

Empirical Study of Effects of Government Support Scheme on the Financial Performance of MSMEs in the selected Districts of Tamil Nadu

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Abstract: Micro, Small and Medium Enterprise (MSMEs) forms a very important sector of economic framework of India, as it plays a key role in generating employment, industrial production and development of the regions. In Tamil Nadu, the MSMEs are critical in the growth of the sector in manufacturing, textiles, services, and trade. The Central and State Governments have adopted various support schemes, such as credit guarantees, capital subsidies, interest subvention programs and digital assistance programs, to improve their competitiveness and resilience. Nevertheless, there is very little empirical data on how these schemes are effective at the district level. This research paper provides an empirical analysis of how government support schemes affect the financial performance of MSMEs in selected districts of Tamil Nadu. Based on the primary data obtained in the form of registered MSMEs and it is supported with secondary sources, the research will employ the quantitative methodology such as regression analysis to determine the relationship between scheme awareness, availability and the financial metrics of the business enterprise such as profitability, revenue growth and operational stability. The research findings should help provide evidence on the importance of policy interventions on the financial performance of the business enterprise and also identify gaps in the implementation of the schemes. The research has a contribution to the policy evaluation literature in a way that it provides a district-level of understanding and feasible implications to the enhancement of design and delivery of support schemes.

Keywords: MSMEs; Government support schemes; Financial performance; Tamil Nadu.

1. INTRODUCTION

It is a known fact that Micro, Small and Medium Enterprises (MSMEs) serve as drivers of an inclusive economic growth. In India, the industry plays a significant role in GDP, export, and job creation, and it also promotes the development of the region industrialization. Tamil Nadu being one of the most industrialized states in India has registered high concentration of MSMEs in the textiles sector, leather industry, engineering industry, food-processing industry, and services industry. MSMEs are also restricted by structural barriers such as lack of access to formal finance, high costs of operation, technological, and volatile markets despite their economic importance, very limited access to the digital world. In a bid to deal with this challenge, several support mechanisms have been introduced by both the Government of India and the Government of Tamil Nadu such as credit guarantee schemes, capital investment subsidies, interest subvention programs, skill development initiatives, and digitalization support. The purpose of these interventions is better liquidity, financial risk reduction, modernization, and the overall competitiveness. Although policy frameworks give priority to enhancing performance of MSMEs, the real efficacy of the schemes on the level of firms is a systematic area of empirical research. Although much of the existing literature dwells on national-level analysis or theorization of MSME policy support. Nevertheless, the outcomes of financial performance can be different in various districts because of dissimilarity in

industrial clusters, the level of infrastructure, awareness levels, and the efficiency of institutions. Empirical research at the district level is still relatively scarce, especially in the region of Tamil Nadu. Financial performance, which is often reflected in profitability, increase in revenues, rate of return, and stability of the enterprise is also an important factor that indicates sustainability in an enterprise. It is against this background that the current research is intended to carry out an empirical research on the linkage between government support schemes and the financial performance of MSMEs in chosen districts of Tamil Nadu. The research aims to offer evidenced-based results obtained by combining firm-level information and quantitative analytical methods to add value to the policy and sustainable development of MSMEs.

2. LITERATURE REVIEW

Micro, Small and Medium Enterprises (MSMEs) play an important role in terms of employment, productivity and economic growth in India and particularly in industrialized states such as Tamil Nadu (Reddy and Sharma, 2023). The government actions such as credit schemes, subsidy programs, and digital support are necessary to enhance MSME resilience. At the same time, the integration of digital and fintech, as well as the use of e-commerce and automation, can improve the performance of MSMEs (Singh and Das, 2022). This review provides an overview of the recent empirical studies on the way government support and technology adoption can affect the MSME financial performance. Research is pointing to a positive correlation generally, but the extent of impact varies depending on the firm absorptive capacity, accessibility of policy, and the level of digital skills.

MSME Performance and Government support.

The government assistance increases access of MSMEs to formal finance, decreases credit constraints and increases development potential. To illustrate, Raju and Gupta (2024) discover that the profitability and revenue increase in companies with specific credit subsidies are greater than that of their unsponsored counterparts.

Likewise, specific policies minimize the risk aversion and invest more in productive assets (Patel and Verma 2023). Nevertheless, certain reports have found that the effectiveness of these schemes is undermined by bureaucracy and lack of awareness (Khan et al., 2022).

Technology Adoption and Financial Performances.

The current literature has indicated that adoption of digital technology has a direct positive effect in the areas of efficiency, market penetration, and cost control of MSME. According to Singh and Das (2022), in the Indian context, integration of digital payment systems has a strong positive impact on the profitability of the firms, particularly service MSMEs, although the shortage of digital literacy and lack of infrastructures are important factors that hinder the use of technology (Mehta and Jain, 2023).

Government Support and Technology Adoption and Support.

