

IMPACT OF SMALL BUSINESS IN INDIA

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Abstract

In the post liberalization era, the industrial growth has recorded & phenomenal change, mainly due to the progress made by IT and ITes sectors. However, the liberalization era has shown that micro and small industries faced threat of closure due to inversion of MNC's in India. The Government of India is bound to protect the micro and small industries in India, since India is abundant with labour force, mostly unskilled. The government has taken the right step in bringing legislation for MSME's through an act Viz., MSME Act, 2006. The paper attempts to provide an overview of micro & Small industries India and study the impact of small business right from 1991 to 2013.

Keywords: *liberalization era, IT sector, MNC, MSME, socio-economic impact, exports, governance*

Scope of the Study

The present study is to mainly discuss the impact of small business in India. The Period of the study is limited to past 21 years, i.e. 1991-92 to 2010-2012 and only secondary data are taken into the study. Mainly relevant secondary data are collected from the Annual report of MSME.

Objectives

The primary objective of this paper is to study the socio-economic impact of small business in India in the post-liberalization in India

Motivation for the Research

The small scale industries performance after liberalization and its continuous survival itself is a real motivation for research. The research questions include: how for the small scale industries growth in the post performance era? Whether the growth and Annual performance sufficient for survival? What are the legislations that government has passed in the liberalization era? How far small scale businesses survive competition? The paper aimed to answer these research Questions.

Methodology

In the present study an attempt has been made to analyze the impact of small scale industries. The study has been conducted with reference to the data related to Performance of Small Scale Industries in India. The reference period for the analysis of the

data has been taken from 1991-92 to 2000-12. The study is based upon secondary information collected from various annual reports of MSME and SSI.

Review Literature

Rathod, C. B. (2007) described the importance of small scale industrial sector and also the contribution of Indian small scale entrepreneurs in world economy. The main objective of the study was to study the growth and pattern of the SSI sector and identify the reasons for success/ failures, to evaluate the impact of globalization on SSIs and export opportunity, to identify the barriers and constraints that SSIs were facing to cope with globalization. The study analysed that SSI sector in India has been exhibiting a striking export performance; export had grown up to double digit from the last ten years. The study concluded that both opportunities and challenges were raised as the impact of globalization on Indian Industry as a whole and the small scale sector in particular. The study found that a major portion of our exports would have to gear up to the new era of boundary less economy. The study has suggested that there was need for simplified legal and regulatory framework, good governance, sufficient and accessible finance, suitable infrastructure and competitive environment.

Sudan, F. K. (2005) described the challenges in Micro and Small Scale Enterprises Development and policy issues by arising different questions related to Micro and Small Enterprises. The study explained the meaning, advantages, problems and policy options of MSE sector. The study concluded that all the policies which were opted by GOI were the efforts to form a dynamic MSE sector and a diversified economy providing expanded employment opportunities to absorb all new labour force and offer exciting career opportunities.

Rogoff et al. (2004) found that internal factors such as size and years in business, the ability to magnetize financing, marketing and human resource and external factors such as sales tax rates, infrastructure, market condition, business opportunity, and availability of resources, economic conditions, competition, and government regulation are determinants of business success. The importance of government support to small business success is reported in a number of studies.

Mathew, M.C. (2004) highlighted the reason for panic in all India census report on smallscale industries. The study observed that the vibrancy and dynamical of the sector anticipated under an era of deregulation and de-reservation remaining largely unrealized. The study stated that the country needs a strong small and medium enterprises policy, which was closely linked to its international commitments. The study suggested that at the strategy level, there were need to be mechanism by which the demography of small and medium enterprises sector itself becomes a matter of public security.

Rajyalakshmi, N. (2004) reviewed the productivity awareness among SSI units in Visakhapatnam district of Andhra Pradesh at micro level and explored small- scale

entrepreneurs, how they measured productivity in their units. The study based on primary data collected by using structured schedule through personal interviews. A sample of 200 SSI units has been selected for the study. The study found that Chemical units were more capital intensive and it was low in food and agro units. Productivity awareness was not noticed in the SSI units. The study concluded that Success in small industry will be best achieved if the productivity culture will be clearly understood by all the employees.

Littrell (2002) Small business success has been defined in a variety of scope by different scholars for example Paige and, defined small business by intrinsic criteria including freedom and independence, controlling a person's own future, and being one's own boss and extrinsic outcomes including financial returns, personal income, and wealth.

