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IMPACT OF SMALL BUSINESSES TOWARDS GDP

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ABSTRACT

Small businesses are crucial to a nation's economic growth, as they contribute to the Gross Domestic Product (GDP), create jobs, and foster industrial expansion. This research explores the effects of small businesses on GDP, emphasizing their performance, role in employment, and the impact of government policies. The study utilizes both primary and secondary data sources. Primary data was gathered from 25 small business participants through a structured questionnaire and analyzed using statistical methods such as descriptive statistics, frequency analysis, and independent sample t-tests via SPSS. Secondary data was sourced from official documents, including MSME reports and government publications. The results indicate that small businesses have a moderate impact on GDP growth and are vital for generating employment. The statistical analysis shows a significant link between the growth of small businesses and GDP, leading to the rejection of the null hypothesis. Additionally, secondary data confirms that MSMEs consistently contribute approximately 30% to India's GDP and provide substantial employment opportunities. Although small businesses play a crucial role, they encounter obstacles like the complexity of GST, insufficient government backing, and limited resources. The research suggests that with better policies, increased financial aid, and improved operational conditions, small businesses can greatly enhance their impact on economic growth and national development.

KEYWORDS: Small Businesses, MSMEs, GDP, Economic Growth, Employment Generation, Government Policies.

INTRODUCTION

Small businesses are vital to a country's economic progress, particularly in developing nations like India. These businesses make substantial contributions to the Gross Domestic Product (GDP), job creation, and industrial expansion. The Micro, Small, and Medium Enterprises (MSME) sector serves as the economic backbone by fostering entrepreneurship, innovation, and regional growth. In recent times, the significance of small businesses has grown due to their capacity to generate employment and bolster economic resilience, especially during tough times like the COVID-19 pandemic. Government initiatives, policies, and financial support have further bolstered this sector. Understanding the link between small business growth and GDP is crucial for assessing their impact on national development. This study aims to examine how small businesses affect GDP, their role in job creation, and the obstacles they encounter in effectively contributing to economic growth.

REVIEW OF LITERATURE

George and Karunakaran (2025) examined policy impact and concluded that government initiatives strengthen MSME export performance. Dogra and Kimta (2025) found a strong relationship between MSME output, exports, and GDP growth. Mohite and Chourasiya (2025) analyzed growth models and reported that both internal and external factors influence MSME

performance. Manikandan and Sengottuvel (2025) found that profitability of SMEs depends on financial and operational efficiency. Raj et al. (2025) highlighted that MSMEs contribute significantly to GDP, manufacturing output, and exports. Recent policy reports (2025) indicate that improving credit access and simplifying regulations can enhance MSME growth. Bhalla et al. (2024) examined that a significant increase has been observed in the MSMEs' export, revenue generation and gross domestic product in the post-GST era. The findings may aid the emerging economies that are planning to alter tax systems to boost the MSME sector at the international level. Kumar (2024) studied MSME contribution and confirmed that small businesses contribute nearly 30% to India's GDP. Iyer and Raj (2024) found that government support programs positively influence MSME growth and innovation. Thomas (2024) analyzed post-pandemic recovery and found that MSMEs showed resilience despite economic disruptions.

Martin and Krishnasamy (2024) reported that MSMEs play a major role in employment generation and regional development. Kaur and Singh (2023) studied export performance and observed that MSMEs significantly contribute to international trade growth. Mehta (2023) found that infrastructure limitations hinder the productivity and scalability of small businesses. Reddy (2023) analyzed financial performance and reported that liquidity management plays a crucial role in SME sustainability. Sharma (2021) studied digital adoption and found that technology usage improves efficiency and competitiveness of small businesses. Verma (2022) analyzed government schemes and concluded that awareness and accessibility remain major challenges for MSMEs. Patel and Desai (2022) found that GST implementation has increased compliance burden for small businesses, affecting profitability. Rao (2022) examined employment trends and highlighted that MSMEs are key contributors to job creation in developing economies. Gautam (2021) analyzed MSME growth determinants and found that policy gaps, financial constraints, and inefficiencies affect business performance. Singh and Kumar (2021) examined MSME financing and reported that limited access to credit restricts business expansion and productivity.

RESEARCH METHODOLOGY

This study is based on both primary and secondary data.

Primary Data

Primary data was collected using a structured questionnaire from 25 respondents involved in small businesses. The data includes opinions on business performance, GDP contribution, employment generation, government support, GST impact, and availability of raw materials.

Sampling Technique

A convenience sampling method was used to collect responses due to accessibility and time constraints.