Combination of financial aid and use of technology brings about magnified returns. Ramakrishnan and Pillai (2023) demonstrate that companies that get both financial rewards and digital transformation support their innovation performance and financial success. This combined effect indicates the necessity of policy strategies that would support credit access and digital capacity building at the same time.

The current literature indicates that financial support provided by the government and adoption of technology both have positive impacts on the financial performance of MSMEs. The best results are achieved when companies are exposed to both monetary and digital rewards. The effect is however different depending on the sector, digital preparedness, and the effectiveness in policy implementation. The area of study of the district level has a research gap in Tamil Nadu. Such a gap explains the need to conduct more empirical research focusing on the interaction of certain government interventions and technology adoption patterns to determine their impact on outcomes of MSMEs.

Objective

1. To **analyse** the impact of government support schemes on the financial performance of MSMEs in selected districts of Tamil Nadu.
2. To **examine** the level of awareness and accessibility of government support schemes among MSMEs in the selected districts.

Hypothesis

H₀₁ (Null Hypothesis)

Government support schemes have no significant impact on the financial performance of MSMEs in selected districts of Tamil Nadu

H₁₁ (Alternative Hypothesis)

Government support schemes have a significant positive impact on the financial performance of MSMEs in selected districts of Tamil Nadu.

H₀₂ (Null Hypothesis)

There is no significant level of awareness and accessibility of government support schemes among MSMEs in the selected districts.

H₁₂ (Alternative Hypothesis)

There is a significant level of awareness and accessibility of government support schemes among MSMEs in the selected districts.

Research Gap

Although numerous government support schemes have been introduced to strengthen MSMEs in India, there is limited district-level empirical evidence in Tamil Nadu that statistically examines whether these schemes translate into measurable improvements in the financial performance of MSMEs. Most existing studies focus either on policy description or macro-level analysis, rather than testing the direct impact of government support on enterprise-level financial outcomes using primary data. This lack of micro-level empirical validation creates a significant gap in understanding the actual effectiveness of government support schemes in improving MSME financial performance.

Theoretical Framework

The current research is based on the Resource-Based View (RBV) theory and Public Policy Support theory. The Resource-Based View suggested that external resources including financial support, institutional support, and government schemes have the potential to increase the internal resources of a firm and boost its competitive edge. The idea of government support schemes is that they are strategic external resources that help to build the financial standing and performance of the MSMEs by correcting market failure and supporting the growth of the economy. The theory of Public Policy Support implies that the government interventions, such as subsidies, credit guarantees, and financial assistance schemes, are aimed at fixing the mistakes in the market and promoting the economic growth. Such policy actions are expected to minimize financial limitations, increase the accessibility to capital, and make businesses more sustainable. Government support schemes in the MSMEs are anticipated to enhance financial performance in terms of growth in revenues, profitability, cost efficiency and financial stability. Consciousness and availability of these schemes is critical in the effectiveness of these schemes is determined. On these theoretical bases, the analysis supposes that government support schemes have an effect on the financial performance of MSMEs.

3. RESEARCH METHODOLOGY

1. Research Design

The research design used is descriptive and analytical.

The descriptive design will be applied in order to discuss the extent of awareness and the availability of government support schemes among MSMEs.

The analytical design is applied in the analysis of the effects of government support schemes on the financial performance of MSMEs by the regression analysis.

This design is suitable since the research will quantify the perception based variables, and will test statistical association between independent and dependent variables.

2. Sampling Technique

Proportionate Stratified Sampling was used in the study.

The strata were the districts that were selected (Chennai, Coimbatore, Tiruppur, Madurai and Tiruchirappalli). Proportionate distribution was done to make sure that the sample was balanced to the MSME concentration in the respective districts.

This method ensures:

- Equal representation
- Reduced sampling bias
- Improved generalisation of findings.

3. Sample Size

Final analysis was made on 231 MSMEs.

The sample size is deemed to be adequate since:

- It is above the minimum regression analysis requirement.
- It meets the general regression (1520) rule of thumb (minimum of 1520 respondents per predictor variable).
- It provides adequate statistical power in testing of hypothesis.

Per cent Distribution of Awareness and Accessibility of Government Support Schemes (N = 231).

4. Research Methods And Interpretation.

Table 1.1

Awareness and Accessibility Statement	Agree (%)	Neutral (%)	Disagree (%)
Aware of major government schemes	68	20	12
Aware of subsidy and credit schemes	65	22	13
Sufficient financial information available	67	19	14
Government scheme information easily accessible	63	23	14
Procedures for availing schemes are simple	60	25	15

Primary data-source

Interpretation

Table 1.1 indicates the awareness and accessibility of government support scheme within the MSMEs by percentage. Most of the respondents (68 and 65 percent respectively) state that they know about major government schemes and subsidy schemes. Approximately, 67 per cent of respondents support that adequate financial information exists, but a relatively lower number (60 per cent) support the fact that the schemes availing processes are easy hence procedural difficulties. All in all, the findings suggest moderate-high levels of awareness and accessibility among MSMEs.

