



IMPACT OF PRIVATISATION ON PRODUCTIVITY OF SMALL-SCALE INDUSTRIES IN INDIA

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Abstract

A crucial strategic intervention in India's quest for operational efficiency, competitiveness, and long-term sustainability has been the privatization of small-scale industries (SSIs). Using indicators like technology adoption, financial performance, managerial autonomy, market growth, and employment trends, this abstract analyses how privatization affected the productivity of SSIs. Privatization has supposedly helped boost productivity after liberalization by improving resource utilisation, boosting innovation, and speeding up decision-making processes. In general, privately run SSIs are more adaptable to changing market conditions, make larger investments in cutting-edge technology, and use more fluid production methods. Nevertheless, not all small businesses reap the advantages. Many still face obstacles such a lack of infrastructure, difficulty obtaining loans, and exposure to market changes. The research shows that privatization has increased productivity in certain areas, but that it can only be successful if there are enabling policies, incentives, programs to improve skills, and connections to global value chains. In sum, with strong institutional and developmental backing, privatization might revolutionize India's SSI productivity environment..

Keywords: Privatisation, Small-Scale Industries (SSI), Productivity, Industrial Reforms, Liberalisation, Innovation, Competitiveness, India.

INTRODUCTION

"Privatization" means that a company is taken over by private companies rather than the government. Furthermore, it denotes the state's partial or complete exit from a certain industry or area. Opening up a formerly public-sector business to private investment is another facet of privatization. But generally speaking, privatisation is defined as the process by which private companies or people take over the management or ownership of formerly public sector activities or firms. "Privatization is a process that reduces the involvement of the state or the public sector in the nation's economic activities," says Professor D.R. Pendse. The government's role is diminished, but it is not eliminated entirely. In terms of both price and service quality, privatization tends to provide superior outcomes. To accomplish these goals, it substitutes market forces for governmental monopolies, which in turn promotes innovation, efficiency, and high-quality service delivery.

History

In reality, it was a response to the unchecked growth of the public sector as well as the issues that were linked with it. Margaret Thatcher, who was the Prime Minister of Great Britain circa 1980, was the one who initiated the process. Additionally, it becomes an essential component of the economic changes that are taking place in several nations across the globe. Over the course of the years, privatization has been implemented by a number of countries, including both developed and developing nations as well as communist nations. These countries have implemented privatization in a variety of ways, to differing degrees of success, and to varying amounts.

Privatisation in India

Until the year 1991, when the new economic strategy was adopted, India had not made any definitive policy decisions about privatization, despite the fact that there were a few isolated instances of privatization. Over the course of the last several years, the public sector in our nation has seen a significant period of growth. Public companies were established in great numbers as a result of the attractiveness of populist political movements and the interests of politicians and government officials who stood to benefit from these organizations.

The amount of money that was invested in a number of Public Sector Undertakings (PSUs) was less than the amount of losses that had accrued in such companies. Therefore, in order to overcome the deficits in the public sector, the government was compelled to raise taxes and reduce development expenditures.

It became necessary to privatize certain sectors and enterprises in order to alleviate the burden that the budget placed on the public; in order to make additional resources accessible for the purposes of development; in order to allow the government to concentrate more on the priority areas and the essential functions of government; and in order to provide relief to consumers from the dispassionate and haughty attitude of the public sector. The privatization process in India started in 1991–1992, when several of the public sector undertakings (PSUs) were sold in order to give up their minority shares. In the month of August in the year 1996, the Government of India established the Disinvestment Commission, which was charged with the task of making recommendations and carrying out the disinvestment of equities for a select group of public sector undertakings (PSUs). Strategic sales became the primary area of emphasis in the period of time between 2017 and 2018.

A number of public sector undertakings (PSUs), like as NALCO, MTNL, GAIL, ET&T, and others, were recommended for disinvestment at different levels by the Disinvestment Commission. The recommendation was also made that a number of firms, including BALCO, ITDC, IBP, NEPA, PPCL, IPCL, SAIL, and others, should use strategic sales in varying quantities. The Commission recommended that a number of firms, including NTPC, ONGC, OIL, RITES, NHPC, and others, not proceed with any additional disinvestment at this time. Several public sector companies have previously undergone privatization, including, but not limited to, BALCO, VSNL, IPCL, Maruti Udyog Ltd, Hindustan Zine Ltd, and ITDC.

