

# “Impact of Small Business Economic in India”

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**Abstract –** *The main objective of the study is to empirically evaluate the critical roles of small businesses in economic growth in India. A strong inverse relationship also exists between the incidences of small business economic growth. Thus, the empirical result establishes the linkage between small businesses, economic growth. Small businesses generate major economic activity in every industry sector, from construction and manufacturing to educational services and high technology. While their organizational structures vary widely, smaller companies often face similar challenges in a continually changing marketplace. These include finding and keeping skilled employees, controlling health care costs and other expenses, and meeting the competitive demands of an increasingly global economy.*

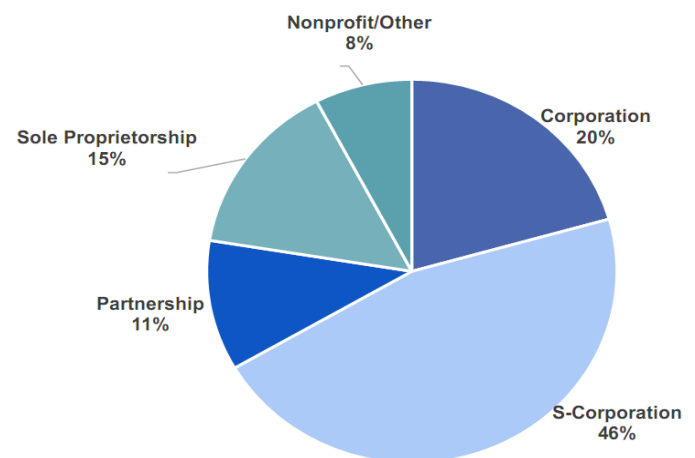
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## INTRODUCTION

A small business comprises a large majority of all employers and is a vital part of Indian economy. Overall, Indian small businesses generated \$954 billion in receipts in 2010, the latest figures available. They accounted for approximately 43 percent of all business receipts in the Indian State, nearly 3.9 million jobs and almost \$190 billion in payroll. Nation-wide, such businesses provided nearly 57 million jobs and had nearly \$12 trillion in receipts. Businesses with fewer than 500 employees provided 50.6 percent of all private-sector jobs in India, compared to just over 48 percent nationally.

Small businesses are often thought of in terms of sole proprietorships, such as the corner grocer or local hardware store with a single owner. Such companies are an important element of the economy, yet they are not the most common type of small business, accounting for 15 percent of such businesses nationwide (Dhar, 2011). S-corporations are the most dominant organizational structure, accounting for 46 percent of all Indian small businesses, as shown in Figure 1. While similar figures are not available at the state level, and Indian small-business sector also represents a varied mix of enterprises.



**Figure 1. Indian Small Business by Organizational Structure, 2010**

## REVIEW OF LITERATURE:

The number and economic impact of small businesses vary from year to year due to numerous factors, such as changes in demand for their products or increased costs of operations. For example, the financial market crisis of the last recession weakened the capital markets. With more limited access to bank loans and other financing, many existing small businesses were not able to obtain the necessary capital to make improvements to their operations or even to remain in operation. Start-ups or emerging entrepreneurial firms may find their existence

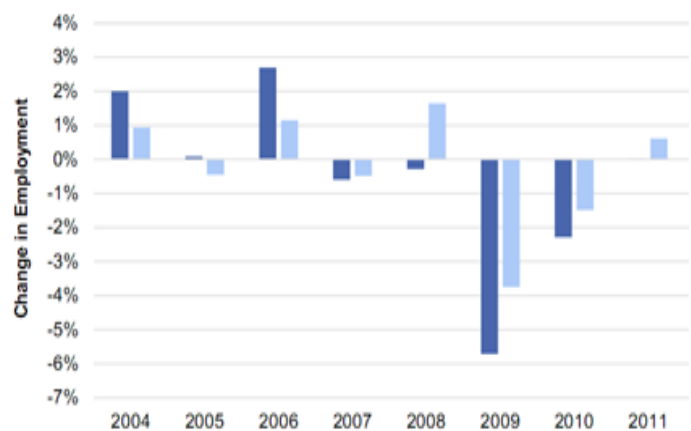
dependent upon the success of a particular product or service they have created, and thus may be especially susceptible to changing market conditions. In contrast, some businesses may simply outgrow their small business status as they achieve success in the marketplace.

In each of the four years before the last recession, the number of small businesses grew at a faster pace nationally than in India, as shown in Figure 2. However, while the Great Recession hurt small businesses at both the national and State levels, the decline in India was much smaller. Over 2008 and 2009, the number of small businesses declined by 1.1 percent in India, compared to almost 5 percent nationally.



