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**Dr. Abhishek Kumar Singh**  
Ex-Research Scholar,  
T.M. Bhagalpur University,  
Bhagalpur, Bihar, India

### A study on the growth and role of SMEs in Indian economy

**Dr. Abhishek Kumar Singh**

#### Abstract

Industrialization is an effective means for solving the problems of economic and social progress in developing countries of the world. The development of manufacturing has been concomitant with these countries spectacular economic progress and rise in levels of living.

The SME sector has acquired an outstanding contribution in the socio-economic development of the country. The damaging factors in the development of this sector are low capital base, accessibility of technology, credit policy, inconsistent business services, quality human resources, low market awareness and infrastructural deficiency. The SME sectors are growth engine for economy in present scenario of globalization process.

The Aim of this paper is to examine various issues in context of Indian economic condition. Entrepreneurship is indispensable to accelerate the industrial growth. Small and Medium enterprises are an effective means for the development of entrepreneurship. This sector is a only solution to the problems of poverty, insecurity, unemployment, over population he modern world. This article attempted at highlighting the significance SMEs in economic development of India. It identifies contribution of SMEs in GDP growth.

**Keywords:** Technology, credit policy, development, social progress, unemployment

#### 1. Introduction

The concept of global economy made the world small village. Hence, in global village the competition becomes intense in every sector. Nations are introducing reforms plans to sustain their economy, by introducing incentives and economic supports to small and medium enterprises (SMEs). Indian government has started concentrating on the growth prospect of SMEs and its foundation in the country, which had contributed favorably to the economic development of nation.

The small and medium enterprises (SMEs) contributed lot in the economic and social development of India. Earlier SMEs were known as small-scale industries (SSIs) and latter, named as small and medium enterprises (SMEs). In many countries it identifies as micro, small and medium enterprises (MSMEs) also. Many developing and developed nation have mentioned it in policy documents and pronouncements. The SMEs have developed and influenced the income, job market and export as well as bringing market and innovation in the Indian economy. It has contributed in the reforms and globalization of brand India since independence. SMEs are considered as a priority in most countries as 50 to 66 percent of businesses all over the world are SMEs. SMEs contribution in manufacturing output is recorded approximately 45%. Its' export also growing and recorded recently 40%. GDP growth in India has been consistently performed above 7% per annum in recent time, which is at par with average GDP growth worldwide. The growth rates maintained by SMEs have higher than large scale industries all over the world. The definitions of SMEs are different in various countries. Few countries have defined SMEs based on benchmarks of employment, others have defined it based on assets, many have in terms of sales and few has based on shareholders' fund.

#### 2. Literature Review

Gyampah and Boye (2001) <sup>[1]</sup> stated that, the environment factors are different for small firms and large firms in terms of their resource capacity.

Hunt, (2002) <sup>[2]</sup>. The resource scarcity would restrict SMEs from entering in the export markets. The areas of investment may be R&D, automated processes, training and development and market study for SMEs.

**Corresponding Author:**  
**Dr. Abhishek Kumar Singh**  
Ex-Research Scholar,  
T.M. Bhagalpur University,  
Bhagalpur, Bihar, India

Subrahmanya bala, (2004) <sup>[12]</sup> states, policy changes had open opportunities to the world and challenges to SMEs. The focus of such policy documents must be technology development and adoption. The strengthening of financial infrastructure will enable SMEs competitive and to face global challenges. The SMEs also faces unique problems like, vacuum of expertise, limited time and money, as well as up gradation of manufacturing operations.

Sudan (2005) <sup>[9]</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>[8]</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.

Rathod (2007) <sup>[8]</sup> explained the importance of SMEs and its contribution in world economy, both opportunities and challenges were raised as the impact of globalization on Indian Industry as well as SMEs.

Murthy (2010) <sup>[10]</sup> mentioned that the government of India through setting up policy framework and procurement policy enables SMEs a prominent sector in development of the Indian economy.

Ghatak, Shambhu (2010) <sup>[4]</sup> in his paper titled "Micro, small and medium enterprises (MSMEs) in India: an appraisal highlighted that status of Indian MSMEs is better than its counterpart in Bangladesh & Pakistan. About 36% of Pakistani SMEs have bank accounts whereas about 46% Bangladeshi's SMEs have Bank accounts. In comparison to them about 95% of Indian SMEs have their bank accounts. He further stated that Indian Govt. should accelerate its initiatives to provide further support to these Small scale industries.

Subrahmanya Bala (2011) <sup>[11]</sup> has analyzed the effect of globalization on export potential of Small scale enterprises and have concluded that this impact was high in protection period but has shown the increasing trend in Liberalization period too but it seems to be stagnant growth. Therefore the govt. should continue the policy of enhancing the competitiveness of these SSIs through the infusion of technology, finance & marketing support.

Srinivas, K. T. (2013) <sup>[13]</sup> in his paper entitled Role of micro, small and medium enterprises in inclusive growth concluded that the MSMEs has been termed as the engine for the growth of the Country. In the last few years, there has been tremendous change in the national & State level for consolidating this sector. Poor infrastructure & lack of marketing linkages are the key reasons for the poor growth of the MSMEs in India. The support provided by the state as well as Central Govt. is not adequate for the upliftment of the MSMEs in India. Therefore, the entrepreneurs in India & Govt. should take some initiatives for further-development of these MSMEs in India.

### 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. Strength and weaknesses of SMEs

#### a) Strengths

Major strength of Small Medium Enterprises observed are flexibility, owner management, inexpensive labor, less overhead and favorable capital- output ratio.

Flexibility Small and Medium Enterprises can easily absorb new innovation and adapt new method. The cost of changing the existing system is also relatively less.

