

# Contribution of small scale industries in indian economy



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With an impressive history of policy related development regarding small scale industry in post-independence India, SMEs dominate the industrial scenario by its contribution to job creation and income and fight against regional disparities. Given the imperatives of globalization, although in some sectors, a strong outward orientation can be observed even in the early 1980s, it was in 1991 that a small business policy in India has been strongly pursued a policy which stresses the importance of the internationalization of trade and interdependence in the field of innovation activities, training, marketing and business strategies. Small scale industry continues to contribute immensely to the creation of jobs for any large-scale space, and in the process, reducing inter-regional differences in urban and rural growth. Extremely wide range of products manufactured in this sector, often at reasonable prices, served successfully calibrated still a huge market. Some agricultural products are constantly appearing in the export basket in recent decades, although the export performance in the world market has been spectacular.

After making at least four decades of industrialization controlled - the protection of infant industries and support the strategy of import substitution - in 1991, as part of the official announcement of economic reforms in India's economy is still protected sector of small businesses started to cope with the imperatives of globalization. The emphasis on outward orientation, competitiveness and collaboration with institutions within and outside the industry and the nation seems to be the basis for the paradigm of the current policy; the policy framework confirms the recent marked change in focus. In the light of these suppositions , the rationale of the proposed

research is to study the role and contribution of small scale industries towards the development of Indian economy, with focus on the question as whether their potential undermined or exaggerated.

## **LITERATURE REVIEW**

Several countries have recognized the importance of SMEs, as well as to formulate policies to encourage, support and fund it. The advantages of small and medium-sized businesses in the economy of a country is easily visible, they include: contribution to the economy in terms of creating new jobs, skilled and unskilled workers, as well as developing and adapting appropriate technological approaches. Promoting SMEs have been one of the best strategies for achieving economic development (Kaz and van der Heijden, 2006; Hallberg, 2000). Business attitudes to their employees are also considered a core competence the firm, employees have greater value to the organization and their contributions could improve the quality of decision-making firm (Kaz and van der Heijden, 2006). Effective decision-making process is therefore an important element in the development of competitive products, growth and survival over time (Carneiro, 2000; McDonough and Griffith, 2000). If the employer allows his or her management team to contribute to the process of creating a road map of companies and operational strategies, it will inevitably lead to more growth-oriented company.

Small and medium industry plays an increasingly important role in the process of creating new jobs in the world, especially in developing countries; the contribution of SMEs to economic growth of nations is well recognized.

SMEs are defined differently in different parts of the world. Some define <https://assignbuster.com/contribution-of-small-scale-industries-in-indian-economy/>

them in terms of assets, while others use employment, shareholder funds or sale as criteria. Some others use a combination of income and employment, and a hybrid criterion. In developing countries, as some authors claim (Leutkenhorst, 2004) the contribution of SMEs towards the creation of jobs is significant, because they tend to use more labor-intensive production processes than large enterprises, increase employment and lead to more equitable income distribution, to provide livelihood opportunities through a simple, value-added activities in the processing of agricultural economy, promote entrepreneurship and train to create a system of productive capacity and create sustainable economic systems, by establishing linkages between small and large enterprises. In most developing countries, SMEs use the highest percentage of working-age population. In some African countries, micro and small enterprises are using twice as many people, large listed companies. In addition, SME employment, especially in the informal sector tends to increase and employment in medium and large enterprises, as well as in the public sector is reduced. In 9 out of 12 countries in Latin America, the proportion of persons employed in micro and small enterprises has increased during the period 1990-1991, and 2000 (Davis et al, 2002). Job creation in SMEs sometimes especially the poor, because such enterprises, employment and income in regions and sectors of the economy, where most poor people live and where there are few other employment opportunities exist. For example, non-agricultural activities (which are mostly micro and small enterprises) are currently providing 42, 40 and 32 percent of rural household incomes in Africa, Latin America and Asia, respectively, and have a tendency to increase (Davis et al, 2002). Rural SMEs, therefore, contribute to a more decentralized model of industrial development. In addition, SMEs

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are important employers, especially for populations who face difficulties in securing employment in the formal labor market. Getting the benefits of the program and policy development for small and medium-sized businesses through the law should pay off well, given the much stronger influence SMEs can have on aggregate productivity and create jobs, compared with the micro (Leutkenhorst, 2004). Indeed, in such areas as politics of small business lending, trade credit policy, management training, as well as sector specific technical assistance programs is ripe for an accurate assessment were identified.

