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RESEARCH ARTICLE

ISSN 2348 - 0319 **A study on Performance of Small Enterprises and its Role in inclusive growth
(With special reference to Indore MP)**

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Abstract:

Industrialization 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 enterprises are an effective means for the development of entrepreneurship. This sector is an only solution to the problems of poverty, insecurity, unemployment, over population he modern world. This paper attempted at highlighting the significance small enterprises in economic development of India. This paper is based on both primary as well as secondary data.

Key Words: Employment, Inclusive Growth, Small Enterprises, Manufacturing

Introduction

Economic activity is the key feature of inclusive growth. Inclusive growth or the notion of inclusiveness in the economic growth process is often too broadly defined. It suggests that outcomes of growth should result in poverty reduction, improved schooling, and access to higher education, skills, health, sanitation and greater employment for the disadvantaged groups among a host of other societal benefits. These are desirable pro-poor objectives of social welfare spending of the government programmes. The effects of growth is indirect in the sense that growth generates larger tax revenue to finance social welfare spending that in turn makes growth inclusive. Alternatively, one could consider growth that directly benefits large majority of the population as inclusive growth. Growth that improved wage employment opportunities qualifies as the best instance of inclusive growth. when the people do not have jobs or expect to get job opportunities in the near future. In this sense, absence of job opportunities would be the first indicator of non-inclusive growth in an economy. The concept of inclusive growth suggests existence of opportunities for productive participation in economic activity. Inclusive growth involves among other things creation of economic conditions that are conducive to employment opportunities for those already in the labour force as well as for those entering the labour force. In this perspective lack of inclusiveness refers to absence of compensatory mechanisms for potential job seekers due to policy shocks or structural change. Structural transformation is the hall mark of development that changes the proportion of workers employed in agriculture, industry and services. This process is evidently uneven with some sectors outpacing others and composition within sectors could change. For example, household industries could lose out to modern factory based industries as per capita incomes rise and demand changes in favour modern industries. In modern industries, linkage between small and large enterprises could weaken due to technological obsolescence of small enterprises who have failed to upgrade themselves to meet the quality specification of their buyers. Small enterprises are more vulnerable to import competition due to trade liberalization and could suffer job losses in import substitute industries. Aggregate volume of employment in the economy need not fall as growth sectors could bring about compensatory changes offsetting the adverse effects of structural or policy regime change. The challenge of economic policy is to ensure the desired compensatory changes take place in the economy.

LITERATURE REVIEW

Coco (2000) points out that collateral helps to reduce informational asymmetries and moral hazard problems that arise between banks and entrepreneurs. Collateral can be repossessed by the creditor in case of default thus enhancing creditor protection. On the importance of collateral, one commentator said “Finance is difficult to secure without collateral. Also a large number of entrepreneurs do not know how to approach banks and financial institutions”

Berry et. al., (2002), There are a number of reasons for the failure of Government support to small businesses. Some of the reasons identified include: (1) lack of awareness (outreach); (2) uneven distribution (concentration I n metropolitan areas); (3) the high cost of searching for support services which has not been mitigated by effective information on how and where to access support; and (4) cumbersome administrative requirements of Government programmes resulting in user fatigue and high levels of disappointment .

OECD, (2006), These include investing in credit scoring models and other sophisticated techniques to discriminate between high and low risk borrowers in overcoming the information asymmetry problem. It is worth noting that in most cases funds supplied under official Government programmes are modest compared to that supplied by banks at their own risk.

OECD, (2006), These reasons relate to problems of having to deal with uncertainties such as agency problems, asymmetric information, adverse credit selection and monitoring problems. Although not specifically related to SMEs, the specific characteristics of SMEs are such that these reasons negatively impact SMEs more than larger companies.

Rudez and Mihalic (2007) positively associate managerial competencies with new venture performance. The higher the level of managerial competency exhibited by the owners of a new firm, the greater the viability and survival of the new SME, the more successful they are likely to be in accessing credit.