Tools for Analysis

The collected data was analyzed using SPSS software, applying:

- Descriptive Statistics (Mean, Standard Deviation)
- Frequency Analysis (Gender, Age)
- Independent Sample T-Test (to test hypothesis)

Secondary Data

Secondary data was collected from government reports (MSME Ministry, PIB), Udyam Portal, and published statistics, focusing on GDP contribution, employment, and sector performance.

OBJECTIVES

1. To examine the contribution of small businesses to the growth of Gross Domestic Product (GDP).
2. To analyze the role of small businesses in employment generation and its indirect impact on GDP.
3. To study the relationship between small business development and national economic growth.
4. To identify the major challenges faced by small businesses that limit their contribution to GDP and to assess the role of government support policies.

HYPOTHESES

H₀: There is no significant relationship between the growth of small businesses and Gross Domestic Product (GDP).

H₁: There is a significant relationship between the growth of small businesses and Gross Domestic Product (GDP).

DATA ANALYSIS

Primary Data Analysis:

Descriptives

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Overall business performance	25	1	4	1.52	.918
Small businesses play a significant role in GDP growth	25	1	4	2.40	.913
Employment generated by my business contributes to economic growth	25	1	5	2.64	1.287
Government policies and support schemes help my business growth	25	1	3	2.16	.800
GST procedures affect the profitability of small businesses	25	1	4	1.96	1.060
Availability of raw materials influences business growth and GDP contribution	25	1	4	2.16	1.028
Valid N (list wise)	25				

Source: Primary data

The descriptive statistics presented in the table provide an overview of respondents’ perceptions regarding the role of small businesses in GDP growth and economic development.

The mean value for **overall business performance** is **1.52** with a standard deviation of **0.918**, indicating that most respondents perceive their business performance to be at a moderate level with slight variation among responses.

The statement “**small businesses play a significant role in GDP growth**” has a mean score of **2.40** and a standard deviation of **0.913**, suggesting that respondents generally agree that small businesses contribute to GDP, though the level of agreement varies moderately.

Regarding **employment generation**, the mean score is **2.64** with a relatively higher standard deviation of **1.287**, indicating that respondents acknowledge the role of employment in economic growth, but opinions differ considerably among them.

The mean value for **government policies and support schemes** is **2.16** (SD = **0.800**), which reflects a moderate level of agreement that government support contributes to business growth, with relatively less variation in responses.

The statement “**GST procedures affect the profitability of small businesses**” shows a mean of **1.96** and a standard deviation of **1.060**, indicating that respondents somewhat agree that GST has an impact on profitability, though responses are slightly dispersed.

Finally, **availability of raw materials** has a mean score of **2.16** with a standard deviation of **1.028**, suggesting that respondents moderately agree that raw materials influence business growth and indirectly GDP contribution.

Frequency Table

Table 2
Gender of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	13	52.0	52.0	52.0
Female	12	48.0	48.0	100.0
Total	25	100.0	100.0	

Source: Primary data

The frequency analysis shows that out of the total 25 respondents, 13 respondents (52%) are male and 12 respondents (48%) are female.

This indicates that the sample is almost equally distributed between male and female respondents, ensuring a balanced representation of gender in the study. Hence, the responses collected are not biased toward a particular gender group.

Table 3
Age of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 18 - 25	13	52.0	52.0	52.0
26 - 35	7	28.0	28.0	80.0
36 - 45	4	16.0	16.0	96.0
46 and above	1	4.0	4.0	100.0
Total	25	100.0	100.0	

Source: Primary data

The age-wise distribution of respondents reveals that the majority belong to the younger age group.

- 18–25 years: 13 respondents (52%)
- 26–35 years: 7 respondents (28%)
- 36–45 years: 4 respondents (16%)
- 46 and above: 1 respondent (4%)

This clearly indicates that more than half of the respondents are aged between 18–25 years, showing that the study is largely influenced by younger individuals.

T-Test

Table 4
Group Statistics

	Gender	N	Mean	Std. Deviation	Std. Error Mean
MEAN_SCORE	Male	13	2.4359	.47890	.13282
	Female	12	1.8194	.55258	.15952

Independent Samples Test

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
MEAN_SCORE Equal variances assumed	.222	.642	2.987	23	.007	.61645	.20635	.18959	1.04331
MEAN_SCORE Equal variances not assumed			2.970	21.894	.007	.61645	.20757	.18585	1.04706

Source: Primary data

An independent samples t-test was conducted to examine whether there is a significant difference in the mean scores between male and female respondents regarding the impact of small businesses on GDP.

The mean score for male respondents is 2.4359 (SD = 0.47890), whereas the mean score for female respondents is 1.8194 (SD = 0.55258). This indicates that male respondents perceive a higher impact of small businesses on GDP compared to female respondents.

