



## RESEARCH ARTICLE

### Role of Small & Medium Scale Enterprises in Economic Development of Punjab.

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#### Abstract

Industrialization plays an important role for solving the problems of economic and social progress specially of the developing countries of the world. Small and Medium Enterprises (SMEs) have been considered as the engine of economic growth and a means of promoting equitable development. SMEs are vital and of paramount importance in the development of any country especially developing country like India because of employment generation, low capital investment, effective mobilization of resources and expansion of trade. This paper analyses the performances of MSMEs in Punjab economy static the increase in the numbers of units, employment generated, increase in fixed capital, increase in export and focus on the policy changes. Technical development and strengthening of financial structure is needed for the growth of this tiny but important sector.

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#### Introduction:-

Industrialization plays an important role for solving the problems of economic and social progress especially of the developing countries of the world. There is a direct relation between industrialization and economic development as described by Gunma Myrdal. Employment opportunities increase which Improves the standard of living of the people.

Small and Medium Enterprises (SMEs) have been considered as the engine of economic growth and a means of promoting equitable development. SMEs are vital and of paramount importance in the development of any country especially developing country like India because of its special characteristics which make it unique in the Indian industrial scenario like decentralized nature of sector, employment generation and low capital investment. The labour intensity of this sector is higher than large enterprises and it helps in social and economic development. It is the nursery of entrepreneurship often derives by individual creation and innovation. Small and Medium Enterprises (SMEs) play a pivotal role and can be considered as a back bone of national economy (Peters and Waterman, 1982; Amini, 2004; Radam ). According to World Bank, SMEs account to 50 % of GDP and to quote EU, it highlights the role of SMEs as two-third of employment.

Small and Medium Enterprises (SMEs) play a pivotal role in the economic development of the country. It has made significant contribution to industrial production, export Trade, and adding to the earning of national exchange and employment generation. In developing countries as well as developed countries they are important from the point of view of employment generations, which is very important in countries like India with huge backlog of

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unemployment in the urban sections of the economy. It has been observed that their composition depends upon the way the production is being organized in the economy. However in India Government deliberately planned the growth of SMEs to achieve certain economic and non-economic objectives. India has registered a consistent high economic growth (6-9%) over the last decade and was able to survive and sustain world recession triggered in 2008. For the sustainability of this kind of growth proper nurturing of SME sector is imperative. This paper will detail various schemes taken by the Govt. For the financial help of Indian SMEs, the role of government in upliftment of staggering Indian SMEs as well as the impact of government initiatives and policies on the upliftment of Indian SMEs specially of Punjab. This sector empowered to perform better and prosper in domestic and international arena.

### Highlights of SMES in India

As per the 4th SME sector Report this sector employ an Estimated 59.7 million persons spread over 26.1 million enterprise.

In India, SMEs has made significant contribution to the economy:

- ❖ MSMEs contributes about 40% of India's total exports.
- ❖ MSMEs contributes about 45% of India's manufacturing output.
- ❖ This sector has given employment to 73 million people.
- ❖ MSME manufacture more than 6,000 products.
- ❖ MSME contribute 35-40% to the GDP and account for more than 90% of all industrial enterprises in India.
- ❖ SMEs are able to make their presence felt mostly because of the simple structure of an they can respond quickly to changing economic conditions and meet local customers' needs .

According to the SME Whitebook 2011-2012, the MSMEs (Micro, Small, and Medium Enterprises) sector has consistently registered higher growth than the rest of the industrial sector. A significant number of the MSME depend on the agriculture, horticultural, forest and non-forest produce. They do generate much required employment and thus prevent mass migration from the rural to urban areas thus reducing the clutters and burden on Tier 1 and Tier 2 cities in India.

