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A STUDY ON SMALL SCALE INDUSTRIES AND ITS ROLE IN THE GROWTH OF INDIAN ECONOMY

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ABSTRACT

The challenges of economic and social growth in emerging nations can be effectively addressed through industrialization. These nations' phenomenal economic growth and improvement in living standards have coincided with the emergence of manufacturing.

The socioeconomic growth of the nation has received a remarkable contribution from the SME sector. Poor capital base, technological accessibility, credit policy, inconsistent business services, high-quality human resources, low market awareness, and insufficient infrastructure are the problems that hinder the growth of this industry. In the current context of the globalization movement, the SME sectors are the economic development engine.

The purpose of this essay is to evaluate several concerns in light of the economic situation in India. For the industrial expansion to be accelerated, entrepreneurship is essential. Small and medium-sized businesses are a powerful tool for fostering entrepreneurship. The issues of poverty, insecurity, unemployment, and overpopulation in the modern world can only be solved by this sector. This essay tried to emphasize the importance of SMEs in India's economic growth. The contribution of SMEs to GDP growth is identified.

Keywords: Growth, Nation, Economic Development, Credit Policy.

1. INTRODUCTION

The idea of a global economy has shrunk the globe into a village. As a result, in the global village, competition is fierce in every industry. By providing incentives and financial assistance to small and medium-sized businesses, nations are implementing reform strategies to maintain their economies (SMEs). The Indian government has been focusing on the potential for expansion of SMEs and their establishment in the nation, since they have benefited the nation's economic development.

Small and medium-sized businesses (SMEs) made significant contributions to India's economic and social growth. Small-scale industries (SSIs) were the term used for SMEs before it was changed to small and medium businesses (SMEs). It is also known as micro, small, and medium businesses (MSMEs) in various nations. It has been cited in policy documents and statements by several industrialized and developing countries. The SMEs have grown and had an impact on the Indian economy's market and innovation, as well as revenue, employment, and export. Since India gained its independence, it has helped with reforms and India's brand's globalization. Since SMEs account for 50 to 66 percent of firms worldwide, they are prioritized in the majority of nations. About 45% of the industrial output is attributed to SMEs.

Additionally expanding, its exports lately increased by 40%. In recent years, India's GDP growth has typically exceeded 7% annually, which is comparable to the global average. In

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every country in the globe, SMEs continue to expand at rates that are higher than those of major industries. Varied nations have different definitions of SMEs. Few nations have classified SMEs using benchmarks for employment, while some have done so using assets, many have done so using sales, and very few have done so using shareholder funds.

2. REVIEW OF LITERATURE

According to **Gyampah and Boye (2001),** depending on the size of the company and its resource capability, different environmental variables apply to small and large companies.

Hunt, (2002). Lack of resources would prevent SMEs from joining export markets. R&D, automated procedures, training and development, and market research for SMEs may be the areas of investment.

Policy changes, according to **Subrahmanyabala (2004),** have created both possibilities for the globe and obstacles for SMEs. Such policy papers must be centred on the adoption and growth of technology. The improvement of the financial system will make it possible for SMEs to compete globally. The SMEs also have particular issues such a lack of knowledge, a lack of resources, and the need to upgrade industrial processes.

Sudan (2005) used many SMEs-related questions to highlight the difficulties in the development of SMEs and policy concerns. His research indicates that the Indian government has made an attempt to create a SME sector in all of its chosen policies. This can support the development of a diverse economy, job options, and career prospects.

According to Rathod **(2007),** SMEs made significant contributions to wealth, exports, and employment. He also noted in his research that the development of SMEs strengthened industry and was a driving force behind industrialization.

In his explanation of the significance of SMEs and their contribution to the global economy, **Rathod (2007)** emphasized both possibilities and difficulties related to the effects of globalization on Indian industry and SMEs.

According to **Murthy (2010),** the Indian government has made it possible for SMEs to play a significant role in the growth of the Indian economy by establishing a framework for policy and a procurement strategy.

In his article titled "Micro, Small and Medium Enterprises (MSMEs) in India: An Appraisal**,"** **Ghatak, Shambhu (2010)** noted that the position of Indian MSMEs is superior to that of its counterparts in Bangladesh and Pakistan. While 46% of Bangladesh's SMEs have bank accounts, just roughly 36% of Pakistan's SMEs have. In contrast to them, 95% of SMEs in India have bank accounts. He said that the Indian government should go on with its plans to promote these small-scale enterprises more quickly**.**

The influence of globalization on small-scale firms' export potential was examined by **Subrahmanya Bala (2011),** who came to the conclusion that while this impact was significant during the protection era, it continued to expand steadily during the liberalization era.