Before interpreting the t-test results, Levene’s Test for Equality of Variances was considered. The significance value is 0.642, which is greater than 0.05, indicating that the assumption of equal variances is satisfied.

Based on the equal variances assumed row, the t-value is 2.987 with 23 degrees of freedom, and the significance (2-tailed) value is 0.007. Since the p-value (0.007) is less than the level of significance (0.05), the result is statistically significant.

Hypothesis Testing

- Null Hypothesis (H₀): “There is no significant relationship between the growth of small businesses and GDP” is Rejected
- Alternative Hypothesis (H₁): “There is a significant relationship between the growth of small businesses and GDP” is Accepted

Thus, it can be concluded that small businesses play an important role in contributing to economic growth and GDP.

Secondary Data Analysis:

**Table 5
Contribution of Small Businesses (MSMEs) to GDP**

Year	Share of MSME in GDP (%)
2017–18	29.7%
2018–19	30.5%
2019–20	30.5%
2020–21	27.3%
2021–22	29.6%
2022–23	30.1%

Source: Ministry of MSME, Government of India (Press Information Bureau)

The table shows that MSMEs consistently contribute around 29%–30% of India’s GDP, highlighting their crucial role in economic development. Although there was a decline during

2020–21 due to the COVID-19 pandemic, the sector recovered and reached **30.1% in 2022–23**, indicating resilience and growth.

Latest official data for 2023–24 and subsequent years is yet to be released; however, the MSME sector is expected to maintain a stable contribution of around 30% to GDP.

Table 6
Employment Generation by MSMEs

Source / Year	Employment Generated
Udyam Portal (2024)	20.39 crore jobs
Estimated Sector Employment	11 crore jobs
Recent Estimates (2025)	29–31 crore jobs

Source: Ministry of MSME (Udyam Registration Portal), MSME Reports

The MSME sector is one of the largest employment generators in India. It provides employment ranging from **11 crore to over 30 crore people**, depending on different estimates and data sources. This highlights the sector's significant contribution to reducing unemployment and supporting economic growth.

Table 7
MSME Contribution in Economy

Indicator	Contribution
GDP Contribution	30%
Manufacturing Output	36–37%
Exports	40–45%

Source: MSME Reports

The secondary data supports the primary findings and confirms that small businesses significantly contribute to GDP and employment generation in India.

FINDINGS

Primary Data Findings

Business performance is currently at a moderate level, reflecting stability without significant growth. Most respondents concur that small businesses contribute to GDP, although opinions differ. Small enterprises are crucial for job creation, yet views among respondents vary considerably. Government policies are perceived as somewhat supportive, indicating room for enhancement. GST affects profitability noticeably, but its impact is not consistent across all businesses. The availability of raw materials affects both business growth and GDP contribution.

Demographic Findings

The gender ratio among participants is nearly even, ensuring a balanced set of responses. A significant portion of the respondents (52%) are young adults aged 18 to 25, highlighting a trend of youth engagement in business activities.

T-Test Findings

There is a notable difference in how males and females perceive the influence of small businesses on GDP. With a p-value of 0.007, which is less than 0.05, the results are statistically significant. Consequently, the null hypothesis is rejected, affirming a connection between small businesses and GDP.

Secondary Data Findings

Micro, Small, and Medium Enterprises (MSMEs) account for approximately 29%–30% of India's GDP, underscoring their ongoing significance. Although the sector faced a brief downturn during the COVID-19 pandemic, it rebounded swiftly. MSMEs are responsible for creating a substantial number of jobs, ranging from 11 crore to over 30 crore positions. They play a crucial role in contributing to: Manufacturing output (36–37%) Exports (40–45%).

SUGGESTIONS

Enhance government assistance programs by making them more user-friendly and transparent for small business proprietors. Streamline GST processes to alleviate compliance challenges and boost profitability. Guarantee a consistent supply of raw materials at reasonable

costs. Offer financial aid and accessible credit options to small enterprises. Organize training and awareness initiatives for aspiring entrepreneurs. Promote digital transformation and the adoption of technology in small businesses. Bolster policy execution and oversight to ensure that benefits are distributed equitably across all sectors.

CONCLUSION

The research clearly indicates that small enterprises are crucial to GDP growth and the broader economic development. Both primary and secondary data robustly affirm that MSMEs significantly contribute to employment, production, and exports. Despite encountering obstacles such as the complexity of GST, limited resources, and moderate government backing, the sector continues to show resilience and potential for growth. Statistical analysis confirms a strong link between the development of small businesses and GDP. With enhanced policies, improved infrastructure, and financial backing, small businesses can further boost their economic contribution and promote sustainable development in the future.

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