**Figure 2. Annual Changes in Numbers of Small Businesses, India, 2004-2011**

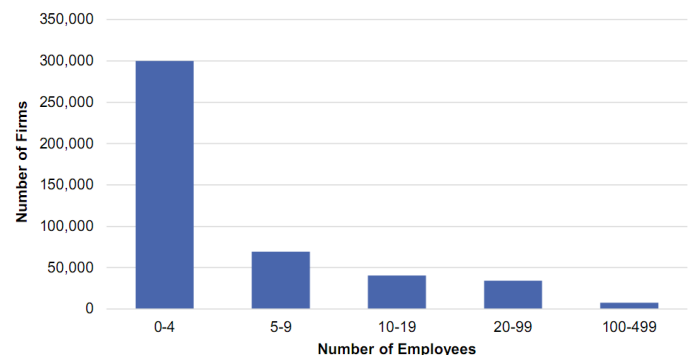
Even after the recession officially ended in June 2009, the Indian economy continued to lose small businesses. In contrast, India saw just two years of decline associated with the recession, with the number of small businesses exceeding prerecession levels by 2011. However, employment trends at these businesses were very different, especially in the years just before the recession, as illustrated in Figure 3. Small businesses, both nationally and in India (Mishra and Puri, 2010), started to shed jobs in 2007. While India realized a rebound in small business employment in 2008, it lost jobs in 2009 as the number of small businesses continued to decline. Similar to the change in the number of firms, the decline in small business employment in India was smaller over 2008 and 2009, with employment declining by 2.2 percent in India as compared to 6.0 percent nationally.



**Figure 3. Annual Changes in Small Business Employment, India, and 2004-2011**

### SMALL BUSINESSES IN INDIA:

Among the more than 455,000 businesses in India, over 451,000 are small businesses. In addition, there are over 1.6 million non-employer businesses in India, which are primarily self-employed individuals. Of the small businesses with paid employees in 2011, almost two-thirds had fewer than five employees, with over 80 percent having fewer than ten employees, as shown in Figure 4. These 369,000 microbusinesses provided nearly 943,000 jobs with total payroll close to \$40 billion. Businesses with fewer than 20 employees reported total employment of nearly 1.5 million, with total payroll of \$63.2 billion.



**Figure 4. Indian Small Business Firms by Number of Employees, 2011**

Overall, small businesses in India employed nearly 3.9 million workers in 2011, accounting for a little over half of all private sector employment in the State. In addition, these businesses had almost \$190 billion in payroll, approximately 41 percent of total payroll. Firms with 20 to 99 employees comprised approximately one-third of the total small business employment, over 1.2 million employees, as shown in Figure 5. The larger firms (those with 100 to 499 employees) had the highest average payroll per employee, nearly \$56,000 per year.

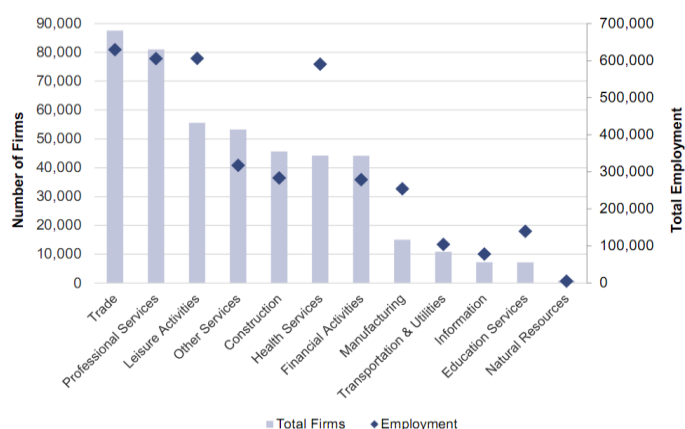


**Figure 5. Total Employees and Average Payroll by Firm Size in India, 2011**

### SMALL BUSINESSES BY INDUSTRY:

Small businesses exist in every industry sector, but are more prevalent in some sectors than in others. Over 90 percent of the small businesses in half of the industry sectors have less than 20 employees, and businesses of this size comprise at least three-quarters of the small businesses overall.

The sector with the highest percentage of small businesses with less than 20 employees is the Other Services sector, which includes such services as personal care, dry cleaning and laundry, and equipment repair. As shown in Figure 6, four sectors dominate Indian small business economy (Rudra Dutta and Sundaram, 2010) each providing more than half a million jobs: wholesale and retail trade; professional services; leisure activities; and health services.



**Figure 6. Small Businesses in India by Industry Sector, 2011**

### Key indicators of their contributions include:

- Small businesses in wholesale and retail trade provide more than 629,000 jobs and have an

annual payroll of over \$27 billion, averaging over \$44,000 per employee.

- Small companies in professional and business services, which include accounting, law, and architectural firms as well as those in research and development and computer design, employ over 605,000 workers. These small businesses have the highest total annual payroll of all sectors, over \$37 billion, and the second-highest payroll per employee, almost \$62,000.
- Small businesses in leisure activities employ more than 605,000, with total annual payroll of \$14.9 billion and average payroll of \$24,600. This industry includes restaurants and hotels, as well as museums and theaters.

### CONCLUSION:

This paper is intended to enhance understanding of the broad economic impact of smaller businesses in India. While Census data on such businesses are not readily available for years after 2011, statistics from the Economic Analysis and other sources indicate that growth in employment and other indicators of economic activity has continued into the current year. Small businesses generate major economic activity in every industry sector, from construction and manufacturing to educational services and high technology. While their organizational structures vary widely, smaller companies often face similar challenges in a continually changing marketplace. These include finding and keeping skilled employees, controlling health care costs and other expenses, and meeting the competitive demands of an increasingly global economy. Encompassing a large majority of enterprises and providing nearly half of private employment, small businesses drive economic growth and contribute to the quality of life in communities across India and the nation.

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