

ROLE OF SMES IN ECONOMIC DEVELOPMENT OF INDIA

DR.P.UMA

DIRECTOR, MBA PROGRAMME,
FATIMA COLLEGE (AUTONOMOUS),
MADURAI, TAMILNADU, INDIA

ABSTRACT

Industrialisation is an effective means for solving the problems of economic and social progress in developing countries of the world. Gunwar Myrdal has rightly described the relationship of industrialization to economical development when he observes “the manufacturing industry represents, in a sense, a higher stage of production in advanced countries. The development of manufacturing has been concomitant with these countries spectacular economic progress and rise in levels of living. 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.

SMEs– ROLE AND RELEVANCE 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.

Small and Medium Enterprises Defined

According to new THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006 the MSME Definitions are as follows:

In the case of the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951, as –

Micro Enterprise - A micro enterprise is, where the investment in plant and machinery does not exceed twenty five lakh rupees;

Small Enterprise - A small enterprise is, where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five core rupees; or

Medium Enterprise - A medium enterprise, where the investment in plant and Machinery is more than five crore rupees but does not exceed ten crore rupees.

The definition of small and medium enterprises varies from country to country. In general, the industries all over the world are defined in terms of number of employees or capital investment or both. The employment potential criterion was dropped from Small and Medium Enterprises definition in India due to the following reasons:

- Employment changes seasonally and hence it is difficult to follow this criterion An employment limit acts as an incentive to limit employment to remain within Small and Medium Enterprises.
- Discrimination between labor intensive and techno sophistication.

The role of small and medium enterprises in economic development of a country can be explained with relevant parameters.” Increase in the number, production, employment, and exports over a period of time could be common parameters to adjudge the role played by small enterprises in the country.”

GROWTH AND PERFORMANCE OF SMALL SCALE INDUSTRIES IN INDIA

Pre- and Post-liberalization Periods

The level of output by the SSIs went up from Rs 28,060crore in 1980-81 to Rs.5,78,470 crore by the end of 1999-2000, showing an increase of nearly 20 times over a period of 20 years. Exports have also gone up by nearly 40 times over a period of two decades. The contribution of SSI in exports was high during the period, especially up to the year 1995. The trend reversed during the period 1995-2000 when the growth rate recorded a declining trend.

-Performance of SSIs, Year 1990-91 to 2011-12

Sr. No.	Year	Total SSI Units (Lakhs)	Fixed Investment (Rs. Crore)	Production (Rs. Crore)		Employment (Lakh Persons)	Exports (Rs. Crore)
				Current Prices	Constant Prices (1993-94)		
1	1990-91	67.87	93555	78802	84728	158.34	9664
2	1991-92	70.63	100351	80615	87355	165.99	13883
		(4.07)	(7.26)	(2.30)	(3.1)	(4.83)	(43.66)
3	1992-93	73.51	109623	84413	92246	174.84	17784
		(4.07)	(9.24)	(4.71)	(5.6)	(5.33)	(28.10)
4	1993-94	76.49	115795	98796	98796	182.64	25307
		(4.07)	(5.63)	(17.04)	(7.1)	(4.46)	(42.30)
5	1994-95	79.60	123790	122154	108774	191.40	29068
		(4.07)	(6.9)	(23.64)	(10.1)	(4.79)	(14.86)
6	1995-96	82.84	125750	147712	121175	197.93	36470
		(4.07)	(1.58)	(20.92)	(11.40)	(3.42)	(25.46)
7	1996-97	86.21	130560	167805	134892	205.86	39248
		(4.07)	(3.82)	(13.60)	(11.32)	(4.00)	(7.62)
8	1997-98	89.71	133242	187217	146262.9	213.16	44442
		(4.07)	(2.05)	11.57)	(8.43)	(3.55)	(13.23)
9	1998-99	93.36	135482	210454	157525.1	220.55	48979
		(4.07)	(1.68)	(12.41)	(7.7)	(3.46)	(10.21)
10	1999-00	97.15	139982	233760	170379.2	229.10	54200
		(4.07)	(3.32)	(11.07)	(8.16)	(3.88)	(10.66)
11	2000-01	101.1	146845	261297	184401.4	238.73	69797
		(4.07)	(4.90)	(11.78)	(8.23)	(4.21)	(28.78)
12	2001-02	105.21	154349	282270	195613	249.33	71244
		(4.07)	(5.11)	(8.03)	(6.06)	(4.44)	(2.07)
13	2002-03	109.49	162317	311952	210636	260.21	86013
		(4.07)	(5.16)	(10.52)	(7.68)	(4.36)	(20.73)
14	2003-04	113.95	170219	357733	228730	271.42	NA
		(4.07)	(4.87)	(14.68)	(8.59)	(4.31)	
15	2004-05	118.59	178699	418263	251511	282.57	NA
		(4.07)	(4.98)	(16.92)	(9.96)	(4.11)	