Mengistae et al., 2010: 111, This finding may be attributable to South Africa having a relatively well developed financial sector with a ratio of domestic credit to GDP at 78%. Though concentrated, the banking sector is fairly competitive with a relatively high capital ratio of 8.3% and low and declining nonperforming loans. Therefore, for the formal sector, access to finance might not be as much of a policy concern as it is for the less formal sector of the economy as reflected in only 14% of firms in the 2008 South African Enterprise survey citing access to financing as a major obstacle. The survey provides more nuanced results which reflect that registered microenterprises are less likely to have access to credit.

Need of the study:

The small enterprises have been accepted as the engine of economic growth and promoting equitable development. In this position researcher made an attempt to study the contribution made by small enterprises for the economic growth and development .

Objectives of the study:

- 1.To understand the concept of small enterprises.
- 2.To study the performance of small enterprises.
- 3.To identify the number of small enterprises and employment

Role of Small Enterprises in Employment, Job Creation and Poverty:

One way to gauge the importance of small enterprises is to look at international evidence. Does the importance of small enterprises measured by their share in total manufacturing employment vary with the level of economic development? Is there a relationship between the share of small enterprise sector in total manufacturing employment and the level of per capita GDP (Gross Domestic Product)? Do small enterprises create more jobs than large enterprises? Small enterprises are relatively more important in low income countries. More critical is the second question on job creation. In the US , an inverse association between net growth rate of jobs (recognize that firms

create jobs as well as destroy jobs, so one measures net contribution to job growth) and firm size is reported. This implies small firms contribute disproportionately to new job creation. Net job growth rate is higher in Small enterprises. size and employment did not take into account, the age of the firm in their analysis. We know that young firms (start-ups) start with workforces which are relatively small and tend to grow faster. It follows that the inverse relationship between firm size and employment growth is attributable to the fact that new firms are classified in small employment size classes. In other words, analysis must take into account age of the firm in their analysis of job creation and firm size.

An introduction to Inclusive Growth and development:

Inclusive growth has been defined as output growth that is sustained over decades, is broad-based across economic sectors, creates productive employment opportunities for a great majority of the country's working age population, and reduces poverty. Inclusive growth is about both the pace and pattern of economic growth. However one defines it, there is no bigger policy challenge preoccupying political leaders around the world than expanding social participation in the process and benefits of economic growth and integration. A central lesson of the recent financial crisis is the need for a rebalancing of the emphasis placed by policymakers on drivers of what could be considered the "top-line" measure of national economic performance, GDP per capita growth, on the one hand, and factors that influence its "bottom-line" performance in achieving broad-based progress in living standards, on the other. In advanced and developing countries alike, it is increasingly recognized that GDP per capita growth is a necessary but not sufficient condition for the satisfaction of societal expectations. Even if the precise nature and relative importance of the causes of rising inequality remain in debate, geographically and ideologically diverse consensus has emerged that a new, or at least significantly improved, model of economic growth and development is required. G20 leaders have committed themselves a number of times since the financial crisis to this goal. The new political consensus about inclusive growth is rooted in a significant widening of inequality, affecting economies at various levels of development. More important than growing shares at the top are the cases where the benefits of growth have not been shared widely and low- and median-income households have fallen further behind. Over the last decade, median household income has stagnated in several advanced economies (such as Germany) and even declined in the United States, resulting in a more vulnerable middle class at risk of falling into poverty. Part of this trend can be traced back to the slowdown following the financial crisis, and a structural decline in the share of national income accruing to labor. In developing economies, sustained strong growth has lifted many out of absolute poverty but improvements in living standards have not kept pace with GDP growth, or been evenly distributed.

Small enterprises and employment growth (Start up):