Small-scale industrial average is all the more urgent role in the process of export-led industrialization in the world, especially in the developing world. SMEs are the largest group of industrial enterprises in most developing countries and will contribute significantly to the production to industrial production and employment (Katsikeas and Morgan, 1994). Globalization has resulted in many changes, such as increased access to the global market, which allowed countries to accelerate economic growth and poverty reduction. Today in the role of SMEs in economic development and intra-regional trade and investment is to attract the attention of politicians across the region (Mohamad, 2005). Exports have become great opportunities for the SMEs themselves to expand their businesses, as well as in some way contribute to our economic growth. With the increasing trend towards globalization in the arena of the market and competition for businesses has grown from domestic markets to international markets. Nevertheless, the situation of SMEs as an important player in the world market is now widely recognized. Ibeh (2004) documented that the SME share in exports of

manufactures in the world, 25-35 percent, and their contribution to GDP is 4.6 per cent and 12 per cent in OECD countries (Organization for Economic Cooperation and Development) and countries in Asia respectively. Not all SMEs involved in exporting and not all SME exporters stand on an equal level of success. Various researchers have investigated how companies perform in exports has identified many determinants of export performance (Ibeh, 2004; and Babakus and Yavas, 2006). Previous studies have also shown that there is a positive relationship between entrepreneurship and export performance. For example, positive relationships were found between export performance and technological innovation, management attitude to risk, and aggressive. More recent studies have also reported a positive relationship between entrepreneurial orientation and export, although moderated by contextual variables, such as organizational and environmental factors. Kazem and van der Heijden, (2006) argued that ownership of the firm, regardless of their size or structure, characterized by a specific business orientation, some of the decisions of style, as well as a number of operational strategies.

## **AIMS AND OBJECTIVES**

The aim of the proposed research is to study the role and contribution of small scale industries towards the development of Indian economy, with focus on the question as whether their potential undermined or exaggerated.

The research will have task of accomplishing following objectives:

To conduct a literature review on the role and contribution of small scale industries towards the development of economy in relation to employment generation and export growth

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To conduct field study to study the role and contribution of small scale industries towards the development of Indian economy in relation to employment generation and export growth

## **RESEARCH QUESTIONS**

- What is the role and contribution of small scale industries towards the development of Indian economy in relation to employment generation?
- What is the role and contribution of small scale industries towards the development of Indian economy in relation to export growth?
- Whether Indian small scale industries' potential have been undermined or exaggerated

## **METHODOLOGY**

### **Research Design**

The design of a research concerns to deciding about research approach and method (Saunders et al, 2003). Therefore, deciding about design for this research requires examining the available research approaches and methods and therefore choosing the suitable for conducting the research.

The approach of a research can be deductive or inductive (Saunders et al, 2003). A research conducted with deductive approach relates to undertaking scientific research, where hypotheses are testes and further theories are developed through experiments or fields study. On the other hand, a research conducted with deductive approach relates to exploring the underlying facts regarding a situation though field study based on the assumptions of previous studies. The purpose of the proposed research is to study the role of small scale industries in Indian economy, which appears

exploring facts about a phenomenon. Therefore, the proposed research will be conducted inductive research approach.

Research method can be qualitative or quantitative or both (Saunders et al, 2003). For the proposed research both qualitative and quantitative research methods will be applied for conducting a comparatively more insightful inductive research. Qualitative research will be conducted through interviews and quantitative research will be conducted through questionnaire survey.

## **Data Collection**

### **Secondary Data**

Secondary data will be used in the proposed research for preparing foundation of collecting primary data (Sekaran, 2003). The principal purpose of collecting secondary data in the proposed research will be reviewing the past studies regarding the research subject and the quantitative data available in the context of India. The various sources of secondary data will be as following: journals, newspapers, governmental and non-governmental reports.

### **Primary Data**

Primary data in the proposed research will be virtual as these data will answer the research questions. The primary data collection sources will be used in the forms of interviews and questionnaire based survey. The interviews will be conducted on the level experts in Indian economy, and questionnaire survey will be conducted on SMEs in India.



**Sampling**

For both interviews and questionnaire survey, simply decision will be an important process. The choice of sampling can be either probability or non-probability (Sekaran, 2003). In probability sampling, there is certainly about the target population, whereas in non-probability sampling, there is uncertainly about the target sample. For both interviews and questionnaire survey there is no certainly about target sample, therefore non-probability sampling will be used.

**Data Analysis**

Both qualitative and quantitative methods of data analysis will be applied in the proposed research. In qualitative data analysis, content analysis tool (Saunders et al, 2003) will be used; whereas in quantitative data analysis SPSS Software will be used. The central purpose of the data analysis will be to answer the developed research question.