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**273**

WORKING PAPER

# Understanding Firm's Transition, Entry, and Exit across Size, Sectors, and Age in India

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November 2023

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# Understanding Firm's Transition, Entry, and Exit across Size, Sectors, and Age in India

Akhilesh Kumar Sharma\* & Tripti\*\*

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*[Abstract: This paper tries to investigate the rate of firm transition across size and sector, the relationship between firm transition and age, rate of entry and exit across size categories and age. It is based on the Prowess-IQ database from CMIE for the period 2006-07 to 2019-20. It has used MSME definitions to create size categories of firms. Further, firms are grouped into manufacturing and service enterprises based on the National Industrial Classification 2008. The study observes that there is significant variation in the rate of transition, entry, and exit of a firm across size, sector, and age. There is an inverted U-shaped relationship between transition and age, as after a certain age the transition rate fell for all types of firms. In general, the rate of entry of new firms has a declining trend for all categories (i.e. micro, small, medium, and large), irrespective of the definition of MSMEs, after 2012 or 2013. Further, despite showing an increasing trend during 2006-2011, the exit rate of firms has also shown a declining trend then after. Interestingly, the firm exit rate increases till the age of 15 years and then after it declines indicating an inverted 'U' shaped relationship between exit and firm age. This study highlights that younger and smaller firms need policy support even up to the age of 25 years. Further, there is a need to strengthen the entrepreneurial ecosystem in the country and design appropriate policies to support firms' graduation considering their age, sector, and size categories.]*

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**Keywords:** Firm Transition, Entry, Exit, MSMEs

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**For the complete working paper, please contact the authors at [aksbhu2608@gmail.com](mailto:aksbhu2608@gmail.com) & [bayla125tripti@gmail.com](mailto:bayla125tripti@gmail.com)**

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