### Definition of Micro, Small and Medium enterprises:-

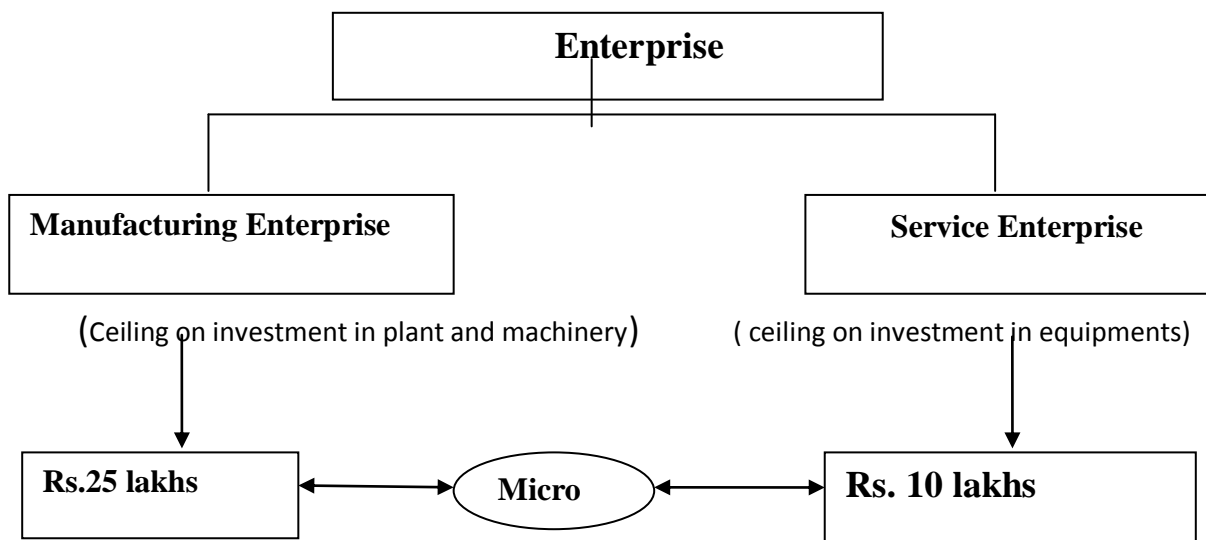
According to the SME Times News Bureau (August 2012), "In India, SME definition is based not on number of employees but on amount of investment.

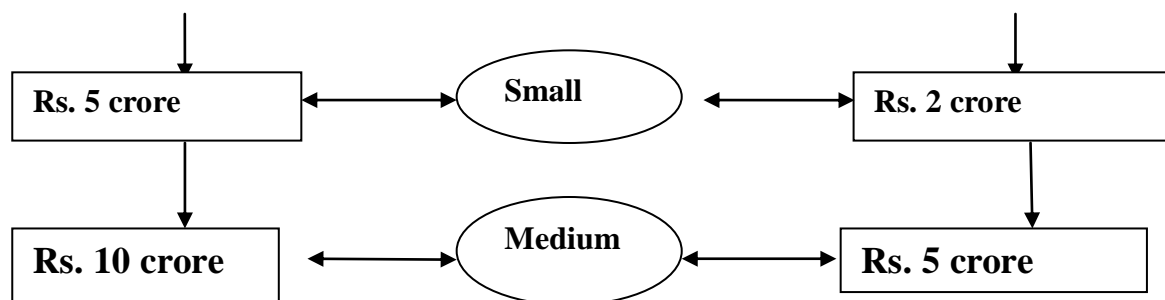
Micro, small and medium enterprises as per MSME Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services.

The defined limit on investment for enterprises to be classified as micro, small and medium enterprises is as follows:

### Classification of MSMEs

As per Micro, Small & Medium Enterprises Development Act 2006





### Review Of Literature:-

Review of literature is very essential for any further study as it provide the area where there is need of study. Comprehensive literature demonstrates that MSMEs are necessary for sustained economic growth and development of a country. To justify the need of the studies following literature have been reviewed.

Valsamma Antony (2002), in her study titled “Prospects and Growth of SSIs in India: An Overview”, observes that adequate and timely availability of working capital and marketing avenues for the SSI products should be ensured for improving their competitive strength in the domestic and global markets. There is the need for providing better information and efficiency networking for the SSIs besides development of quality infrastructural facilities.

Subrahmanyabala, M.H. (2004) highlighted the impact of globalization and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output and exports. The Researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. He suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

Gohill, Mike (2009) evaluated the problems faced by Indian small business sector in this transformation era, and viewed that less than 5 percent of the small businesses are successful remaining continues to function with various problems, prominent among them is lack of managerial experience of entrepreneurs. Venkatesh and Muthic (2012) found that role of MSMEs is grooming rapidly and they have become a trust area of future growth. They emphasize that nurturing MSMEs sector is essential for the economic well being of the nation. After viewing all this the Objectives of the studies are decided.

### Objective of the Study:-

1. To analyze the growth and performance of MSEs in Punjab State over the period from 2001- 2012.
2. To review the contribution of MSMEs in exports.
3. To analyze the problems of SME

### Data analysis and Research Methodology:-

The Study is based on secondary data and data has been collected from various published sources and websites like Statistical Survey of Punjab and the Directorate of Industries in Punjab. The period for the study has been taken from the year 2001 to the year 2012.