According to Srinivas**, K. T. (2013),** the MSMEs have been referred to as the nation's growth engine in his study titled "The role of micro, small, and medium companies in inclusive

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growth". The national and state levels have seen significant change recently in order to consolidate this industry. The main causes of the MSMEs' subpar growth in India are weak infrastructure and a dearth of marketing connections. The state and the central governments' assistance is insufficient for the development of MSMEs in India. As a result, the Indian government and business community should take certain steps to advance the growth of these MSMEs in India.

3. RESEARCH OBJECTIVE

- To research the existing state and development of SMEs in India
- To research India's place in world economic development and its significance
- To research the advantages and disadvantages of SME from an Indian viewpoint.

4. RESEARCH METHODS

The study's foundation is secondary data that was gathered from a variety of secondary sources, including publications, annual reports, departments of SMEs, and other reports that have been published. The information has been presented as a table, and interpretations have been made in light of the study's aforementioned goals.

5. SME PARTICIPATION IN ECONOMIC DEVELOPMENT

The foundation of industrial growth is small and medium-sized businesses. Small and medium-sized businesses have always been a key part of the economic development model for both developed and developing nations. This model placed emphasis on the nation's high contribution to domestic production, significant export earnings, low investment requirements, creation of jobs, and effective contribution to foreign exchange earnings with few operations that were import-intensive. Small-scale industries (SSIs) have made a significant contribution to the nation's industrial growth. It contributes 40% to industrial production. This industry directly accounts for 35% of the nation's total manufactured exports. The only other industry that generates more employment overall is agriculture, which employs about 140 lakh people. Overall, the small business sector has performed well and has helped the nation significantly diversify and strengthen its industrial base. Small-scale businesses require less capital investment and are suitable for the resource-constrained and densely populated Indian economy.

Additionally, it is extremely labor-intensive and has the potential to expand upon conventional knowledge and ability. As a legacy of Gandhian philosophy, small scale industries have remained high on the agenda of all political parties, the intelligentsia, and policy officials since independence.

6. STRENGTH AND WEAKNESSES OF SMEs

a) Strengths

- Flexibility, owner management, affordable labour, low overhead, and a favorable capital-output ratio have been identified as the major strengths of small and medium-sized businesses.

- Flexibility Small and medium-sized businesses may quickly adopt new innovations and techniques. The price to modify the current system is likewise pretty low.
- Owner management is a potential in small and medium-sized businesses, which guarantees rapid decision-making. Speed is guaranteed, and red tape is minimized.
- The labour shortage and rising cost of wages in large-scale industries are the primary causes of this disease.
- Cheap labour and little overhead are small and medium businesses' strengths.
- Good capital-to-output ratio Small and medium-sized businesses require a lot of labour. Small and medium-sized businesses can maintain low levels of capital investment per unit of production by properly utilizing their resources.

b) Weaknesses

- Lack of quality concern is the small industries' biggest drawback. Small and medium-sized businesses give the whole quality programme less thought, and as a result, its significance is less felt, which causes a quality issue. According to study results, the productivity level of India's small and medium enterprises is reduced as a result of underutilization of capacity.
- Small and medium-sized businesses heavily rely on banking funding, making it difficult to get money from other sources or build a strong brand image. They lack a professional image.
- Workers neglect their regularity and discipline in reporting on time and pay greater importance to their own work. It is challenging to find, keep, and satisfy trained employees. According to study reports, many small and medium-sized businesses in India are failing, and some are even shutting.
- Lack of quality and escalating competitiveness are the key causes. Small and medium-sized businesses must use the best tactics to address new problems. Therefore, SMEs should act right now to spread awareness of quality and encourage the use of continuous improvement methods.

7. ANALYSIS OF SMEs' PERFORMANCE IN INDIA

The growth rates of SMEs in the 1980s and 1990s were remarkably strong in terms of the number of units, the creation of jobs, and exports. It was acknowledged that the rise of SMEs throughout the 1990s had slowed down in terms of both employment and exports as well as units and employment. This was a sign of global market competitiveness and had a negative impact on the expansion of Indian SMEs.

The SMEs have consistently grown by 11% from 2010 to 2011. The best growth rate performance, which was attained in 2011–2012, was 18.45 percent. During the years 2012–2013 and 2013–2014, the same was maintained with a minor decline of between 14 and 12%.

