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# Growth and role of small-scale industries: A critical review from Indian perspective

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## Abstract

Small scale industries (SSI) include self-employed individuals involved in the production, manufacture, or provision of services on a small scale. In the post-independence period, small-scale enterprises have emerged as a significant driver of economic and social growth in India. The effective, efficient, adaptable, and inventive entrepreneurial spirit of small-scale enterprises is crucial for the development of an economy. SSI units have been widely recognized as catalysts for economic growth and facilitators of equitable development on a global scale. The impact of SSIs on the Indian economy has been remarkable in terms of job creation, mitigating regional disparities, facilitating inter-sector connections, boosting exports, and supporting fair economic development. This industry has a diverse range of approximately 6000 items, spanning from conventional to high-tech, and is distributed throughout the nation, totalling over 36 million units. It serves as a significant source of employment for more than 80 million people.

The objective of this study is to analyse a range of topics within the framework of the Indian economic situation.

Entrepreneurship plays a crucial role in expediting industrial expansion. Small and medium businesses (SMEs) have been identified as a viable and efficient mechanism for fostering entrepreneurship. The aforementioned industry represents a singular resolution to the challenges posed by poverty, instability, unemployment, and overpopulation in contemporary society. This article aimed to emphasize the importance of small and medium-sized enterprises (SMEs) in the economic growth of India. This statement highlights the role of SMEs in driving GDP growth.

**Keywords:** SME, SSI, unemployment, economic growth, entrepreneurship

## 1. Introduction

During the global crisis and economic slump, small-scale enterprises in India and overseas shown significant resilience and adaptability in sustaining a consistent growth rate and generating job opportunities. The Indian economy has seen significant development in recent fiscal years, resulting in the creation of livelihood prospects for millions of people, increased export potential, and overall economic growth in the nation. The SSI sector plays a vital role in driving the socioeconomic change of the country. It is particularly important in achieving the national goal of reducing the gap between rural and urban areas, alleviating poverty, and creating job opportunities for the country's society. The Small and Medium Enterprises (SSI) sector accounts for about 80% of the overall industrial units in the nation. SSIs in India include 36 million units and account for 45% of industrial output. They also contribute 40% to the export industry, manufacturing over 6000 items that span from conventional to high-tech. Additionally, SSIs create job opportunities for around 80 million individuals. The Indian government has been focusing on the growth potential of small and medium-sized enterprises (SMEs) and their establishment in the country, which has positively contributed to the economic development of the nation.

Small and medium-sized enterprises (SMEs) account for around 45% of the industrial output. In recent times, there has been a notable increase of 40% in its exports. The annual GDP growth rate of India has regularly exceeded 7% in recent years, aligning with the global average GDP growth rate. Small and medium-sized enterprises (SMEs) have consistently achieved greater growth rates compared to large-scale sectors worldwide. SMEs are defined differently across different nations. Several nations have established definitions for SMEs using different criteria, including as employment standards, assets, sales, and shareholders' funds.

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## 2. Literature Review

Sudan (2005) <sup>[8]</sup> described the challenges in development of SMEs and policy issues by different questions related to SMEs. According to his study all the policies opted by government of India shows the efforts to form a SME sector. This can help to design diversified economy, employment opportunities and career opportunities.

Rathod (2007) <sup>[9]</sup> described that, SMEs contributed lot in terms of employment, export and wealth. In his research he also mentioned that growth of SMEs empowered the industries and responsible for industrialization.

According to Murthy (2010) <sup>[14]</sup>, the Indian government has established a regulatory framework and procurement strategy that allows small and medium-sized enterprises (SMEs) to play a significant role in the growth of the Indian economy.

The article titled "Micro, Small, and Medium Enterprises (MSMEs) in India: An Appraisal" by Ghatak, Shambhu (2010) <sup>[10]</sup> emphasizes that the condition of Indian MSMEs is superior to that of their counterparts in Bangladesh and Pakistan. Approximately 36% of small and medium-sized enterprises (SMEs) in Pakistan had bank accounts, whereas approximately 46% of SMEs in Bangladesh do so. Approximately 95% of small and medium-sized enterprises (SMEs) in India has bank accounts. He further said that the Indian Government should expedite its efforts to provide more assistance to these small-scale enterprises.

In a study conducted by Subrahmanya Bala (2011) <sup>[11]</sup>, the influence of globalization on the export potential of small-scale firms was examined. The findings revealed that this impact was significant during the protection period, but showed an upward tendency during the Liberalization phase. However, the growth seems to be stagnating. Hence, it is recommended that the government persist in its strategy of bolstering the competitiveness of these Small and Medium Enterprises (SSIs) by integrating technology, financial resources, and marketing assistance.