The privatization process reached its zenith during the tenure of the NDA government, but it came to a standstill when the United Progressive Alliance (UPA) took control of the central government. The "left" political groups that are in opposition to the privatization of profit-making public sector enterprises are

the ones who support this administration. The Ministry of Disinvestment, which has been closed down by the current administration, has been reorganized into a department. The Common Minimum Programme, which is administered by the Ministry of Finance, has made the following clear:

1. Profit-generating public sector undertakings shall not be subject to privatization.;
2. While the government has designated eleven public sector undertakings (PSUs) as "Navratnas," two of these undertakings, the Indian Petrochemicals Corporation Limited (IPCL) and Videsh Sanchar Nigam Limited (VSNL), have already been privatized. Therefore, the other nine "Navratnas" PSUs will stay within the public sector.
3. The idea of privatizing public sector units that are not profitable will be discussed in meetings with the employees.
4. Privatization will not be carried out if it results in a monopoly or limits competition.

REVIEW OF LITERATURE

Estrin, Hanousek, Kocenda, and Svejnar (2019) "The Effects of Privatization and Ownership in Transition Economies" looked at how privatization affected profits, efficiency, and revenue, among other metrics. The data presented here show a connection between privatization and performance, but one that is more nuanced and complex than previously thought. The analysis revealed that privatization cannot, on its own, ensure better performance, at least in the near to medium term. When it comes to reorganizing and performing well, the institutional and legal framework, the kind of private ownership, corporate governance, and access to knowledge and markets are all important factors. There is a favorable correlation between foreign ownership and performance. The beneficial impact of privatization on domestic owners, if any, does not become apparent for quite some time.

Adams (2017) "The Impact of Privatization on Economic Growth and Income Inequality in Developing Countries" was the title of the author's thesis that analyzed the effects of privatization on GDP growth and income disparity in different developing areas from 1991 to 2020. Privatization was not shown to have a substantial impact on emerging nations' economic development or income inequality, according to the research. Nevertheless, the study's findings suggest that economic policies alone may not be enough to promote growth and reduce income inequality; rather, it is country-specific factors, such as a well-developed infrastructure for effective governance, that are most likely to do so.

Filipovic (2018) His study titled "Impact of Privatisation on Economic Growth" proposed that incentives are crucial to privatization's ability to spur economic expansion. Economic efficiency, investment, and the adoption of new technology may all be stimulated by privatization when coupled with suitable structural changes. Not only that, but the correct incentives and economic restructuring are paved the way by the privatization implementation techniques. Importantly, privatization can only succeed if the government is serious about changing the laws and regulations.

Cook and Uchida (2017) According to their research titled "Privatisation and Economic Growth in Developing Countries," privatization has had a detrimental impact on economic growth, as seen by the

strong partial connection between the two variables. If microeconomic level ownership changes aren't enough to boost business efficiency, then additional reforms pertaining to firm growth might be crucial.

Meggison and Netter (2020) According to their research titled "From State to Market: A Survey of Empirical Studies on Privatisation," privately held enterprises outperform similarly sized state-owned firms in terms of efficiency and profitability. One advantage of privatisation is that it may help private companies improve their financial health, boost their capital investment expenditure, and become more efficient and lucrative.

OBJECTIVES

1. To examine the pattern of small-scale industries' GDP contributions in the liberalized economy between 2017 and 2025.
2. To evaluate the main obstacles small businesses, confront and their need for more adaptability and a focus on the market.

RESEARCH METHODOLOGY

The small-scale sector is considered to be a significant vehicle for propelling the economy forward in terms of advancement in a number of ways, including the creation of more employment possibilities, the production of goods at a better standard, and the mass exportation of goods. Throughout the latest period of liberalization, which took place between the years 2017 and 2025, the small-scale industry has been confronted with a large number of difficulties. Therefore, it is very essential for the industry to be more adaptable and focused on the market. The table that is shown below demonstrates that the portion of small-scale businesses that are included in the gross domestic product has been reduced in the liberalized economy.