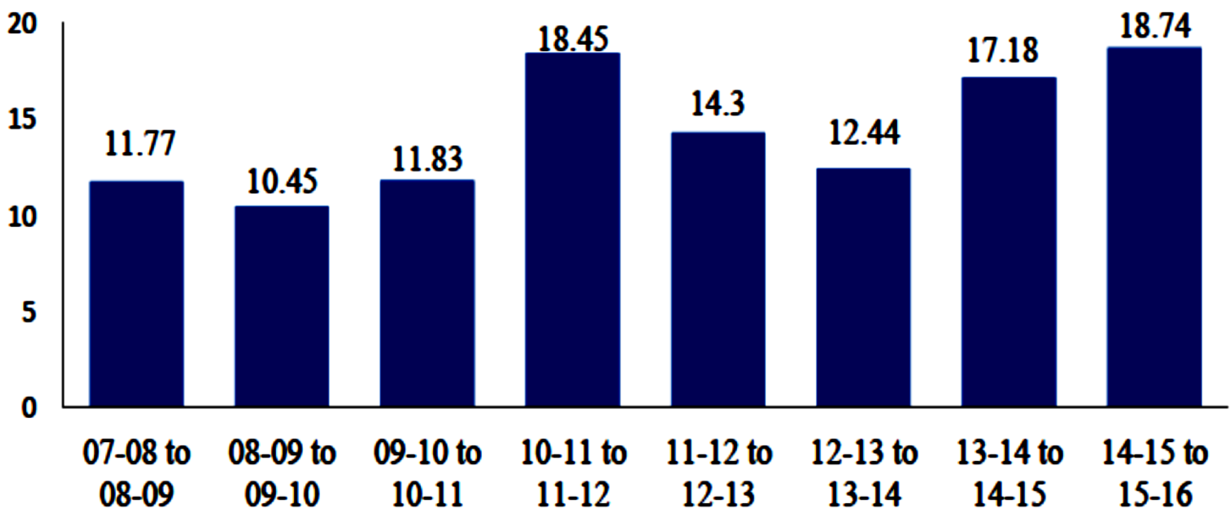
During 2014–15, it was fully hiked to 17 percent. However, the most current statistics for 2015 showed a remarkable rise of 18.74 percent, as seen in figure 7.1.

Table 7.1 Categories of Small and Medium Scale Enterprises -Indian perspective

S.NO.	Characteristics	Registered Sector	Unregistered sector	Economic Census-2005	Total
1	Size of the Sector (in Lakh)	15.64	198.74	147.38	361.76
2	No. of Rural Units (in Lakh)	7.07 (45.20%)	119.68 (60.22%)	73.43 (49.82%)	200.18 (55.34%)
3	No. of Women Enterprises (in Lakh)	2.15 (13.72%)	18.06 (9.09%)	6.40 (4.34%)	26.61 (7.36%)