Owner management In Small and Medium Enterprises owner management is a possibility, which ensures quick decision making. This ensures speed and reduces red tapism.

Inexpensive labor and less overhead. The main reason for sickness of large-scale industry is its labor problem and escalating wage bill. Small and medium enterprises strength is its cheap labor and less overhead.

Favorable capital- output ratio small and medium enterprises are labor intensive. Through proper utilization of resources small and medium enterprises can keep low level of capital investment per unit of output

#### b) Weaknesses

Lack of quality consciousness-It is the major weakness of the small industries. Small and Medium Enterprises pay less attention to total quality programme and hence importance is less felt leading to quality problem. Study reports show that underutilization capacity leads to reduction in level of productivity in Small and Medium Enterprises sector in India.

Lack of Financial Strength-The Small and Medium or brand image and hence mobilizing capital through other sources is a challenge m Enterprises depend largely on banking finance. They don't have corporate image.

Lack of Industrial Work Culture-Labors give more weight-age to their personal work and don't maintain regularity, discipline in reporting on time. Getting and continuing with trained workers and satisfying them is difficult. Study reports show that in India many small and medium enterprises are sick and some are closing down. The main reason is lack of quality and increasing competition. It is necessary for small and medium enterprises to face new challenges by adopting best strategies

Hence the SMEs should take immediate step to create quality awareness, and adoption of continuous improvement techniques.

**7. Analysis of SMEs' performance in India**

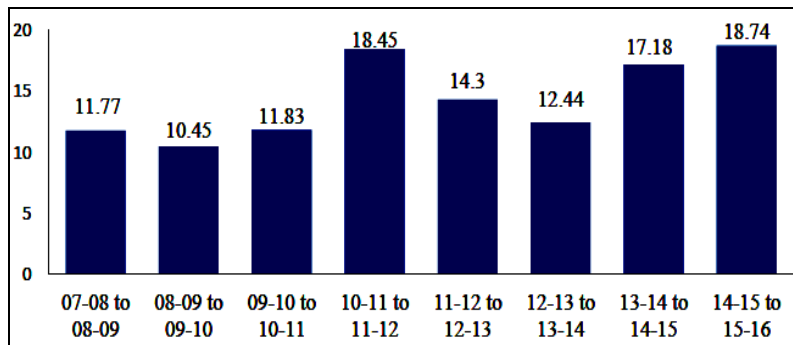
The growth rates of SMEs in terms of number of units, generation of employment and exports for the years 1980s and 1990s were considerably good. It was accepted that the growth of SMEs in the period of 1990s has come down in terms of not only units and employment but also in terms of exports. This was 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 figure 1.

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

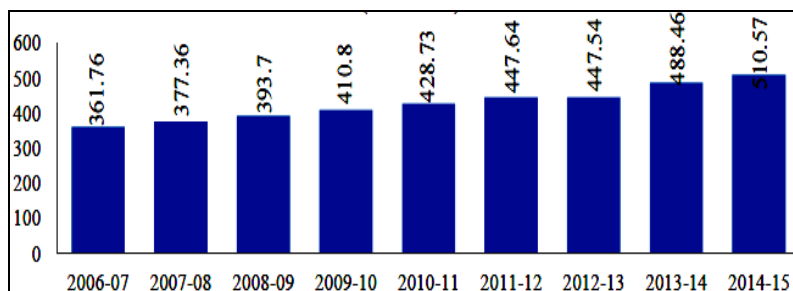
S.NO.	Characteristics	Registered Sector	Unregistered sector	Economic Census-2005	Total
1	Size of the Sector (in Lakh)	15.64	198.74	14738	361.76
2	No. of Rural Units (in Lakh)	7.07 (45.20%)	119.68 (60.22%)	73.43 (49.82%)	20.18 (55.34%)
3	No. of Women Enterprises (in Lakh)	2.15 (13.72%)	18.06 (9.09%)	6.40 (4.34%)	26.61 (7.36%)

Source: Annual Report MSME



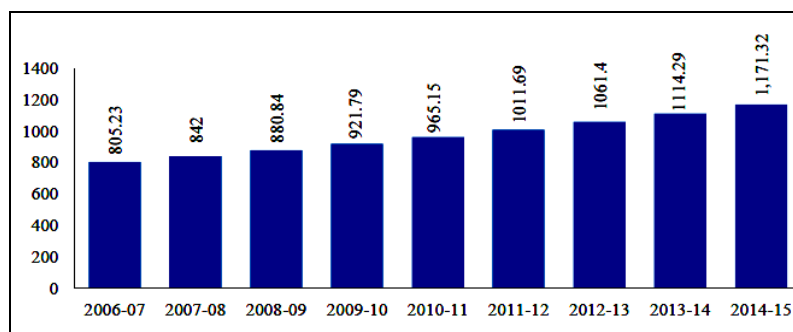
Source: Annual Report MSME

**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

## 8. 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.

## 9. Conclusion

Finally, it can be said that SMEs play a pivotal role in Indian economy, as it contributes noticeable to the manufacturing output, employment and exports of the India. But there are several challenges faced by SMEs hinder the growth opportunities. Hence, it is extreme responsibility of the government of India to design wise policies and implement it to overcome the problems of SMEs. Statistics presented in this study and other published reports suggests proactive action to be taken in this regard so it can safeguard SMEs from large companies and cater to healthy growth of SMEs. Further government also has to arrange for various alternatives for financing of SMEs. To become backbone of global manufacturing giants, SMEs must be technologically and skillfully upgraded. A well-formulated package offering support to SMEs is essential to build on their strengths in the future help the internationalization process of the country. Government has to start implementing the above strategies for strengthening and upgrading the production potential and export orientation of SMEs.

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