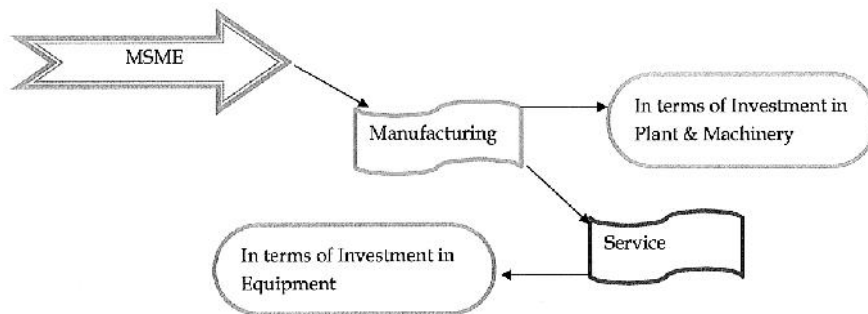
Masuo et al. (2001) told that small business success is usually defined in terms of economic or financial measures which include return on assets, sales, profits, employees and survival rates; and no financial measures, such as customer satisfaction, personal development and personal realization. Determinants of business success also vary in nature.

Zimmerrer and Scarborough (1998) pointed out that most of entrepreneurs in the United States start business during their 30s and 40s, many researchers founded that there is no limit of age for their entrepreneurial aspirations. Age difference at the start of business seems to have no association to business success.

SSI and MSME

In India the definition of small scale sector has been changing since the 1950s. In Accordance with the MSME Development Act 2006 provided the first ever legal framework for recognition of the concept of enterprise and integrating the three tiers of these enterprises viz micro, small and medium.

The MSME are Classified in two Classes



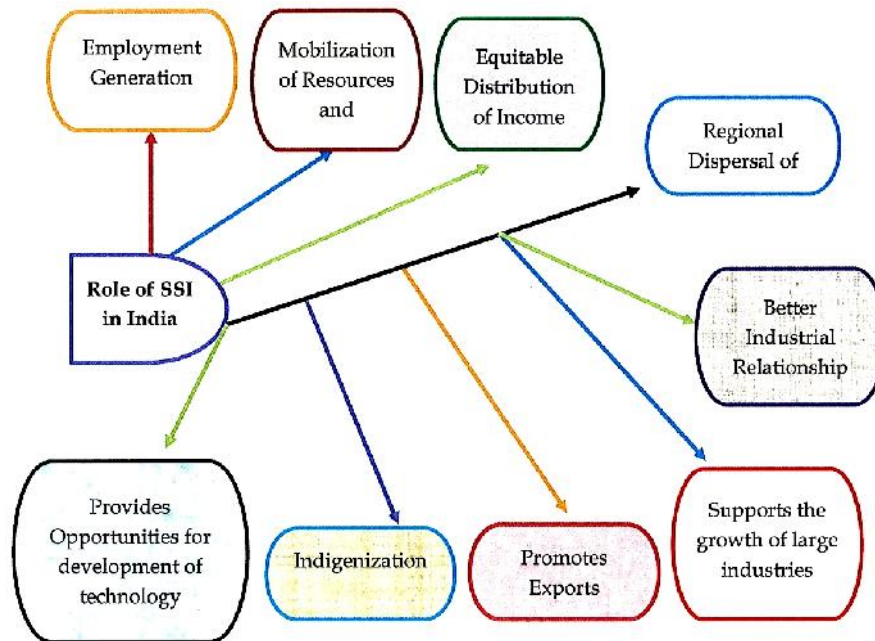
Manufacturing Sector		Service Sector	
Enterprise	Investment in plant & Machinery	Enterprise	Investment in equipments
Micro	Does not exceed 25 lakh rupees	Micro	Does not exceed 25 lakh rupees
Small	More than 25 lakh but does not exceed	Small	More than 10 lakh but does not exceed

	5 crore		2 crore
Medium	More than 5 crore rupees but does not exceed 10 crore rupees	Medium	More than 2 crore rupees but does not exceed 5 crore rupees

Small and Medium Sized Businesses Based On the Following Criteria

0	Self-employed
2-9	Micro business
10-49	Small business
50-249	Medium-size business

Important Played by Small - Scale Industries in India



Employment Generation

Indian economy is increasing pressure of population on the land and the need to create massive employment opportunities.