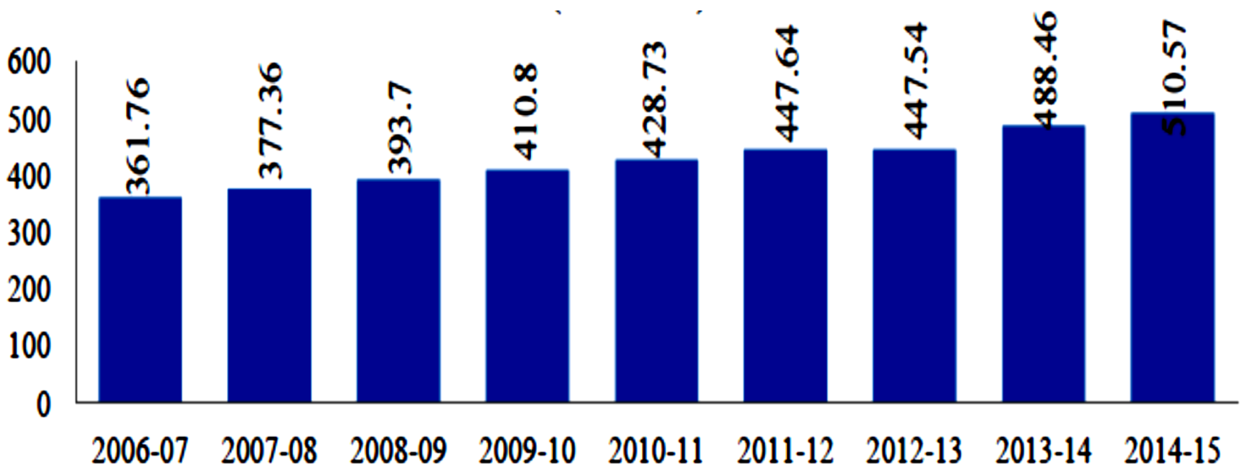
Source: Annual Report MSME

Figure 7.1 Small and Medium Scale Enterprises Growth Year wise



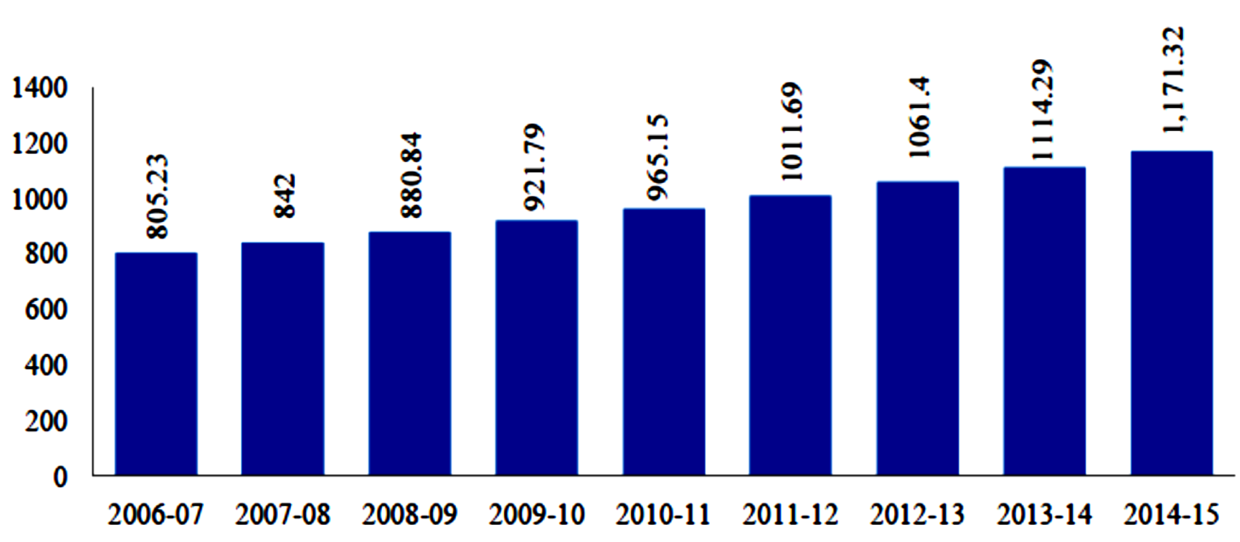
Source: Annual Report MSME

Figure 7.2 Total Working SMEs



Source: Annual Report MSME

Figure 7.3 Total Employment Generated by SME



Source: Annual Report MSME

8. OFFICIAL GOVERNMENT POLICY ACTIONS

- The MSME Development Act of 2006, which establishes guidelines for MSME, is being put into effect.
- Reserving and releasing items for manufacturing in the MSME sector in order to achieve socioeconomic development, technological advancement, and scale economies.
- National Manufacturing Competitiveness Program: This initiative aims to increase capacity via eight components, including incubation, awareness of intellectual property, quality control, marketing support, design expertise, and ICT promotion. It also aims to help businesses compete globally.
- Public procurement policy through implementation of technology in tenders.
- E-governance, which enables mobile-friendly websites, virtual clusters, shared databases, and B2B portals.

9. CONCLUSION

Finally, it can be claimed that SMEs are crucial to the Indian economy since they significantly increase employment, industrial production, and exports from India. But SMEs suffer a number of difficulties that limit their ability to develop. Therefore, it is the government of India's absolute obligation to develop sensible policies and put them into action to address the issues facing SMEs. Statistics from this research and other publications imply that action should be made proactively to protect SMEs from giant corporations and support their healthy growth. Additionally, the government must provide up a variety of options for financing SMEs.

SMEs need to be expertly and technologically improved in order to support the global industrial behemoths. To capitalize on their advantages going forward and assist the nation's effort to become an international player, a well-designed package of support for SMEs is necessary. The government must begin putting the aforementioned plans into practice in order to improve SMEs' export focus and production potential.

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