In his study titled "Role of micro, small, and medium enterprises in inclusive growth," Srinivas, K. T. (2013) <sup>[12]</sup> found that MSMEs are considered the driving force behind the country's economic progress. In recent years, significant transformations have occurred at both the national and state levels with regards to the consolidation of this particular industry. The inadequate infrastructure and absence of marketing connections are the primary factors contributing to the sluggish development of MSMEs in India. The level of assistance offered by both the state and central governments in India is insufficient for the advancement of micro, small, and medium enterprises (MSMEs). Hence, both Indian entrepreneurs and the government should undertake measures to foster the growth and advancement of these Micro, Small, and Medium Enterprises (MSMEs) in India.

In their study titled "Unleashing the Growth Potential of the Indian MSME Sector," Singh and Paliwal (2017) <sup>[13]</sup> assert that the MSME sector possesses significant potential for fostering innovative entrepreneurship and generating substantial employment opportunities. However, they also highlight several challenges faced by MSMEs, including limited access to financial resources, restricted entry into foreign markets, insufficient availability of skilled labor, inadequate and unreliable infrastructure, and ineffective

marketing networks.

## 3. Objective of the study

- To study the current status & growth of SMEs in India
- To study the role and relevance in economic development of India
- To study the strength and weakness of SME in Indian perspective.

## 4. Research methodology

The study is based on secondary data that has been collected from various secondary sources such as magazines, annual reports, department of SMEs & various other published reports. The data has been presented in the form of table and interpretations have been made in light of the objectives of the study cited above.

## 5. Role SMEs in economic development

Small and medium enterprises are the backbone of industrial development. It is very important for both developed and developing country small and medium enterprises always represented the model of economic development, which emphasized high contribution to domestic production, significant export earnings, low investment requirements, employment generation, effective contribution to foreign exchange earning of the nation with low import-intensive operations. The contribution of small-scale industries (SSIs) has been remarkable in the industrial development of the country.

It has a share of 40% in the industrial production. 35% of the total manufactured exports of the country are directly accounted for by this sector. In terms of employment generated, this sector is next only to agriculture employing approximately 14 million people. Overall, the small industry sector has done quite well and has enabled the country to achieve considerable industrial growth and diversification. Small scale industries are less capital intensive and suit the Indian economic environment with scarce resources and large population base. In addition, it is highly and has a scope for labor intensive for building upon the traditional skill and knowledge. Small scale industries have remained high on the agenda of all political parties, intelligentsia and policy makers since independence as a legacy of Gandhian philosophy.

## 6. Analysis of SMEs' performance in India

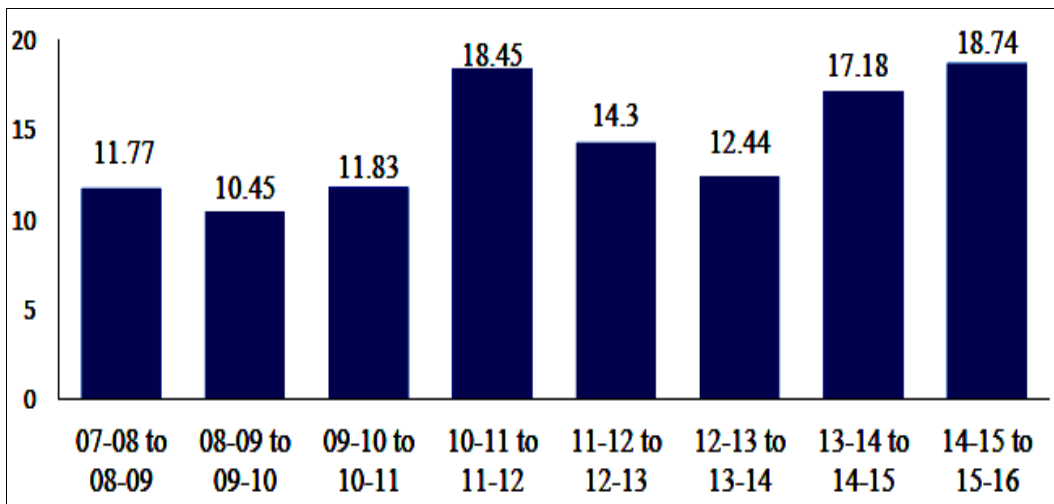
The growth rates of SMEs in terms of number of units, generation of employment and exports for the years 1980s and 1990s were considerably good. It was accepted that the growth of SMEs in the period of 1990s has come down in terms of not only units and employment but also in terms of exports. This was symptoms of competition in the global market and adverse effect on the growth of Indian SMEs.

The SMEs has shown consistent growth by 11 percent till 2010-11. The best performance in terms of growth rate was during 2011-12 recorded 18.45 percent. The same was retained with slight decrease during year 2012-13 and 2013-14 around 14 percent to 12 percent. It was all the way raised to 17 percent during 2014-15. However, the recent data for 2015 highlighted impressive growth of 18.74 percent which is described in the Table 1.