Mobilisation of resources and entrepreneurial Skill

Small-scale industries can mobilize a good amount of savings and entrepreneurial skill from rural and semi-urban areas remain untouched from the clutches of large industries and put them into productive use by investing in small-scale units.

Equitable distribution of income

Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive.

Regional Dispersal of Industries

There has been massive concentration of industries in a few large cities of different states of Indian union. People migrate from rural and semi urban areas to these highly developed centres in search of employment and sometimes to earn a better living which ultimately leads to many evil consequences of over-crowding, pollution, creation of slums, etc.

Provides Opportunities for Development of Technology

Small-scale industries have tremendous capacity to generate or absorb innovations. They provide ample opportunities for the development of technology and technology in return, creates an environment conducive to the development of small units.

Indigenization

Small-scale industries make better use of indigenous organizational and management capabilities by drawing on a pool of entrepreneurial talent that is limited in the early stages of economic development.

Promotes Exports

Small-scale industries have registered a phenomenal growth in export over the years. The value of exports of products of small-scale industries has increased to Rs. 393 crores in 1973-74 to Rs. 71, 244 crores in 2002-03. This contributes about 35% India's total export.

Supports the Growth of Large Industries

The small-scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended.

Better Industrial Relations

Better industrial relations between the employer and employees helps in increasing the efficiency of employees and reducing the frequency of industrial disputes. The loss of production and man-days are comparatively less in small-scale industries.

Challenges Faced By Small Scale Industries



Result and Discussions

The data used for 21 year period were analyzed for important financial parameters to forecast.

Indian Economic Development

Table 1 Growth of SSI Production in India

S. No	Year	Production (Rs Crore) Current Price	Growth Rate
1	1992-93	84413	4.71
2	1993-94	98796	17.04
3	1994-95	122154	23.64
4	1995-96	147712	20.92
5	1996-97	167805	13.60
6	1997-98	187217	11.57
7	1998-99	210454	12.41
8	1999-00	233760	11.07
9	2000-01	261297	11.78
10	2001-02	282270	8.03
11	2002-03	314850	11.54
12	2003-04	364547	15.78
13	2004-05	429796	17.90
14	2005-06	497842	15.83
15	2006-07	709398	42.49
16	2007-08	790759	11.47
17	2008-09	880805	11.39
18	2009-10	982919	11.59

Source: Annual Report (MSME)

The role of sector is estimates in respect of various performance parameters relating to the sector. The economic parameters in incorporated in the some following data. The table showing the economic parameters is given below.

The production unit in India was Rs.84, 413 crore in 1992-93, which increased and reached upto Rs.9, 82919 crore in 2009-10. The SSI units continually raising growth rate during the study period. The growth rate of SSI units during 1992-93 shows that 4.71% and reached upto 11.59% in 2009-10. The highest growth rate of 42.49% in 2006-07. The lowest growth rate of 4.71% in 1992-93.

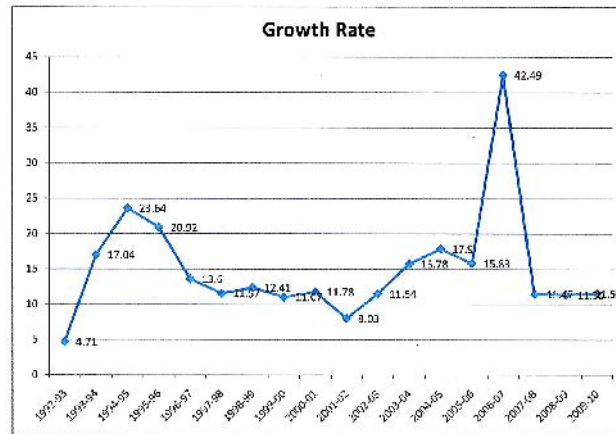


Figure 1 Growth of SSI Production in India

Employment and SSIs

The Indian SSI sector creates largest employment opportunities for the Indian populace, next only to agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the small scale sector generates employment for four persons.