First, improve conditions for entry into business and transaction costs of doing business for firms. Small enterprises are more likely to face higher costs of entry in terms of getting through the regulatory formalities of setting up the business. Entry Costs are the legal and other related costs of business registration that a start – up must bear before it becomes legally operational. Actual entry costs are evaluated relative to per capita income in a country to get an idea of feasible potential entry (Djankov et al., 2002). The World Bank Doing Business Reports have drawn repeated attention India's low ranking in terms of their doing business. The latest Doing Business Report 2014 estimates that it takes 40 days and 64 per cent of GDP per capita to start a business in Bengaluru, the so called software capital of India, in contrast it takes 30 days and 70 per cent of GDP per capita to start a business in Mumbai and both have the same number of procedures for start - ups. These statistics are just indicators of the long road to reform in Indian States. Transaction costs include costs of contract enforcement related to sale and purchase of goods (cheque payment etc.), debt recovery and costs of quality certification of goods for export and domestic sale etc. in the course of doing business. Often small enterprises are not paid in time for the goods supplied by them and are forced to offer credit sale by their customers. In order to enforce credit contracts enterprises will have to incur extra costs in terms of fees for legal consultancy and other court fees. This could work against the expansion plans of small enterprises. Both entry costs and contract enforcement costs are found to be important determinants of SME employment share in cross - country models (Ayyagar i et al., 2007). Second, improve access to electricity and better infrastructure like modes of transport (better roads) that increase the access to domestic markets and sea ports. Establishments in the NSSO survey (2010-11) reported that lack of 'regular supply of electricity' as one of their major problems. Public investment in infrastructure and effective support services (like technology, marketing and labour training services) can result in positive externalities that benefit small enterprises. Investment and growth in

agriculture and allied sectors is likely to generate significant number of jobs in small enterprises. Slow growth of agriculture has been the weak spot of Indian economy in the last few years.

Performance of SSI: Employment

Year	Employment
2015-16	95
2016-17	115
2017-18	200
2018-19	287
2019-20	350
Total	1,047

Year	Profit (%)
2015-16	15
2016-17	19
2017-18	21
2018-19	25
2019-20	30

Challenges faced by small scale enterprises:

Small enterprises have commendable contribution to the rural economy as well as national economy at large. But small enterprenual Sector faces financial constraints and does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporate. Small enterprises face a number of problems and constraints in their path of progress.

1. Lack of adequate and timely funding.
2. Limited capital and knowledge.
3. Non-availability of suitable technology
4. Limited sources.
5. Lower production.
6. Lack of marketing scope.

Despite the various challenges in the way of progress, the Small enterprises has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification. SSI sector has made significant contributions to employment generation and also to rural industrialization. This sector is ideally suited to build on the strength of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices.

Household Poverty and the Role of Small and Growing Businesses

Around the world, it is clear that one of the most effective ways to raise incomes is the creation of more and more stable, jobs. While over a billion people earn less than \$1 a day, and over 2.5 billion earn less than \$2 a day, it is not only the level of income, but the variability of income that characterizes the lives of the poor. Poor households earn their livelihoods from multiple sources that are often unreliable– smallholder agriculture, casual labor or self employment. These low and uncertain incomes have a tremendous impact on their wellbeing, in terms of health, education, early childhood development and access to essential services like clean water and electricity. While small enterprises are the largest contributors to formal jobs in low - income countries. Most of these firms suffer from low productivity, and their contribution to economic growth is less evident 2 Only a small fraction of these firms will achieve rapid growth, and create jobs and economic prosperity on a significant scale. These firms face significant barriers to growth, and have been the focus of a number of impact investors, capacity development providers,

development finance institutions and government agencies in recent years. These intermediaries support firms through matching grants, business training, credit guarantees and direct investment. A number of studies have looked at the impact of these supportive interventions small enterprises in developing countries

Strength and weakness of small enterprises:

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

Flexibility Small 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. (Dalu & Deshmuke)

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 (Gowda and Krishna moorthy).

Weaknesses

1. **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
2. **Lack of Financial Strength:** The Small and Medium or 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.
3. **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 small enterprises should take immediate step to create quality awareness and adoption of continuous improvement techniques.

Conclusion

Small enterprises in India will have an important instrumental role in the process of achieving inclusive growth. In this preliminary analysis we found that employment in household enterprises have declined across industry groups and states in India resulting in job loss of 4.2 million in the decade of 2000s. Employment growth in small enterprises defined as those with less than fifty workers in the non-household segment, has been insufficient to offset the decline of household employment. Small enterprises employment share has not improved during the years 2001 to 2011 in the states with higher per capita SDP. This calls for policy initiatives that encourage entry of new small enterprises and employment growth in existing small enterprises.

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