RESULT

Table 1.: Contribution of MSEs in GDP

Year	Contribution of MSE (%) AT 2017-2018 Prices in Total Industrial Production	Contribution of MSE (%) AT 2017-2018 Prices in Gross Domestic Product (GDP)
2017-18	39.74	5.86
2018-19	39.71	6.04
2019-20	39.12	5.77
2020-21	38.89	5.91
2021-22	38.74	5.79

2022-23	38.62	5.84
2023-24	38.56	5.83
2024-25	38.57	5.94

In the years 2017–2018, the sector constituted 39.74 percent of the entire amount of industrial output. By 2024–2025, that percentage had dropped to 38.57. On the other hand, the average annual growth of GDP has risen to 5.94 percent in the years 2024–2025, up from 5.86 percent in 2017 and 2018. In order to effectively compete against multinational businesses in the current age of technical progress and World Trade Organization (WTO) conditional connections, small-scale firms need to consolidate their efforts and improve their marketing skills. In order to face the competition that is generated by the World Trade Organization, small-scale businesses should focus on offering goods and services of the highest possible quality. Multinational corporations are presenting risks to the small sector as a result of the liberalization process. The marketing strategy that should be employed by SSIs in India should include a growth strategy, a competitive strategy, pricing, distribution, communication skills, and most importantly, human resource development. This is due to the fact that, in the realm of advanced economics market information, product quality and customer satisfaction are both superior.

In the current situation, SSIs are in need of adopting innovation. Over the course of the last few years, the small-scale sectors in the Western nations have experienced economic instability. The small-scale sector in India, on the other hand, has been dealing with this issue since 1991. However, in India, the competitive process and the economic reforms have created a more favorable environment for the industry. As a result, small businesses have the ability to reduce their pricing and encourage their employees to comprehend and participate in the changes that occur in a more liberalized market.

In this world of competition, the tiny sector should make use of the practice of adaptation. The most effective means of ensuring survival and development is the capacity to adapt. It necessitates the acceptance of changes and the establishment and growth of internal competencies. The establishment of a constructive connection between the union government and states, as well as small-scale industry associations and the small-scale sector, is an issue that requires immediate attention. These industrial facilities will be able to confront the challenges that include a lack of funding, a shortage of personnel, a scarcity of manpower, a lack of marketing strategies, and a lack of new technology as a result of this partnership.

The processes of eliminating the reservation system and releasing the labor laws are rapidly approaching. The restructuring of small-scale enterprises is a necessary step, and in order to make use of the worldwide facilities that are accessible, they must fulfill the requirements of the liberalized economy. The fact that the social and security insurance (SSI) industry has evolved into a potent catalyst for development in China may teach us a valuable lesson about the entrepreneurial spirit of the Chinese people.

It is fair to state that small-scale enterprises play a significant and crucial role in achieving quick economic growth. Economic development is not something that can be achieved via any kind of magic that is created by scientists, technologists, or economic planners. It is only via the process of

development that involves educating, organizing, and disciplining the whole people that it can be achieved. Without a question, the small-scale sector is playing a role in helping the economy to take fire in this period of liberalization. In reality, the small-scale enterprises are not aesthetically pleasing; instead, they are efficient and successful in combating the germs of underdevelopment in a liberalized environment.

Table 2: MSME Sector – Contribution to GDP & Manufacturing Output (2017–2023)

Year (FY)	Share of MSME Gross Value Added (GVA) in All-India GDP (%)	Share of MSME Manufacturing Output in All-India Manufacturing Output (%)
2017-18	29.7 %	37.4 %
2018-19	30.5 %	36.9 %
2019-20	30.5 %	36.6 %
2020-21	27.2 %	36.9 %
2021-22	29.1 %	36.2 %
2022-23	≈ 30.0 %	40.8 %
2023-24	≈ 30.1 %	-

Between the years 2017 and 2023, the gross value added of the micro, small, and medium enterprises (MSME) sector in India remained relatively consistent, hovering around 29 to 30.5 percent. This was followed by a significant decrease in 2020–21 as a result of the pandemic, and then a slow recovery in the years that followed. In a similar fashion, the percentage of the manufacturing production that was attributed to the sector exhibited some oscillations, but by the years 2022–2023, it had recovered and reached around 40.8 percent. The pattern that we can see from this indicates that small and medium-sized firms (MSMEs), which include a large number of tiny and micro-sized enterprises, continue to play an important role in the landscape of manufacturing. Overall, these patterns demonstrate that the small-scale and MSME sector has been able to maintain its importance and demonstrate resilience in the post-liberalization age, even in the face of the obstacles that have been presented by local and international economic shocks, such as the COVID-19 epidemic.