Comparison of SSI Sector with the Overall Industrial Sector, Year 1993-94 to 2004-05

Year	Growth Rate of SSI Sector (%)	Growth rate of Overall Industrial Sector
1993-94	5.7	6.0
1994-95	10.0	9.1
1995-96	11.5	13.0
1996-97	11.3	6.1
1997-98	9.2	6.7
1998-99	7.8	4.1
1999-2000	7.1	6.7
2000-01	8.0	5.0
2001-02	6.1	2.7
2002-03	7.7	5.7
2003-04	8.6	6.9
2004-05	9.96	8.4

The growth rate in employment in the SSI sector over the years had been on the decline. An all-time decrease was seen between 1995 and 2000.

It would also be worthwhile to look at the progress of the SSI sector in the post-liberalisation period compared to that of the 1980s. The increase in production and exports was more impressive than that of the number of units and employment. A stagnation or reversal of trend is noticeable in the performance of the SSI industries after 1995 in creation of employment as well as in the number of units set up.

A comparison between the growth rates in the performance level of the SSIs between the two periods (Table 1.5) indicates wide disparities. The pace of growth during the 1990s was relatively lower compared to that of the pre-liberalisation period.

The SSI sector continues to remain an important sector of the economy with a noteworthy contribution to GDP, industrial production, employment generation and exports. The performance of the small-scale sector based on the final results of the third All India Census of SSIs, 2004, is given in Table 1.6. As per the Census of registered and unregistered units held for the year 2001-02, there were 105.21 lakh SSI units in the country, out of which 13.75 lakh were registered working units and 91.46 lakh unregistered units. Their contribution to production was Rs 2,82,270 crore and 249.09 lakh persons to employment. It is estimated that during 2003-04, the number of SSI units has increased to 115.22 lakh from 110.10 lakh in the previous year, registering a growth of 4.7 per cent. The value of production at current prices by the SSI units also increased to Rs.3,48,059 crore from Rs 3,11,993 crore during 2002-03. The sector is estimated to have grown at the rate of 7.5 per cent at constant prices over the previous year. Employment is estimated to have increased to 273.97 lakh persons from 261.38 lakh persons in the previous year.

Small scale industries have registered phenomenal growth in their number, production, employment and exports over the years. The government of India has been attaching increasing importance to the development of small – scale industries by way of supportive measures adopted from time to time.

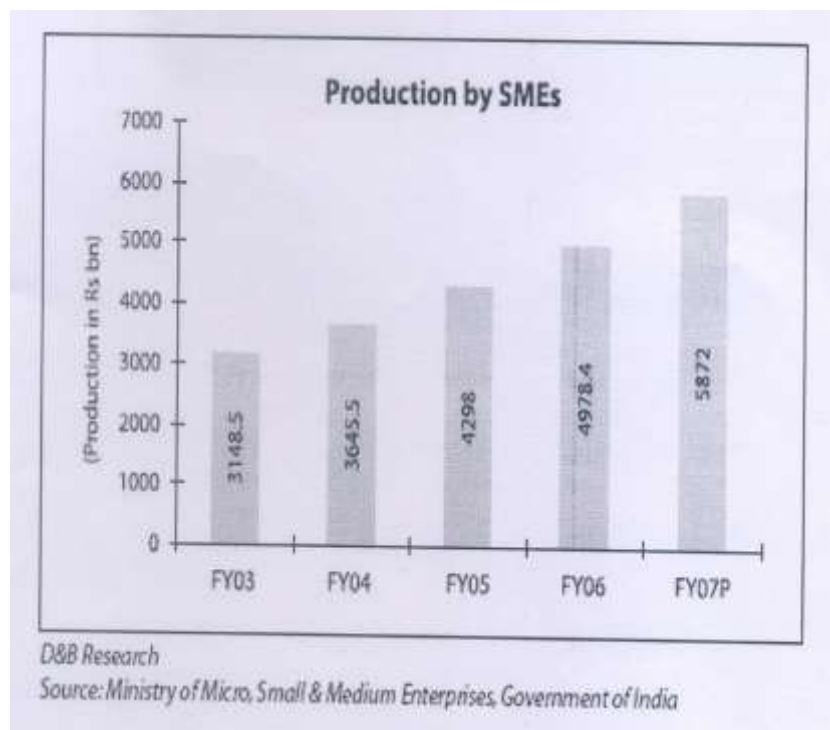
A look at the group-wise classification of SSI shows Hosiery and Readymade Garments units at the top list with 89,464 units accounting for a little over 22.2% of the total number of units. Other