**Data Analysis:** As far as analysis of the data is concerned simple percentage and Mean and standard deviation is used.

**Table 1:- Units, Employment, Fixed investment Production and Export of SMEs in Punjab for the period 2000-01 to 2011-12**

Year	Units(working)	Employment(Nos)	Fixed Investment(rs. Crs)	Production(Rs. Crs.)	Export(Rs. Crs.)
2000-01	200603	897642	5109.14	18325	2264
2001-02	201736	909266	4374	20339	2486
2002-03	202537	920077	6641	22524	3960
2003-04	203224	930036	4816	24984	5150
2004-05	203924	943664	4973	28474	4600

2005-06	204522	951318	5106	30874	5800
2006-07	191639	938684	5503	33273	9097
2007-08	167722	954769	5784	36438	6426
2008-09	162559	944241	5972	41897	8400
2009-10	160062	978932	6915	46357	9660
2010-11	152583	1002860	8265	50963	10458
2011-12	151977	1033553	9815	56184	12800

(Source: Annual Reports of SMEs in Punjab)

**Table 2:-** Percentage change in Units, Employment, Fixed investment Production and Export of SMEs in Punjab for the period 2000-01 to 2011-12

Year	Percentage change in Units(working)	Percentage change in Employments(NOs)	Percentage change in Fixed Investment( Crs)	Percentage change in production (rs. Crs)	Percentage change in Exports (Crs)
2001-02	0.5647971	01.2949483	-14.388723	10.99045	09.8056537
2002-03	0.3970536	01.188981	51.8289895	10.742908	59.2920354
2003-04	0.3391973	01.0824094	-27.4808011	10.921684	30.0505051
2004-05	0.3444475	01.4653196	03.2599668	13.96894	-10.6796117
2005-06	0.2932465	00.8110938	02.674442	08.428742	26.0869565
2006-07	1.898573	-01.3280522	07.7751665	07.770292	56.8448276
2007-08	1.24802362	01.7135692	05.1063057	09.512217	-29.3613279
2008-09	03.0783082	-01.1026751	03.2503458	14.981613	30.7189542
2009-10	1.5360576	03.6739561	15.790355	10.645154	0.15
2010-11	4.672544	02.4442964	19.5227766	09.935932	08.2608696
2011-12	0.3971609	03.0605468	18.753781	10.244687	22.3943393
Mean	183590.6667	950420.1667	6106.095	34219.33333	6758.416667
S.D.	22336.45169	38765.771	1589.318314	12381.98949	3321.142888

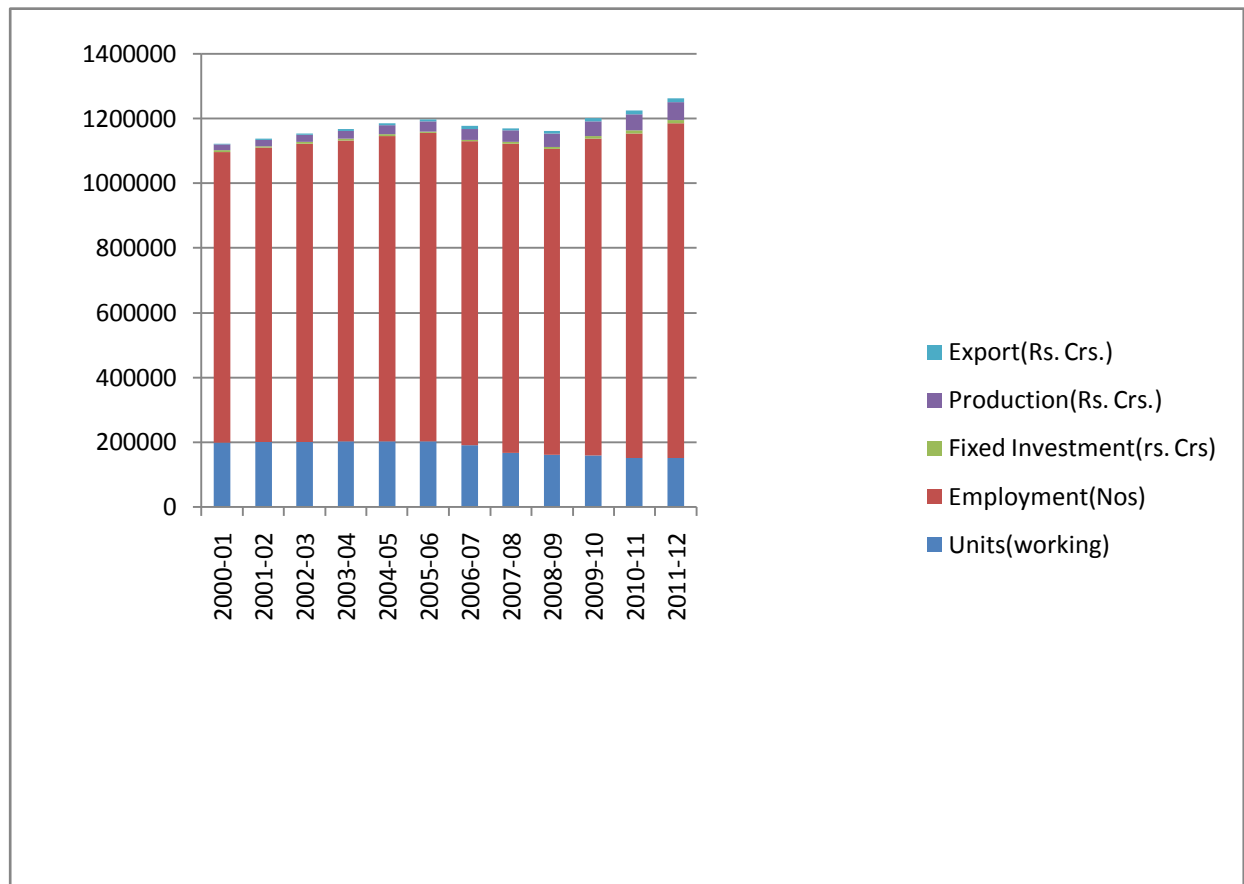
On the basis of data given in table 1, it has come out that number of units has increased from 200603 from 2001-02 to 204522 up till 2005-06. After that period there was a decline in the number of units, basically this decline was due to the change in the definition of this sector because before MSME act 2006, the units were known as SSI( Small Scale Industries) where investment limit was different.