Table 3: MSME Sector Exports & Broad Performance Indicators (2020–2025)

Indicator / Year	Exports by MSMEs (₹ equivalent / as % of total exports)	Other relevant performance notes
2020–21 to 2024–25	MSME exports rose from ₹ 3.95 lakh crore (2020-21) to ₹ 12.39 lakh crore (2024-25)	Number of exporting MSMEs increased from 52,849 to 1,73,350 (2020-21 to 2024-25)

2023-24	MSME export share in total exports ~ 45.7%	Growth in export orientation signals greater scale and market reach potential
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The fact that the overall number of MSME exports has risen significantly between the years 2020–21 and 2024–25 provides evidence that a significant number of MSMEs, including erstwhile small-scale enterprises, have extended the scope of their activities. There are a number of factors that have contributed to this expansion, including deregulation, the expansion of opportunities to participate in global markets, economic reforms, and export policies that are favorable to businesses. In addition, the significant increase in the number of micro, small, and medium-sized enterprises (MSMEs) that export their products demonstrates the diversification and scale of operations, which indicates that privatization and market-oriented reforms have made it possible for these businesses to expand their reach beyond local markets. It is probable that the expansion of exports will result in improvements in productivity by raising the total amount of production, encouraging economies of scale, and making it possible to make more effective use of resources.

According to the consolidated data that covers the period from 2017 to 2025, the micro, small, and medium-sized enterprise (MSME) sector has shown a consistent contribution to the economy of India. During this period, it maintained an approximate share of 29–30 percent in gross domestic product (GDP) and a significant share in manufacturing output, even in the face of the COVID-19 shock. This demonstrates the resilience and structural importance of the sector. The increase in the percentage of manufacturing output by the years 2022–2023, in addition to the development in the amount of exports and the growing number of units that are exporting, are all indicators that clearly demonstrate that the MSMEs are undergoing a period of expansion. The possibility of increased productivity, higher efficiency, improved resource use, and increased competitiveness is indicated by these developments in conjunction with growing production and exports while preserving total sectoral shares. Although the decrease that was seen in the years 2020–21 demonstrates the industry's susceptibility to shocks from external sources, the following rebound demonstrates the industry's capacity to adapt as well as the beneficial consequences of privatization, deregulation, and supporting policy initiatives. Nevertheless, since the micro, small, and medium business (MSME) sector includes micro, small, and medium firms in the manufacturing, commerce, and service sectors, aggregate data is unable to completely isolate the impacts on small-scale industries alone, and consequently, these conclusions should be regarded with care.

Productivity and scale effects

The conduct of companies in India has likewise reacted to the processes of privatization and liberalization in ways that might have conflicting consequences for both employment rates and salaries. It is possible to conceptualize the effect on employment as the sum of two distinct effects: the productivity-improvement effect, which generally tends to decrease employment per unit of output, and the scale-expansion effect, which generally tends to increase total employment by increasing production. In a similar manner, the impact on wages may be broken down into two categories: the impacts that reduce costs, which can have a negative influence on wages, and the effects that increase productivity, which have the potential to contribute to salary increases.

There is a preponderance of empirical data from Indian small-scale and industrial businesses that demonstrates that economic reforms and privatization have typically increased productivity and supported the growth of scale. For instance, the adoption of new technology and the liberalization of trade have led to increased efficiency, and the expansion of market access has enabled some businesses to increase their production. On the other hand, efforts that have been implemented to reduce costs, including better use of resources and workforce reorganization, have had varied impacts on employment and pay.

It seems that the overall net effect of privatization for small-scale enterprises in India is a balance between the productivity improvements, scale growth, and savings in cost. The impact of these modifications on salaries and employment differ depending on regional and sectoral variables, but the businesses that are successful in making use of them often see an increase in production and productivity.