Table 2 Employment Growth in SSI Sector

S. No	Year	Employment (lakh person)	Growth rate
1	1992-93	174.84	5.33
2	1993-94	182.64	4.46
3	1994-95	191.40	4.79
4	1995-96	197.93	3.42
5	1996-97	205.86	4.00
6	1997-98	213.16	3.55
7	1998-99	220.55	3.46
8	1999-00	229.10	3.88
9	2000-01	238.73	4.21
10	2001-02	249.33	4.44
11	2002-03	260.21	4.36
12	2003-04	271.42	4.31
13	2004-05	282.57	4.11
14	2005-06	294.91	4.37
15	2006-07	594.61	101.62
16	2007-08	626.34	5.34
17	2008-09	659.35	5.35
18	2009-10	695.38	5.47

Source: Annual Report (MSME)

The employment from the SSI sector in the country as per the fourth census of MSME with announcement year 2006-07 was 594.61 lakh numbers of employment in the year 2009-10. The employment was 695.38 person increased by the sector. The lowest level of employment growth rate was 174.84 in the year of 1992-93. The SSI sector was 5.33% in 1992-93, which was 5.47% in 2009-10. The average annual growth rate was 9.80% during 1992-93 to 2009-10.

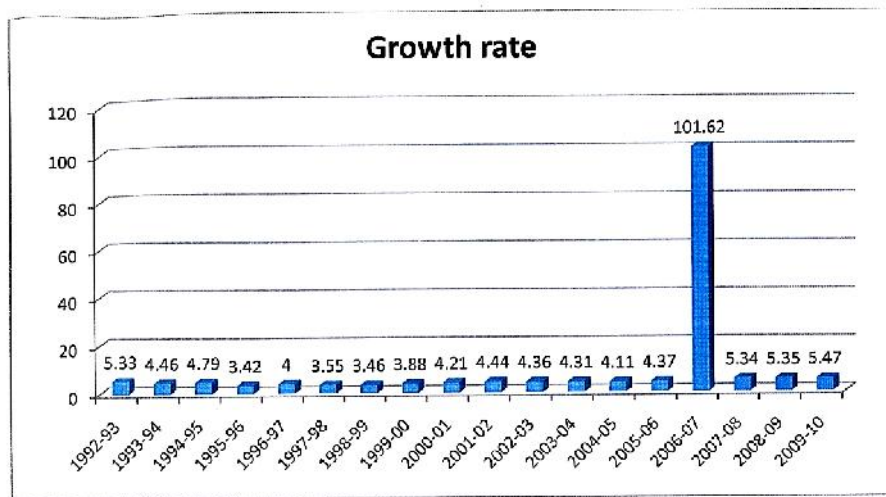


Figure 2 Employment Growth in SSI Sector

Growth of SSI Export

Table 3 Growth of SSI Export

Year	Total Export	Export from SSI Sector	Percentage of Share
1991-92	44040	13883	31.5
1992-93	53688	17785	33.1
1993-94	69547	25307	36.4
1994-95	82674	29068	35.1
1995-96	106353	36470	34.2
1996-97	118817	39249	33.2
1997-98	126286	44442.18	35.19
1998-99	141603.53	48979.23	34.59
1999-00	159561	54200.47	33.97
2000-01	202509.7	69796.5	34.47
2001-02	207745.56	71243.99	34.29
2002-03	252789.97	86012.52	34.03
2002-03	252137	86013	34.03
2003-04	291582	97644	33.49
2004-05	375339.52	124416.56	33.15
2005-06	456417.88	150242.03	32.92

Source: Annual Report (MSME)

The above table result reveals that the present export performance 45 to 50 percent of the Indian exports is contributed by SSI Sector. The total percentage of SSI sector nearly 35 percent of export. The total export growth level of SSI sector was 456417.88 crores increased in 2005-06 and the lowest level of export growth rate was 44040 crore in 1991-92. During 1991-92 units shows 31.5% growth rate in export which gone up to 32.92% in 2005-06. It is estimated that SSI industrial units contributed around 15% to export Industry.

