Between Psychological and Economic Factors:

The integration of psychological capital with economic resources enhances MSME performance. Entrepreneurs with high psychological capital are more adept at navigating economic challenges, leading to better utilization of available resources and improved business outcomes. Entrepreneurs' psychological traits, such as self-efficacy, shape their responses to economic challenges and opportunities. Those with high self-efficacy are more likely to proactively seek funding opportunities and adapt business models to changing market conditions. This mindset enables entrepreneurs to navigate uncertainty and drive MSMEs growth. On the other hand, the economic conditions can also impact entrepreneurs' psychological state. Financial instability, market downturns, or lack of access to resources can lead to stress, anxiety, and decreased motivation. A supportive ecosystem that addresses both psychological and economic needs is crucial for fostering a thriving MSME sector. This includes providing access to finance, training, mentorship, and creating a positive environment that encourages innovation and growth.

2. Socio-Economic Impact of MSMEs on Employment, Rural Development, and Psychological Well-being

Employment Generation:

MSMEs are significant contributors to employment in Punjab. They provide livelihoods to a substantial portion of the population, particularly in rural areas. Government policies like the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) aim to enhance livelihood security in rural areas by providing guaranteed wage employment, which indirectly supports MSME growth by improving local employment conditions. MSMEs sector can also



provide employment to people with a lower degree of skills or ordinary skills. It is believed to lead to job creation at all levels of income stratum and assure more equitable distribution of wealth. Government of Punjab has taken various initiatives for job creation in MSMEs in Punjab, which includes: -

- **Punjab Industrial and Business Development Policy 2022:** This policy aims to accelerate industrial growth, create jobs, and provide quality infrastructure. It offers fiscal incentives, such as employment generation subsidies, to anchor units.
- **MSME Punjab:** The state government has established MSME Punjab to focus on the development of MSMEs, providing support for entrepreneurship and job creation.
- **Skill Development:** Initiatives like "Samarth" provide training programs for youth employment and skill development. Pradhan Mantri Kaushal Vikas Yojana (PMKVY) and Future Skills PRIME aim to enhance employability and skills in emerging technologies.
- **Prime Minister's Employment Generation Programme (PMEGP):** A credit-linked subsidy scheme that provides employment opportunities through micro-enterprises in non-farm sectors. In 2023-24, PMEGP supported 89,118 enterprises, generating over 7.12 lakh jobs.
- **Customized Credit Card Scheme:** A new scheme providing Rs 5 lakh in credit to micro-enterprises registered on the Udyam portal, with 10 lakh cards set to be issued in the first year.
- **Employment Generation Schemes:** Other schemes like Aatmanirbhar Bharat Rojgar Yojana (ABRY), Pradhan Mantri Rojgar Protsahan Yojana (PMRPY), and National Apprenticeship Promotion Scheme (NAPS) also contribute to job creation in MSMEs.

Rural Development:

MSMEs (Micro, Small, and Medium Enterprises) are vital for Punjab's rural development, Punjab boasts a strong base of MSMEs, particularly in sectors like auto components, bicycle parts, hosiery, and sports goods. These enterprises play a crucial role in generating employment at lower capital costs and fostering industrial growth in rural and backward areas, which in turn helps reduce regional imbalances. MSMEs located in rural areas contribute to rural development by reducing urban migration and fostering local economic activities. The establishment of MSMEs in rural regions promotes infrastructure development and skill enhancement, leading to overall community development. By promoting MSMEs in rural areas, Punjab can create jobs for its youth, reducing unemployment and poverty. MSMEs can absorb local labor, providing a source of livelihood for rural communities. MSMEs promote entrepreneurship in rural areas, empowering local communities. Rural entrepreneurs can start and grow their businesses, contributing to the local economy. MSMEs can also promote innovation, encouraging rural people to develop new products and services. MSMEs can help reduce dependence on agriculture, promoting rural industrialization. By diversifying income sources, rural communities



can reduce their vulnerability to agricultural shocks. MSMEs can provide a stable source of income, improving living standards.

Psychological Well-being:

Psychological wellbeing refers to an individual's emotional, mental, and social state. In the context of MSMEs, psychological wellbeing plays a crucial role in determining the success of entrepreneurs and employees. When individuals are mentally healthy, they are more productive, innovative, and resilient. They are better equipped to handle stress, uncertainty, and challenges, which are inherent in the MSME sector. Economic conditions, such as job availability and income levels, significantly impact mental health. A study on mental morbidity in Punjab reported a current mental morbidity rate of 13.42%, with higher prevalence in rural areas compared to urban regions. The development of MSMEs can alleviate economic hardships, thereby improving the psychological well-being of individuals in these areas. By prioritizing psychological wellbeing, MSMEs can boost productivity, enhance decision-making, and foster better employee relations. Collaboration between the Punjab government, MSMEs, and stakeholders is key to providing essential support, including financial aid, training initiatives, and mental health resources. This focus on wellbeing can drive sustainable growth, ultimately contributing to Punjab's economic prosperity.

Future Implications

1. Policy Integration of Psychological Support

Government policies should include psychological support services such as stress management and emotional resilience training for MSME entrepreneurs, especially in rural areas (Ministry of MSME, 2023).

2. Entrepreneurship Training Enhancement

Training programs must integrate psychological competencies—decision-making, motivation, and coping strategies—alongside business skills (Ghosh & Bhowmick, 2021).

3. Mental Health Focus in Rural MSMEs

Given the higher stress and limited support in rural Punjab, mental health resources should be linked with MSME development schemes to improve both business outcomes and well-being (Sharma et al., 2022).

4. Empirical Research and Data Collection

Future studies should collect field data to measure how psychological traits influence MSME performance over time and across sectors (Nair & Pandey, 2019).

5. Tech-Based Support Systems

Digital platforms offering mental health resources, peer support, and decision-making tools should be developed to assist MSME owners.



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