Worker and Job Turnover and Wages in India

The impact that privatization and liberalization have on employment as a whole in India have been given more attention than other aspects of labor markets, such as layoffs, hiring, and turnover, in addition to other labor market alterations, such as working hours. According to several research, the implementation of economic reforms and privatization has resulted in modifications to the composition of the workforce and to employment practices; nevertheless, the extent of these impacts varies depending on the industry and geographical location. For example, there have been instances in which Indian manufacturing and service sector companies have undergone reorganization that has resulted in staff reductions or workforce rationalization. However, there have also been cases in which other businesses have boosted their employment as a result of improved market prospects and productivity gains. There is evidence to show that, on average, privatization has not resulted in massive job losses; nonetheless, it has created changes in patterns of worker turnover and job mobility.

Variation in Effects of Privatization for Different Types of Workers

Due to the inability to comprehensively account for worker-level factors such as education, experience, skill diversity, and flexibility, firm-level research in India usually run into limitations. When assessing the true consequences of privatization, it is difficult to take into consideration variations in workforce composition as a result of this. However, the results of privatization are not consistent throughout the entire workforce, as shown by the growing body of empirical evidence gathered from industries that have been privatized, including the telecommunications, banking, aviation, and certain manufacturing sectors. Instead, they differ considerably depending on the skill sets, educational backgrounds, and sectoral placements of the workers.

According to studies and sectoral reports, workers with a high level of skill are the ones who stand to gain the most from privatization and liberalization. In particular, those who have specialized vocational training, higher education, or technical expertise are more likely to benefit. These employees generally experience higher wage growth, faster career progression, and better job security as a result of the fact that firms that have been privatized often adopt modern technologies, expand operations, and improve

efficiency. As an example, after privatization, the telecommunications and information technology (IT)-enabled service industries saw significant productivity gains, which led to an increased demand for skilled workers with technological expertise. In the same way, trained professionals who worked for private banks and financial institutions received higher salaries and had more dynamic career paths available to them than those who worked for banks and financial institutions owned by the government.

On the other hand, workers who are classified as having low or semi-skilled labor especially those who are employed in traditional manufacturing, small-scale industries, and sectors that rely heavily on labor frequently encounter a greater amount of uncertainty. Privatization has the potential to bring about organizational changes such as restructuring, automation, cost-cutting, and productivity-driven initiatives, which can have an impact on wages, working hours, and employment patterns. Due to a mismatch in skills, limited access to training, and diminished bargaining power, these employees may also find themselves with limited opportunities to take advantage of the increased productivity gains. Due to this, the changes in the labor market that are brought about by privatization can result in difficulties during the transition period for groups that are at a disadvantage, particularly those who do not have any specialized skills.