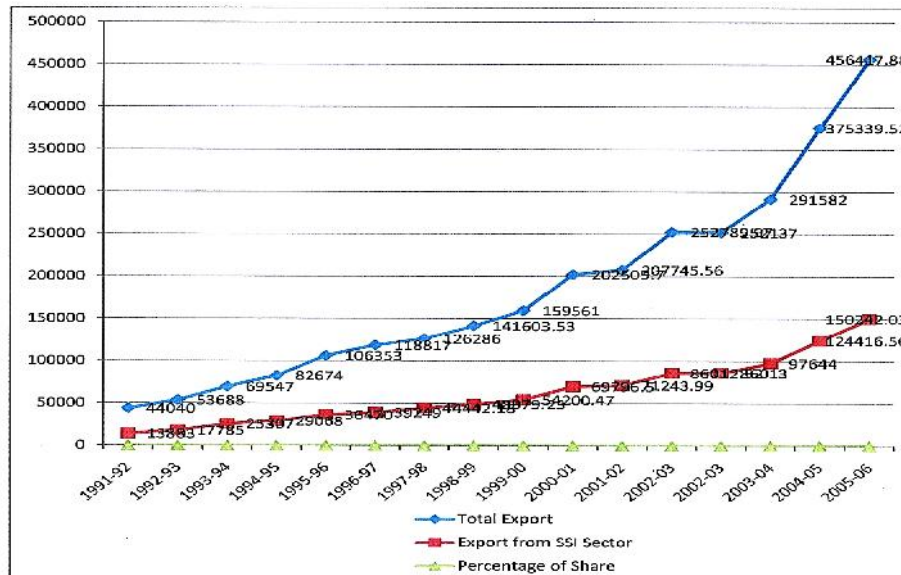


Figure 3 Growth of SSI Export

India Economy Summary

Table 4 India Economy Summary: 1999-2000 to 2011 to 2012

Indicators	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GDP	6.04	-4.35	5.81	3.84	8.52	7.60	9.49	9.60	9.30	6.70	8.40	8.39	6.88
Agriculture	0.5	-0.2	6.3	-7.2	10.0	1.6	5.1	4.2	5.8	0.1	1.0	7.0	2.5
Industry	4.6	6.4	2.7	7.1	7.4	9.4	9.7	12.2	9.7	4.4	8.4	7.2	3.9
Services	9.5	5.7	7.2	7.5	8.5	9.4	10.9	10.1	10.3	10.0	10.5	9.3	9.4
Inflation	13.3	7.1	3.6	3.4	5.5	6.5	4.4	6.5	4.8	8.0	3.6	8.6	9.0

Source: Annual Report (MSME)

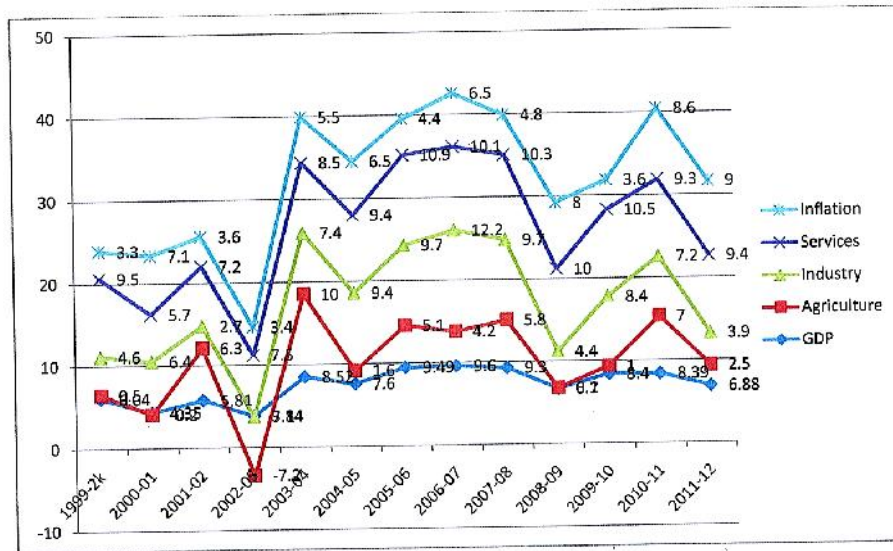


Figure 4 India Economy Summary

India Percapita

Table 5 India Percapita

S.No	Year	Percapita
1	2004	1818.56
2	2005	1985.72
3	2006	2208.59
4	2007	2454.45
5	2008	2733.15
6	2009	2861.12
7	2010	3086.02
8	2011	3372.66
9	2012	3649.53

Source: Trading Economics

Selected Indicator

Table 7 Selected Indicator (2008-09 to 2011-12)

