

# PERFORMANCE OF SELF EMPLOYMENT FOR THE DEVELOPMENT OF INDIAN SMALL INDUSTRIES

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## ABSTRACT

We examine the spatial-temporal dynamics of self-employment in India using geo additive models and pseudo panel techniques. We test the claim of Adigun and Owen (1999) that individuals invest in professional human capital and not in entrepreneurial human capital as an economy develops. The results suggest that in non-agriculture, higher education decreases the likelihood of individuals choosing self-employment over time; however, it has an opposite effect in agriculture. While increases in land possessed increase the likelihood of self-employment choice in agriculture, individuals with small land holdings are more likely to transition into self-employment in non-agriculture. Belonging to a backward class has a negative effect on self-employment choice in both sectors; however, the effect has increased in non-agriculture and remained stable in agriculture. The geo additive models suggest that the propensity to be self-employed has decreased across most spatial units, although there are few pockets where self-employment is rising again.

**Keywords:** SEMP, SUBE, SSSBE, NSIC, SSIDCs, NABARD, SIDBI, DICs, NSIC, GDP, SISIs.

## 1.1 INTRUCTION

The self-employment program provides a mean for Swedish unemployed to escape Un employment by setting up their own business. To be eligible for such grant it is required that the worker is registered as unemployed and the Labour Market Officials approve the proposed business plan. The self-employment program (hereafter the SEMP program) can be compared to subsidizing workers' initial spell of employment (SUBE programs), where in principle the programs differ only in the employer.

In the 1990's, the number, as well as the proportion, of unemployed workers who receive self-employment grants has increased drastically<sup>1</sup>. The increase reflects most likely change in the labour market policy rather than a shift in the preferences among the unemployed workers. For example, before 1993, the self-employment program was an alternative that was considered only after having participated in other programs. In 1993the self-employment program was given priority, a policy change that is likely to have raised the participation rate.

## 1.2 OBJECTIVES OF THE STUDY

After studying this paper, we will be able to:

- Define the term 'self-employment.
- Recognise the characteristics of self-employment.
- Explain the importance of self-employment.
- Enumerate the avenues of self-employment.
- Explain the meaning and characteristics of small business.
- Identify the different types of small businesses.
- Describe the importance and scope of small business in India.
- State the various policies of the Government for promotion of small business.
- Explain the various institutional supports provided to small business in India.

## 1.3 TYPES OF SMALL BUSINESS IN INDIA

In India we find different types of small business. They may be categorised on the basis investment in fixed capital in plant and machinery or on the basis of nature or place of operation. Following are some of the main types of small business.

(a) **Small-scale Industries:** A small-scale industrial unit is one in which fixed capital investment in plant and machinery does not exceed Rs. One crore. In case of certain export promotion units this investment ceiling can be raised up to Rs. 5 crores.

(b) **Tiny Industries:** A business unit whose total fixed capital investment in plant and machinery does not exceed Rs. 25 lakhs is called a tiny industry.

(c) **Ancillary Industrial Undertakings:** When a small-scale industry supplies not less than 50% of its production to another industry, it is called as ancillary industrial undertaking. The fixed capital investment limit of Rs. One crore also applies to it. If an ancillary unit is owned by some other business unit, it loses its status of small business.

(d) **Village Industries:** A unit that is located in rural area and whose fixed capital investment in

plant and machinery does not exceed Rs. 50, 000 per artisan or worker is termed as village industry.

(e) **Cottage Industries:** These are small manufacturing units producing simple products involving some specific art or skill like handicrafts, filigree etc. They use simple equipment's with indigenous technology for production. Cottage industries are carried on wholly or primarily with the help of members of the family either on a whole or part-time basis. These units are not defined by the ceiling of capital of investment.

(f) **Micro Business Enterprises:** The fixed capital investment of in plant and machinery of these enterprises does not exceed rupees one lakhs.

(g) **Small-scale Service and Business (Industry related) Enterprises (SSSBE):**

In these businesses the investment limit in fixed assets of plant and machinery does not exceed Rs. 10 lakhs. The main business enterprises included under this category are – Advertising agency, marketing consultancy, Typing centre, Photo copying centre (Xeroxing), Industrial testing laboratory, Auto repair and garages, laundry and dry cleaning, tailoring, STD/ISD booths, beauty parlour, crèches, etc.

(h) **Trading Units:** These are usually in the form of small retailers found in the market places.

## 1.4 INSTITUTIONAL SUPPORT TO SELF EMPLOYED SMALL BUSINESS

To start and run a business enterprise one requires various resources and facilities. These may be in the form of technical, financial, marketing or training support. Such support is provided by the Government by establishing different institutions or organisations from time to time. Let us now learn about some of such intuitions and their role in providing support.