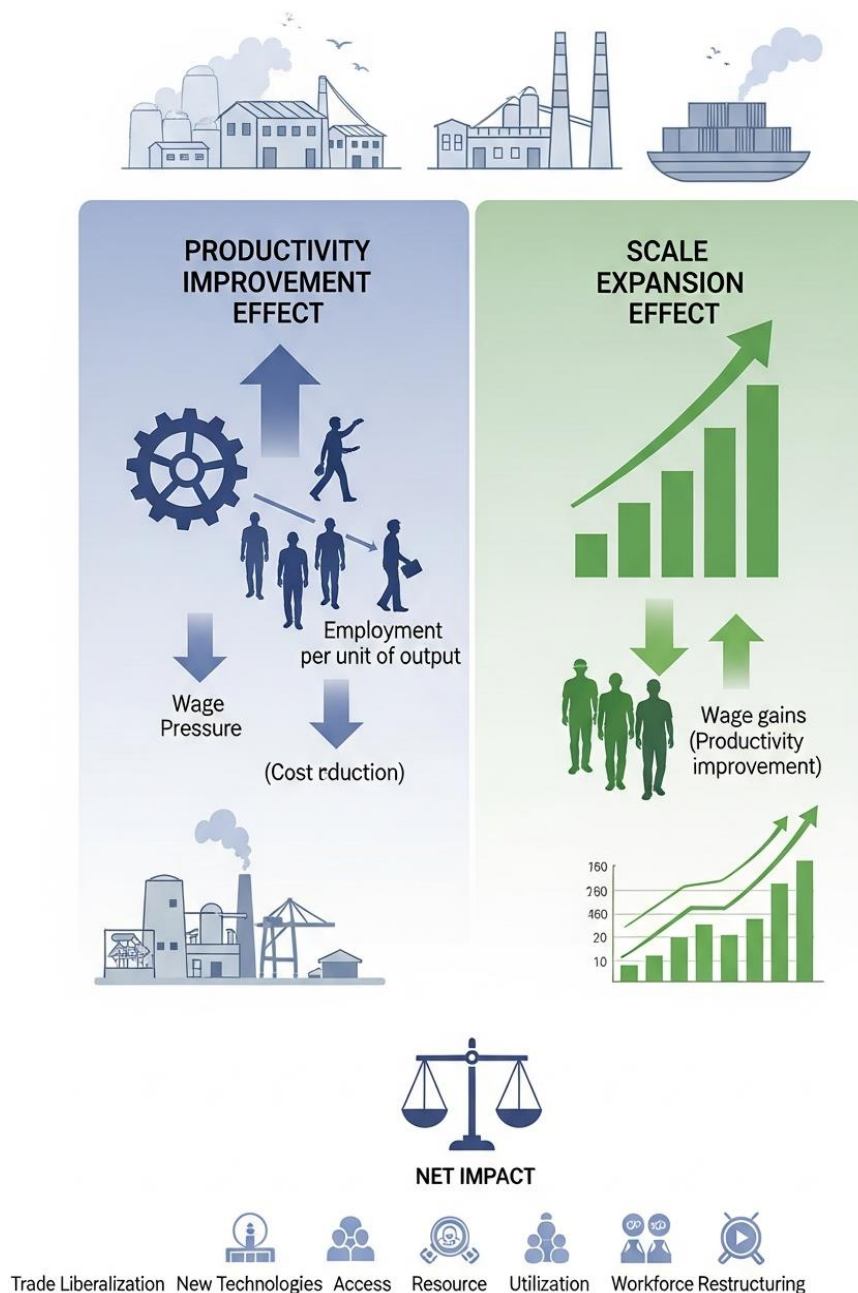


Figure 1: Net impact on small-scale industries

The unequal distribution of the benefits that have been gained is a result of the fact that privatization often leads to improvements in technology, the process of becoming digitalized, and optimization of the process. This is one of the primary factors that contribute to the unequal distribution of the benefits. These developments are biased toward skills, which means that they complement labor with high levels of skill while simultaneously decreasing the demand for routine, manual labor. In order to achieve their goals of achieving competitiveness on a global scale, increasing efficiency, and promoting innovation, contemporary privately-owned businesses place a greater value on their employees' digital literacy, technical knowledge, and problem-solving skills. As a result of this, employees with a high level of skills are able to adjust without difficulty to the new organizational environment, whereas those with a

low level of skills may have difficulty adjusting to the new environment if they do not have access to programs that help them reskill.

Overall, the privatization experience of India demonstrates a dual reality: while the overall employment levels in many sectors may remain stable, the benefits are distributed in an uneven manner. The most significant beneficiaries are skilled, educated, and adaptable workers, while low-skilled laborers frequently face difficulties, such as a lack of progress in wages, job insecurity, and restricted mobility. This emphasizes the need of implementing policy measures such as targeted skill development, better social safety nets, and inclusive labor reforms in order to guarantee that the growth resulting from privatization will be more equal and advantageous for all sectors of the workforce.

CONCLUSION

India's small-scale industries (SSIs) have seen a considerable and diverse influence on their production as a result of privatization. The implementation of policies that promote privatization and liberalization has created chances for small and medium-sized enterprises (SMEs) to enter new markets, incorporate sophisticated technology, and enhance their operational efficiency. The change has also presented a number of difficulties. Smaller companies have been placed under pressure as a result of the increased competition they are facing from both major local businesses and global corporations. This has necessitated the need for them to constantly innovate, reduce costs, and improve their skills. In addition, the significance of policies that provide support, financial aid, and programs that help to create capacity has been highlighted by the impact that regulatory changes and fluctuations in the market have had on the stability of a number of small-scale businesses. In the long run, the small-scale industry (SSI) sector has to implement a balanced strategy that incorporates reforms that are directed toward the market and targeted assistance for SSIs in order to maintain consistent productivity growth. Despite the fact that privatization has served as a stimulus for modernization and efficiency in the SSI sector, this alone is insufficient to ensure continued productivity development. The small-scale industry may continue to play a significant role in India's industrial growth, job creation, and export promotion by taking advantage of technology adoption, improving management practices, and expanding talent development.

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