Indicators	2008-09	2011-2012
Labour Force	523.5 Million	487.6 Million
Labour Force By Occupation		
Agriculture	60%	52%
Industry	12%	14%
Service	28%	34%
Unemployment Rate	6.8%	9.8%

Source: Annual Report (MSME)

Annual Performance of GDP (Annual Report on MSME)

Table 7 Annual Performance of GDP (Annual Report on MSME)

STATES	Last Year Growth	Current Year
Agartala	20	54
Agra	703	1507
Ahmedaba	1221	1231
Allahaba	67	111
Bangalor	2681	3210
Kolkata	2693	2687
Chennai	9158	19056
Cuttack	4661	8742
Gangtok	18	11
Goa	157	166
Guwahat	638	970
Hubli	390	597
Hyderabad	1207	2090
Imphal	51	24
Indore	634	19110
Jaipur	2237	1854
Kanpur	4043	2267
Karnal	307	550
Ludhiana	1197	1725
Mumbai	4220	8980
Muzaffar	379	486
Nagpur	306	339
New delhi	2703	2903
Patna	286	818
Raipur	1289	912
Ranchi	589	954
Solan	190	256
Srinagar	139	497
Thrissur	522	968
Haldwani	228	129

Source: Annual Report (MSME)

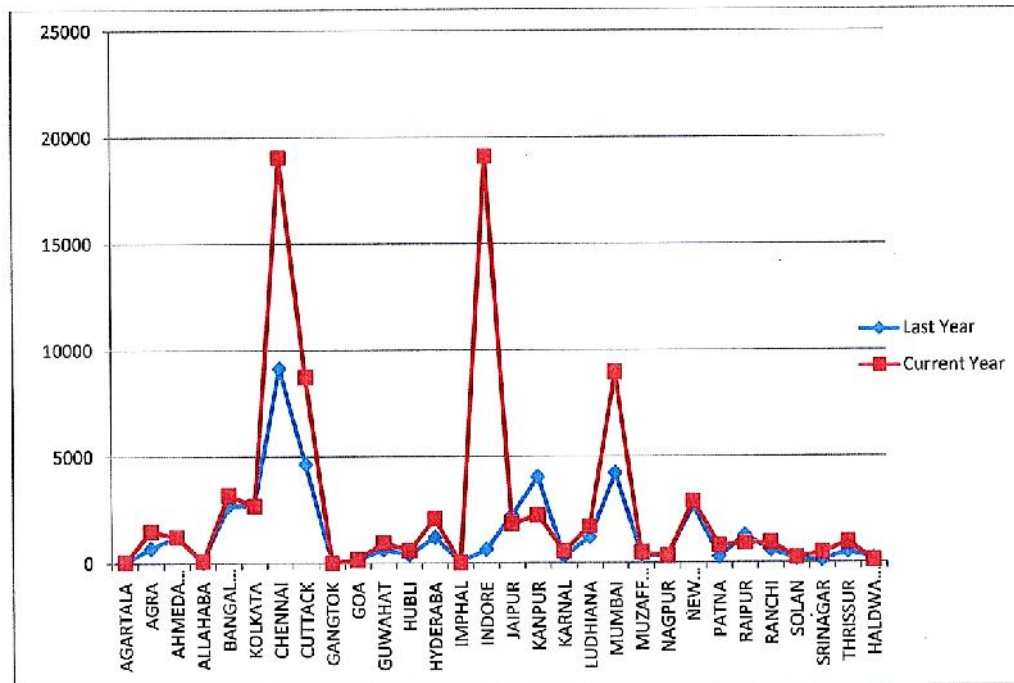


Figure 5 Annual Performance of GDP (Annual Report on MSME)

Summary and Conclusion

The small industries have contributed to the growth of production increase in exports and employment during the study period from 1991-2012. The GDP growth rates has shown decline in industry growth, since services sector contribute enormously for the GDP. The study has proved that in spite of liberalization policy adopted by India, the micro and small industries has contributed to the growth of economy. The percapita income of the stakeholders in small business is also significant. The legislation classifying the Micro, Small and Medium Enterprises and MSME Act 2006 and creation of a ministry for the same has indeed protected the Small business India.

End Note

Inspite of the invasion of the MNC's in India during liberalization era, the micro and small industries contributed to the growth of the economy.

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