### 1. National Small Industries Corporation Ltd.:

The National Small Industries Corporation Ltd. (NSIC) was set up in the year 1955 to promote and foster the growth of small industries in Karnataka. It provides wide range of promotional

services to small-scale industries. It provides machinery to small-scale industries under hire purchase schemes and also on lease basis. It helps in export marketing of the products of small-scale industries. It also helps in development and up gradation of technology and implementation of modernisation programme of small-scale industries.

**2. State Small Industries Development Corporations:** The State Small Industries Development Corporations (SSIDCs) are set up in various states of our country to cater to the developmental needs of small, tiny and village industries. Their main functions include procurement and distribution of scarce raw materials, supply of machinery on hire purchase basis, and providing marketing facilities for the products of small-scale industries.

**3. National Bank for Agriculture and Rural Development:** The National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 as an apex institution for financing agricultural and rural sectors. It provides financial assistance through Regional Rural banks and cooperative banks to agriculture, small-scale, cottage and village industries, handicrafts and other allied activities in rural areas.

**4. Small Industries Development Bank of Karnataka:** The Small Industries Development Bank of Karnataka (SIDBI) was set up in 1990 as a principal financial institution for promotion, financing and development of small-scale industrial enterprises. It acts as an apex institution for all banks providing credit facility to small-scale industries in our country.

**5. Small Industries Service Institutions:** The Small Industries Service Institutions (SISIs) are set up to provide consultancy and training to small enterprises. These institutions render technical support service and conduct entrepreneurship development programmes. They also provide trade and market information to small-scale industries.

**6. District Industries Centres:** For promotion of small industries in our countries District Industries Centres (DICs) are set up at district level. They conduct industrial potential survey keeping in view the availability of resources. Their main function includes implementation of various schemes of central and state governments. They appraise the worthiness of various proposals of the entrepreneurs to establish new units, guide them in choosing suitable machinery, equipment and raw materials.

### 1.5 IMPORTANCE OF SELF-EMPLOYMENT

Career is a way of making one's livelihood. Self-employment is also a career because one may employ oneself in business or in service activities and earn one's livelihood. With growing unemployment and lack of adequate job opportunities, self-employment has become very significant. Its importance can be enumerated as follows.

**1. Advantage of small business:** Small-scale business has several advantages over large-scale business. It can be easily started, and requires small amount of capital investment. The self-employment involving activities on a small-scale is a good alternative to large scale business which has brought various evils like environmental pollution, development of slums, exploitation of workers, and so on.

**2. Preference over wage employment:** In self-employment there is no limit of earnings as is the case with wage employment. In self-employment one can use one's talent for own benefit. The decisions can be taken quickly and conveniently. All these factors act as strong motivators for self-employment to be preferred over wage employment.

**3. Developing the spirit of entrepreneurship:** Entrepreneurship involves taking risks because the entrepreneur tries to innovate new products, new methods of production and marketing. Self-employment, on the other hand, involves either no risk or very little risk. But, as soon as the self-

employed person starts becoming innovative and takes steps to expand his business, he becomes an entrepreneur. Therefore, self-employment becomes a launching pad for entrepreneurship.

**4. Promotion of individualised services:** Self-employment may also take the form of providing individualised services like tailoring, repair work, dispensing of medicines etc. Such services are helpful in providing better consumer satisfaction. These can be easily started and run by individuals.

**5. Scope for creativity:** It provides opportunity for development of creativity and skills in art and crafts, leading to preservation of the cultural heritage of Karnataka. For example, we can see creative ideas reflected in handicrafts, handloom products, etc.

**6. Reducing the problem of unemployment:** Self-employment provides opportunities of gainful occupation to those who otherwise remain unemployed. Thus it reduces the problem of unemployment.

**7. A boon to under-privileged in respect of higher education:** Everyone may not be able to pursue higher education after Secondary or Senior Secondary examination due to one or the other reason. Such persons can start their career as self-employed in occupations that do not require higher education.

## 1.6 TRENDS IN SELF EMPLOYMENT

In the 1990s, it became fashionable among critics of the plan-led, mixed economy -based strategy to argue that it was this very strategy that was responsible for the slow rate of employment growth. It was suggested that export pessimism and an inward looking import substitution policy had discouraged employment-intensive export production and imposed high-cost capital-intensive production which had low linkage effects with the rest of the economy and did not lead to more use of labour. A concomitant of this argument, as noted above, was that the opening up the economy to more liberal external trade and foreign investment

would not only generate a higher rate of output growth but also automatically create a restructuring of production which would mean a significant increase in labour-intensive production and therefore also substantial increases in employment.

