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## PROMOTIONAL ROLE OF SMALL BUSINESS IN INDIAN ECONOMY

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### INTRODUCTION

A small scale industry (SSI) is an industrial undertaking in which the investment in fixed assets in plant & machinery, whether held on ownership term or on lease or hire purchase, does not exceed ₹ 1 Crore. However, this investment limit is varied by the Government from time to time.

In India, the SSI is generally referred to as ‘**small and medium industries**’ (SMEs) including the tiny sector and the ‘Small Scale Services and Business Enterprises’ (SSSBE). SMEs have always represented the model of socio economic policies of the Government of India, which emphasized judicious use of foreign exchange for import of capital goods and inputs; labour intensive mode of production, employment generation; non-concentration and diffusion of economic power in the hands of a (as in the case of the big business houses); discouraging monopolies practices of production and marketing; and finally effective contribution to foreign exchange earnings of the nation with low import-intensive operations.

Worldwide, the Micro, Small and Medium Enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable Development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of this sector is much higher than that of the large enterprises. It is a nursery of entrepreneurship, often driven by individual creativity and innovation. In India too, the Micro, Small and Medium Enterprises play a pivotal role in the overall industrial economy of the country. It contributes 8 Per cent of the country’s Gross Domestic product, 45 Per cent of the manufactured output and 40 Per cent of its exports. The Micro, Small and Medium Enterprises provide employment to about 60 million persons through 26 million enterprises.



All the activity related to small scale industry are directed by this Ministry of Micro, Small and Medium Enterprises. In accordance with the provision of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two classes, which are as follows:

- 1) **Manufacturing Enterprises:** 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). The manufacturing enterprises are defined in terms of investment in plant and machinery.
- 2) **Service enterprises:** The enterprises engaged in providing or rendering of services and are defined terms of investment in equipment.

### CHARACTERISTICS OF SMALL BUSINESS

- **Personal Character:** In most small businesses the owners themselves are managers and so they can operate independently.
- **Labor intensive:** Small enterprises are fairly labour-intensive. They provide an economic solution by creating employment opportunities in urban and rural areas at a relatively low cost of capital investment. Small businesses actually create more jobs than big businesses. This feature of a small-scale unit is of great significance in a country like India where the number of unemployed people is phenomenal.
- **Flexibility:** Small enterprises are flexible in their operation. They adapt quickly to various factors that play a large part in daily management. Their flexibility makes them best suited to constantly changing environment.
- **One-Man Show:** A small-scale unit is generally a one-man show. It is mostly set-up by individuals. Even some small units are run by partnership firm or company; the activities are mainly carried-out by one of the partners or directors. Therefore, they provide an outlet for expression of the entrepreneurial spirit. As they are their own boss, the decision- making process is fast and at times more innovative.
- **Use of Indigenous Raw Materials:** Small enterprises use indigenous raw materials and promote intermediate and capital goods. They contribute to faster balance economic growth in a transitional economy through decentralization and dispersal of industries in the local areas.
- **Localized Operation:** Some enterprises generally restrict their operation to local areas in order to meet the local and regional demands of the people. They cannot enlarge their business activities due to limited resources.
- **Lesser Gestation Period:** Gestation period is the period after which the return on investment starts. It is the time period between setting the units and commencement of production. Small-scale industries usually

have a lesser gestation period than large industries. This helps the entrepreneur to earn after a short period of time. Capital will not be blocked for a longer period.

- **Educational Period:** The educational level of the employees of small industries is normally low or moderate. Hardly there is any need of specialized knowledge and skill to operate and manage the SSI.
- **Profit Motive:** The owners of small enterprises are too much profit conscious. They always try to keep high margins in their pricing. This is one of the reason for which the unit may lead to closure.

## PROMOTIONAL ROLE OF SMALL BUSINESS IN INDIAN ECONOMY

- 1) **Employment Generation:** Small scale industries sector in India creates largest employment opportunities for the Indian, next only to agriculture. It has been estimated that a lakh rupees of investment in fixed assets in the small scale sector generates employment for four persons.
- 2) **Production:** Small scale industries sector plays a vital role for the growth of the country. It contributes 40% of the gross manufacture to the Indian economy. It has been estimated that a lakh rupees of investment in fixed assets in the small scale sector produces 4.62 lakhs worth of goods and services with an approximate value addition of ten percentage points.
- 3) **Export contribution:** Small scale sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is being contributed by small scale sector. Direct exports from the small scale sector account for nearly 35% of total exports. The number of small scale units that undertake direct exports would be more than 5000.
- 4) **Innovation and Development:** Small and medium industries(SMEs) are quick in assimilating new design trends, developing contemporary products, and bringing them to the marketplace ahead of the competition. SMEs tend to be far more innovative in developing indigenous or appropriate technology, which may be grown later into pioneering technological breakthroughs.
- 5) **Developing Entrepreneurial Capacity:** SMEs can act as the seedbed for the development of entrepreneurial skill and innovation. They play an important role in the provision of services in the community. They can make an important contribution to regional development programs.
- 6) **Utilizing Resources Optimally:** SMEs are notably skilful in maximizing the use of scarce capital resources and are able to partner with large firms by supplying locally available raw materials in unprocessed or semi processed forms.
- 7) **Increases GDP:** The SME sector contributes about 9 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of its exports, the Minister said and added the SMEs provide

employment to over 73 million persons through more than 31 million enterprises with a lower labour to capital ratio and produces 6,000 products range from traditional to high tech items.

- 8) **Feeder to Large Industries:** SMEs is complementary to the large scale industries. Small and medium scale industries manufacture various types of complements, spare parts, tools and accessories which are required by the large scale sector. Small and medium firms also distribute the goods produced by large scale firms.
- 9) **Opportunity for Artisan:** In villages, artisan/specialist/artist having expertise in different fields are found. Because of lack of opportunities their skills do not come into limelight. Small and medium businesses provide opportunities to such people. This provides an impetus to their talent.
- 10) **Increase Standard of Living:** With the establishment of small businesses in rural or nearby regions, villages get many types of facilities, for example, employment, electricity, water, roads, education, banks, modes of transportation, etc. In such a situation, promotion of standard of living is inevitable.
- 11) **Less Pressure of Population on Agriculture:** As more population depends upon land for survival the land is further divided into small pieces. It no longer remains beneficial to do farming on such small fields. Every year there is a further increase of approximately. Thirty lakh people who depend on agriculture. So, this has become necessary to reduce this burden on land. This is possible only when people will establish.
- 12) **Equitable Distribution of Income:** With the establishment of three businesses the income of the country is not just concentrated with some handful of city industrialists but is also distributed among many small rural industrialists. This helps to reduce the gap between the rich and the poor in the country.
- 13) **Social Advantage:** SMEs offer opportunity for an independent way of life to people with small means. They offer savings in social overheads like education, housing, and medical facilities by taking industry nearer to the people. They help to raise per capita income and standard of living in the country. A system of widely diffused ownership permits wider participation of people in the process of economic development. Small and medium scale sector provides a base for democracy, socialism and self-government.



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