

# Structural Support for Small Business in India

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## ABSTRACT

An issue gaining importance in literature is the need to develop entrepreneurial capabilities through a thriving small and medium-sized enterprise (SME) sector. However, it can be argued, that in order to successfully develop SMEs it is important to understand the specific barriers they encounter at initial and growth stages. Though there are a number of studies on SMEs, no systematic analysis has been conducted on the effects of different types of barriers to SMEs at initial and growth stages. In this paper, we study more than 50 SMEs. Our results indicate that more fundamental barriers related to legal issues are more characteristic of the initial stages while more specific constraints related to human resources and skill development characterize in the growth stage.

**Key Words:** Small and Medium Enterprises, Systematic Analysis, Business Barriers, Entrepreneurship Development, Concept and Growth Stages.

## INTRODUCTION

Entrepreneurship can take many forms and can be defined in many ways. In our paper we focus on entrepreneurship as it takes place in small and medium size enterprises (SMEs) since the two are often found to be closely related. SMEs are of special importance to India for a number of reasons. Firstly, they are able to provide economic benefits beyond the boundary of the individual enterprise in terms of experimentation, learning and adaptability. These characteristics are especially important in economy undergoing radical transformation. Secondly the SME sector was largely neglected and even discriminated against in the early transition period with emphasis placed on the rapid privatization of large scale enterprises and not the development of the SME sector. This has arguably resulted in less resources and attention being paid to the needs of SME development. In India if SMEs do not generate net new jobs, they reduce the erosion of human capital by providing alternative employment opportunities for relatively skilled yet unemployed workers.

In the last ten years, Indian government has introduced a number of policies aiming to promote entrepreneurship through SME development. The main impetuses for this 'intervention' are the specific constraints encountered by SMEs. It is argued that though the SME sector can be much more responsive and flexible to changes in the marketplace, it is also much less able to influence such developments. Limited access to finance, a low degree of professionalism, difficulties in recruiting qualified

personnel, dependency on clients and suppliers and the absence of economies of scale are identified as the core SME sector weaknesses and the main areas where SMEs may require special attention. In this respect, understanding the problems faced by SMEs in the specific context of transition could provide the necessary background to develop policies for SME support.

One of the most important findings in the SME literature is that context matters as it shapes not only the role of small firms but also their structure and performance. India has chosen different paths of development; they have all undergone a tremendous amount of economic and social change; an important aspect of which has been the development of a new private sector. In addition, the unprecedented degree of institutional change experienced by India has been largely moving in a similar direction: The switch from a system based on state planning and allocation of resources dictated by the government to a system characterized by decentralized market allocation. This system change necessitates substantial change in laws and regulations as well as norms and expectations.

Today, small and medium industry occupies a position of strategic importance in the Indian economic structure due to its significant contribution in terms of output, exports and employment. The small scale industry accounts for 40% of gross industrial value addition and 50% of total manufacturing exports. More than 3.2 million units are spread all over the country producing about 8000 items, from very basic to highly sophisticated products.

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