However, evidence yielded by the National Sample Surveys on Employment and Unemployment, indicated that at least by the end of the 1990s this expectation was not realised.<sup>5</sup> These surveys (conducted in 1983, 1987-88, 1993-94 and 1999-2000) revealed a sharp, and even startling, decrease in the rate of employment generation across both rural and urban areas during the 1990s. Indeed, so dramatic were the fall of work force participation and the slowdown in the rate of employment growth that they called into serious question the pattern of growth over this decade.

The rate of growth of employment, defined in terms of the Current Daily Status (which is a flow measure of the extent of jobs available) declined from 2.7 per cent per year in the period 1983-94 to only 1.07 per cent per year in 1994-2000 for all of India. This refers to all forms of employment – casual, part-time and self-employment. For permanent or secure jobs, the rate of increase was close to zero. In rural areas, the decline in all employment growth was even sharper, from 2.4 per cent in the 1983-94 period to less than 0.6 per cent over 1994-2000. This included all forms of employment, whether undertaken as the principal or subsidiary activity and for part of the day. This was well below the rate of growth of population. In both rural and urban areas, the absolute number of unemployed increased substantially, and the rate of unemployment went up as well.

The daily status unemployment rate in rural India as a whole increased from 5.63 per cent in 1993- 94 to 7.21 per cent in 1999-00, and was more than 15 per cent in some states. In addition to this, there was a sharp decline in the rate of growth of labour force. More people declared themselves to be not in the labour force, possibly driven to this by the shortage of jobs.

Even on the basis of Usual Status (as opposed to Current Daily Status) employment, there was a very significant deceleration for both rural and urban areas, with the annual rate of growth of rural employment falling to as low as 0.67 per cent over the period 1993-94 to 1999-2000. This was not only less than one-Third the rate of the previous period 1987-88 to 1993-94, but was also less than half the projected rate of growth of the labour force in the same period. Some of this was because of the decline in public spending on rural employment programmes since the mid-nineties. As a percentage of GDP, expenditure on both rural wage employment programmes and special programmes for rural development declined from the mid-1990s. The total central allocation for rural wage employment programmes was already only 0.4 per cent of GDP in 1995-06, but it declined further to a minuscule 0.13 per cent of GDP in 2000-01.

While aggregate employment growth (calculated at compound annual rates) in both rural and urban India was still slightly below the rates recorded in the period 1987-88 to 1993-94, it clearly recovered sharply from the deceleration of the 1993-94-1999-00 period.

The recovery was most marked in rural areas, where the earlier slowdown had been sharper. This in turn reflects an increase in labour force participation rates for both men and women, as evident from Table 3. This includes both those who are actively engaged in work and those who are unemployed but looking for work.

**Table: 1 Self Employment Growth In India**

Years	Rural Males	Rural Females	Urban Males	Urban Females
1993 To 1994	56.10	33	54.30	16.50
1999 To 2000	54	30.20	54.20	14.70

2004 To 2005	55.50	33.30	57	17.80
2011 To 2012	57.28	34.24	59.48	18.53

Source: NSSO "Employment and Unemployment Situation in India, various issues.

For rural males, labour force participation rates have recovered to the levels of the earlier decade, now and conform to broader historical norms. Similarly, rural females show labour force participation rates only slightly higher than in 1993-94. However, for both males and females in urban areas, the latest period indicates significant increases in labour force participation according to both usual status and current daily status definitions. One of the more interesting features that emerge from these data is the shift in the type of employment. There has been a significant decline in wage employment in general. While regular employment had been declining as a share of total usual status employment for some time now (except for urban women workers), wage employment had continued to grow in share because employment on casual contracts had been on the increase. But the latest survey round suggests that even casual employment has fallen in proportion to total employment.

For urban male workers, total wage employment is now the lowest that it has been in at least two decades, driven by declines in both regular and casual paid work. For women, in both rural and urban areas, the share of regular work has increased but that of casual employment has fallen so sharply that the aggregate share of wage employment has fallen. So there is clearly a real and increasing difficulty among the working population, of finding paid jobs, whether they are in the form of regular or casual contracts.

This in turn requires a significant rethinking of the way analysts and policy makers deal with the notion of “workers”. For example, how does one ensure decent conditions of work when the absence of a direct employer means that self-exploitation by workers in a competitive market is the greater danger? How do we assess and ensure “living wages” when wages are not received at all by such workers, who instead depend upon uncertain returns from various activities that are typically petty in nature? What are the possible forms of policy intervention to improve work conditions and strategies of worker mobilisation in this context.