1. To examine the level of awareness and accessibility of government support schemes.

Table 1.2

Variable	N	Missing	Mean	Median	Standard Deviation	Minimum	Maximum
Aware_major_schemes	231	0	3.80	4	1.20	1	5
Aware_subsidy_credit	231	0	3.71	4	1.10	1	5
Sufficient_financial_info	231	0	3.75	4	1.13	1	5
Info_easily_accessible	231	0	3.69	4	1.09	1	5
Procedure_simple	231	0	3.70	4	1.19	1	5

Primary data-source

Interpretation

Table 1.2 is the descriptive statistics of awareness and access to the government support schemes among the MSMEs. The average is between 3.69 and 3.80, which is higher than the neutral score of 3 in the five-point Likert scale. It means that there is a medium-high awareness and accessibility of respondents toward government support schemes.

The fact that the median of all variables is 4 also confirms the fact that most of the respondents are more likely to agree with the statements. The values of standard deviation vary between 1.09 and 1.20, which implies that answers are somewhat varied.

H₀₂: There is no significant level of awareness and accessibility.

H₁₂: There is a significant level of awareness and accessibility.

Since mean values are above the neutral point (3), the awareness level is considered significant.

Therefore, the null hypothesis (H₀₂) is rejected and the alternative hypothesis (H₁₂) is accepted.

2. To analyse the impact of government support schemes on the financial performance of MSMEs.

Regression Analysis

Table 1.3

Model	R ²
1	0.0315

Primary data- source

Interpretation

When the financial performance is used as the dependent variable, the explanatory power of the regression model is 3.15% (R² = 0.0315), implying that it is a weak model. This implies that the financial performance of MSMEs is insignificantly affected by the awareness and the accessibility dimensions of government support schemes.

Table 1.4

Omnibus ANOVA Test					
Variable	Sum of Squares	df	Mean Square	F	p
Aware Major Schemes	3.6223	1	3.6223	3.1072	.079
Aware Subsidy Credit	1.5137	1	1.5137	1.2984	.256
Sufficient Financial Info	0.0512	1	0.0512	0.0439	.834
Info Easily Accessible	0.1253	1	0.1253	0.1075	.743
Procedure Simple	2.9418	1	2.9418	2.5235	.114
Residuals	262.3011	225	1.1658		

Primary data-source

Interpretation

The outcome of ANOVA shows that the p-values of all the independent variables are below 0.05. All the p-values (0.079, 0.256, 0.834, 0.743, 0.114) are above the 5% level of significance. It means that the awareness and ease of access dimensions of government support schemes do not play a significant role in the overall financial performance. Though, the p-value of the variable of which is Aware Major Schemes is comparatively lower (0.079), it is still higher than 0.05, which means that it is not statistically significant.

All in all the regression model is not statistically significant.

Hypothesis Testing

H₀₁: Government support schemes do not have any significant effects on the financial performance of MSMEs.

H₁₁: Governmental support programmes possess a considerable positive effect on the financial results of the MSMEs.

H₀₁ is not rejected

H₁₁ is not supported

4. CONCLUSION

The current research involved the role of government support schemes on financial performance of MSMEs in the selected districts of Tamil Nadu and determined the degree of awareness and accessibility of the schemes. The analysis of the data revealed that the awareness and access of MSMEs to government support schemes have a moderate and high level. Most of the respondents said that they were knowledgeable of significant schemes and subsidy assistance. This implies that the government has been successful in disseminating information to a great part of MSMEs. Nevertheless, the regression coefficient showed that there is no statistically significant effect of awareness and accessibility levels of government support scheme on the financial performance of MSMEs. The model attributed only a very low percentage of changes in financial performance thus showing that awareness is not enough in itself to change financial performance. This means that MSMEs can be aware of government schemes but this awareness does not always mean improvements in terms of revenue, profitability or other financial stability can be measured. Programmatic financial performance may be much more influenced by other factors like real financial aid utilization, management capability, market environment and operational efficiency. Finally, the paper reveals that it is necessary not only to raise awareness but to ensure successful implementation, use, and monitoring of government support programs to provide better financial results to MSMEs.

Limitations of the Study

The research is only done in the chosen districts of Tamil Nadu, and thus the results cannot be inferred to all MSMEs. The information is grounded on the perception of the respondents and this could have personal bias. The research concentrated primarily on the knowledge and the availability of government support programs and did not quantify the actual financial aid obtained or in the long term financial results. Also, including other factors that affect financial performance was omitted in regression model.

Economic and Policy Suggestions.

- It is not enough to be aware, but such focus should be done on the effective implementation and utilisation of government support schemes.
- The procedures of gaining access to schemes need to be streamlined so that administration and procedure become less challenging.
- Financial support especially to micro and small businesses should be enhanced.
- Government schemes should be monitored and evaluated regularly to determine their effect on the financial performance of MSME.

The government support has to be combined with the skill development and market linkage programs in order to make the entire competitiveness more developed.

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