**Table 1:** Classification of SME in India

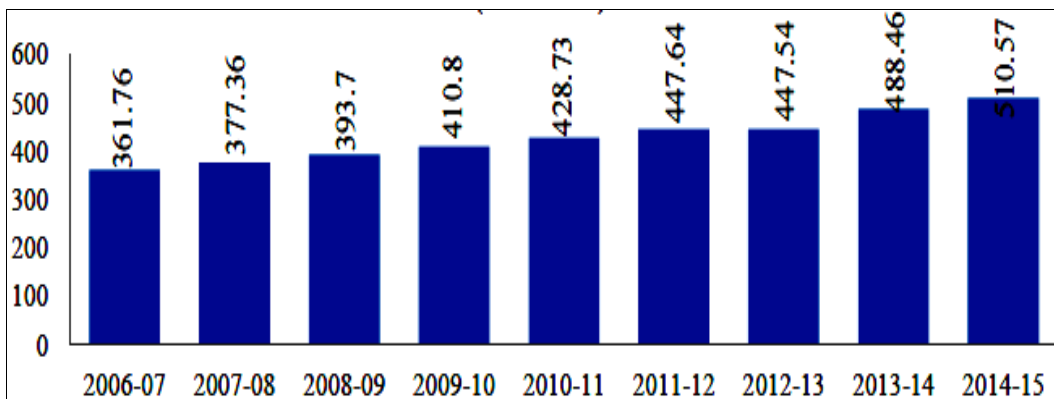
S. No.	Characteristics	Registered Sector	Unregistered sector	Economic Census- 2005	Total
1	Size of the Sector (in Lakh)	15.64	198.74	147.38	361.76
2	No. of Rural Units (in Lakh)	7.07 (45.20%)	119.68 (60.22%)	73.43 (49.82%)	200.18 (55.34%)
3	No. of Women Enterprises (in Lakh)	2.15 (13.72%)	18.06 (9.09%)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

Source: Annual Report MSME



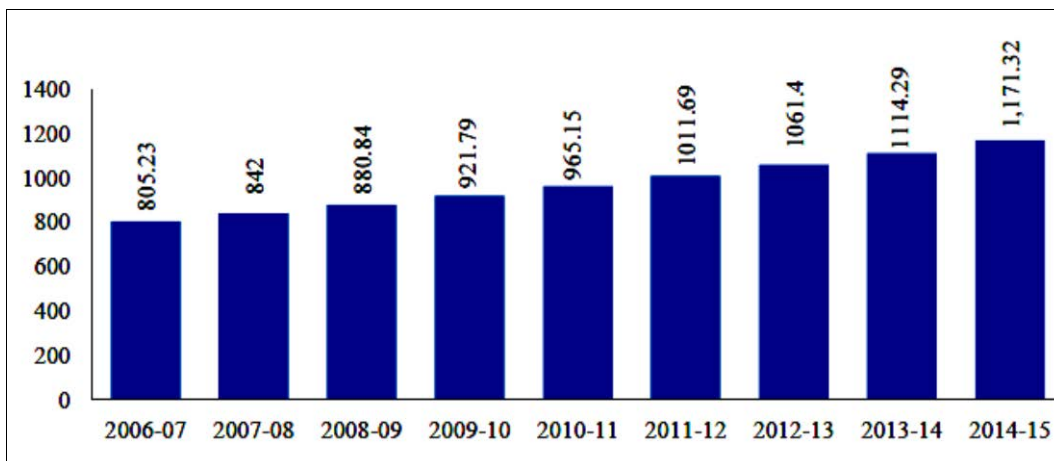
Source: Annual Report MSME

**Fig 1:** Annual Growth of SME



Source: Annual Report MSME

**Fig 2:** Total Working SMEs



Source: Annual Report MSME

**Fig 3:** Total Employment Generated by SME

## 7. Government policy initiatives

- Implementation of MSME development act 2006, which provides rules and regulation for MSME.
- Reservation and de reservation of products for manufacture in MSME sector- to achieve socio economic development, enhancing technological and achieving economies of scale.
- National manufacturing competitiveness program – to build sustainable capacity, overcoming global competitiveness and healthy growth through eight components which includes: incubator, intellectual property awareness, quality management, technology up gradation, marketing assistance, design expertise and promotion of ICT.
- Public procurement policy through implementation of technology in tenders.
- E-governance – to facilitate employment, virtual cluster, share database, B2B portal and mobile friendly website.

## 8. Conclusion

SMEs are crucial to the Indian economy, since they significantly contribute to manufacturing production, employment, and exports. However, small and medium-sized enterprises (SMEs) encounter many obstacles that impede their potential for development. Therefore, it is imperative for the Indian government to formulate prudent policies and effectively execute them in order to address the challenges faced by small and medium-sized enterprises (SMEs). The statistics reported in this research and other published publications indicate the need for aggressive measures to protect small and medium-sized enterprises (SMEs) from major corporations and promote their healthy development. Additionally, the government must also provide many options for funding small and medium-sized enterprises (SMEs). SMEs must undergo technical and skilled upgrades in order to become the backbone of global manufacturing giants. An effectively designed package providing assistance to small and medium-sized enterprises (SMEs) is crucial for leveraging their strengths and facilitating the country's internationalization process. The government must initiate the implementation of the aforementioned initiatives to enhance and enhance the production capacity and export focus of small and medium-sized enterprises (SMEs).

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