Table 2 provides the details of which industry workers are engaged in. While as expected there has been a significant decline in agriculture as a share of rural employment, the share of manufacturing employment has not gone up commensurately for rural male workers. Instead, the more noteworthy shift for rural males has been to construction, with some increase in the share of trade, hotels and restaurants. For urban males, on the other hand, the share of trade, hotels and restaurants has actually declined, as it has for other services. Manufacturing is back to the shares of a decade ago, still accounting for less than a quarter of the urban male work force. The only consistent increases in shares have been in construction, and to a lesser extent transport and related activities. Interestingly, the big shift for urban women workers has been to manufacturing, the share of which has increased by more than 4 percentage points. A substantial part of this is in the form of self-employment. Other services continue to account for the largest proportion of women workers, but the share of trade hotels and restaurants has actually fallen compared to 1999-2000.

<b>Table 2: Employment Growth by Industry</b> [per cent of employment according to Usual Status (PS+SS)]			
	1990-2000	2004-2005	2011-2012

<b>Agriculture</b>			
Rural males	74.1	71.4	66.5
Rural females	86.2	85.4	83.3
Urban males	9	6.6	6.1
Urban females	24.7	17.7	18.1
<b>Manufacturing</b>			
Rural males	7	7.3	7.9
Rural females	7	7.6	8.4
Urban males	23.5	22.4	23.5
Urban females	24.1	24	28.2
<b>Construction</b>			
Rural males	3.2	4.5	6.8
Rural females	0.9	1.1	1.5
Urban males	6.9	8.7	9.2
Urban females	4.1	4.8	3.8
<b>Hotels &amp; Restaurants</b>			
Rural males	5.5	6.8	8.3
Rural females	2.1	2	2.5
Urban males	21.9	29.4	28
Urban females	10	16.9	12.2
<b>Transport, storage &amp; communications</b>			
Rural males	2.2	3.2	3.9
Rural females	0.1	0.1	2
Urban males	9.7	10.4	10.7
Urban females	1.3	1.8	1.4
<b>Other services</b>			
Rural males	7	6.1	5.9
Rural females	3.4	3.7	3.9
Urban males	26.4	21	20.8
Urban females	35	34.2	35.9

Source: NSSO “Employment and Unemployment Situation in India, various issues.

These activity rates, combined with projections of population growth from the Registrar General based on Census 2001, allow us to estimate the growth of employment by broad category over the period 1999-2000 to 2004-05 and compare it with the earlier period. The results are shown in Table 5. While there has been a slight recovery in the rate of growth of agricultural employment, this is

essentially because of a significant increase in self-employment on farms (dominantly by women workers) as wage employment in agriculture has actually fallen quite sharply. However, urban non-agricultural employment certainly appears to have accelerated in the latest period. In rural areas, this is the case for both self and wage employment, although the rate of increase has been more rapid for self-employment. In urban areas, the increase has been dominantly in self-employment. Such expansion would indeed be a sign of a positive and dynamic process if it is also associated with rising real wages, or at least not falling real wages. Therefore, in order to appreciate the nature of this new employment, it is important to examine the trends in real wages and remuneration for self-employment over this period.

**Table 3: Growth Rates of Self Employment**  
(Annual compound rates per cent)

	1999-2000 To 2004-2005	2004-2005 To 2011-2012
Agricultural Self-Employment	2.89	3.28
Agricultural Wage Employment	-3.18	-3.76
Total Agricultural Employment	0.83	0.92
Rural Non-Agricultural Self-Employment	5.72	7.24
Rural Non-Agricultural Wage Employment	3.79	3.96
Rural Total Non-Agricultural Employment	5.27	6.94
Urban Non-Agricultural Employment	4.08	4.79
Secondary Employment	4.64	5.76
Territory Employment	4.67	5.24
Total Non-Agricultural	4.66	6.38

Employment		
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Sources: NSSO "Employment and Unemployment Situation in India, various issues; and Census of India

### 1.7 CONCLUSION

This paper has used alternatives methods to analyze the interplay of entrepreneurship and the Cycle. Our results reject the pro-cyclicality of self-employment, but we found strong evidence on this relationship for a group of self-employed: employers with employees. Results are very robust to the different approaches considered and among the Growth rate since the concept of non-incorporated self-employment might be very close to the own-account workers data. The empirical results using traditional statistics show that self employment growth have a positive but small correlation with the Employment growth in individual sectors and also the self employment in different period growth. The most interesting and novel result emerges in relation to the two self-employment components: Relationships between employers and own-account workers with regard to GDP or unemployment present correlations with opposite signs. For this reason, it seems that the different behavior of each self-employment component with regard the business cycle, it should advice us about the convenience to consider separately their relationships with any kind of macroeconomic variable and therefore to rethink the entrepreneurship policies in terms of effectiveness depending on its objectives to make the development of small business with the support of Self Employed.

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