Manufacturing industries are far behind with 58,777 units which is around 15% of the total. Manufacturing sector is closely followed by Food Products with 37,152 units which is close to 10%. Share of all other groups are of single digit and the share of Jute, Hemp and Mesla Products and Beverages, Tobacco & Tobacco Products together is below 1%.

Total Employment of SMEs and Production per Employee		
Year	Employment (In mn)	Production per Employee
FYO3	26.37	116
FYO4	27.53	122
FYO5	28.76	130
FYO6	30.0	140
FYO7P	31.25	151

Production and Investment in SMEs

The total production of the SMEs showed a phenomenal growth in FY07 as compared to the previous year. The production at current prices experienced a growth rate of around 18% against 15.8% in the previous year, thereby raising its share to India's GDP up to 15.5% during the year. Economic activities such as export market, growing domestic consumption, conducive policy measures, improving production methods, technology, development of SME clusters have fuelled production and hence their share to India's GDP. SMEs have maintained an equal growth rate vis-a-vis the overall industrial sector during FY03-07, which grew at a CAGR of around 17%.



The SME sector has also registered a consistently higher growth rate than the overall manufacturing sector. In fact, it plays a dual role since the output produced by SMEs is not only about final consumption but also a source of capital goods in the form of inputs to heavy industries. The table below indicates the growing significance of SMEs in the Indian economy. The output of SMEs is not only increasing, but also the productivity in terms of per unit is also growing at a higher rate in the last four years. The relative advantage of SMEs is well recognized by the resurgence of the manufacturing sector in India during the last two fiscals and is poised for higher growth in this fiscal, thus denoting the importance of SMEs to sustain it for a long time.

year	No.of SME units (In mn)		
	Registered	Un-registered	Total
FYO3	1.6	9.3	10.9
FYO4	1.7	9.7	11.4
FYO5	1.8	10.0	11.9
FYO6	1.9	10.4	12.3
FYO7P	2.0	10.8	12.8

To assess the response of SSI Sector and its ability to reposition itself in changed business environment a SWOT (Strength, weakness, opportunity, Threat) analysis of small scale sector is carried out. The small scale sector is a key and vital constituent of the economy. Therefore government always had been strongly supporting SSI through government policies.

STRENGTH AND WEAKNESSES OF SMEs

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 redtapism. (Dalu & Deshmuke)

Inexpensive labor and less over head

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 over head.

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 (Gowda and Krishnamoorthy).

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 (Derrick). Study reports show that under utilization capacity leads to reduction in level of productivity in Small and Medium Enterprises sector in India .

Lack of Financial Strength

The Small and Medium brand image and hence mobilizing capital through other sources is a challenge in Enterprises depend largely on banking finance. They don't have corporate image.

Lack of Industrial Work Culture

Laborers 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 .

Conclusion

Every industrial and business organization has to take up the responsibility to meet the challenges posed by globalization. Not only the big business, but even a small business enterprise in India has to take up the responsibility to meet the standards, qualities, technological up gradation, skills technical know-how needed in the global market. Forty years ago, economist Ernst Friedrich Schumacher published in Britain his book 'Small is Beautiful' in which he argued in favour of human-scale, decentralized and appropriate technologies which small businesses could harness effectively

It means that even a small scale unit operating anywhere in India has to fulfill the standards set by the global giants which operate in India. This is not only in respect of a unit that produces final products but even the one which functions as ancillary or artisan.

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