As far as the number of employment is concerned there has been tremendous increase from 897642 to 1033553 from 2000 to 2012. There was a slight decline during the period 2006-07 and 2008-09 but after 2009 there has been a significant increase in the number of employment.

The amount of fixed investment has been almost double from 5109 to 9815 crores from 2000-2012. There has been a positive trend as far as the investment is concerned.

The level of production has increased in threefold from 18325 to 56154 crores from 2000-2012 which is very good indication for the economy of a nation and of a state. There has been also a positive trend as far as the production is concerned.

Export of MSME sector has shown a significant increase from 2264 to 12800 crores from the period 2000-2012. In percentage term increase is from 9.8% to 22.39% which is a healthy sign and contribute positively to the development of economy at a large scale. It has a significant contribution in the economic development of Punjab.



### Challenges Faced By MSMEs:

MSMEs are very important in the economic growth of India but this sector is not getting sufficient support from the concerned government Departments, banks, financial institutions and corporate. This proves hurdle in the growth path of the MSMEs.

- MSMEs faces a number of problems
- Absence of adequate and timely banking finance.
- Limited capital and knowledge, non-availability of suitable technology.
- Low production capacity.
- High cost of credit.
- Ineffective marketing strategy.
- Lack of skilled man power for manufacturing, services, marketing etc.
- Lack of access to global markets. h) Constraints on modernization of expansion
- Problems of storage, designing, packing and product display.

### Conclusion:-

In nutshell we can say that Micro, Small and Medium Enterprises (MSMEs) have emerged as an engine of growth in Indian economy specially Punjab. They have emerged as a vibrant and dynamic component of the economy by virtue of their significant contribution to GDP, industrial production and exports. However, the most important contribution of this sector is towards employment generation which is second only to agriculture in India. The experiences of recent years shows that employment in agriculture sector has been declining as well as large industries are also experiencing jobless growth. In such a situation, the main responsibility for job creation rests with unorganized sector including small and medium enterprises and the service sector. To face the competition in the long run and to be economically viable, the MSME sector needs to improve its productivity and quality, reduce costs

(given the higher qualities) and innovate. Government policy should promote MSMEs by helping them to increase their efficiency and competitiveness within a market driven economy. However it is essential on the part of the government to take careful decisions and honest policy implementation to overcome the problems of MSME sector. A technologically vibrant, internationally competitive small and medium industry should be encouraged to emerge, to make a sustainable contribution to national income, employment and exports. It is imperative to take care of MSME sector to enable it to take care of the Punjab economyadequate infrastructure facilities, including power, water.

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