

To Study the Impact of Implementation of GST on Productivity of SMEs

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ABSTRACT

Conversely, the transition to GST has posed several challenges for SMEs. The initial implementation phase saw significant compliance burdens, including the need for digital literacy and periodic filings that strained the resources of smaller enterprises. Compliance costs and the complexity of the new tax regime were also major concerns. Additionally, SMEs operating in the unorganized sector faced difficulties adapting to the structured and transparent framework of GST. Overall, while GST has the potential to offer long-term benefits to SMEs by creating a more integrated and efficient market, the immediate impact has been mixed, with many enterprises struggling to adjust to the new system. This study aims to provide a comprehensive analysis of these impacts, drawing insights from various sectors and highlighting the adaptive measures undertaken by SMEs to navigate the GST landscape. The findings underscore the need for continuous support and capacity-building initiatives to help SMEs fully leverage the benefits of GST in India's evolving economic environment.

Keyword: *Market, Compliance, Burdens, Environment, Landscape*

INTRODUCTION

Small and medium-sized enterprise (SME) owners and managers, particularly those in emerging nations, must figure out how to keep their organisation afloat. There are two distinct kinds of micro, small, and medium enterprises (MSME) in India, as defined under the Micro, Small, and Medium Enterprises Development Act, 2006. However, owing to their labor-intensive nature, SMEs may help alleviate unemployment, which is particularly important in light of the pandemic's economic effect. Given the significance of SMEs in both developing and wealthy nations, it is imperative that their performance be given more scrutiny and research, particularly in light of the present pandemic situation. The prosperity of an economy is dependent on many things, but one of them is the health of its small and medium-sized enterprises (SMEs). When businesses, in this example SMEs, work together with other groups to help with market research, testing, and analysis, they are engaging in open innovation. Several aspects of the information and knowledge transition occurring on a global scale and the prevalence of digital technologies have informed the present paradigm of open innovation.

Open innovation 4.0 is the name that this kind of invention eventually took. For the simple reason that 4.0 in SMEs will broaden their access to potential funding for new ideas, allowing every stakeholder to be actively engaged in the growth of SMEs, Industry 4.0 is significant for SMEs. As a result of open innovation 4.0, all parties involved are able to make better contributions to the business. To put open innovation 4.0 into action, it is necessary to digitise and transform information and knowledge. Hence, open innovation 4.0 is greatly affected by global cooperation networks and activities. In the open innovation 4.0 paradigm, the customer community is seen as a key component of the enhancements achieved by a business or group via open innovation initiatives. With more customer input, businesses and organisations will be more cognizant of the significance of the innovation process, which in turn will speed up the improvement and open innovation processes. A new capacity for consumer engagement via digital media data collection and analysis as part of a value chain's dynamic environment will be developed by the corporation. Large, medium, and small businesses alike—including SMEs—will feel the effects of this on their open innovation processes.

Opportunities outside their core competencies might be difficult for small and medium-sized businesses (SMEs) to see. Reasons for this include having a restricted budget, a focused knowledge base, and a narrow product portfolio. By adopting an open innovation strategy, SMEs may bolster their position. When compared to huge corporations, SMEs rely more on outside expertise. So, conducting an open innovation process in collaboration with external stakeholders would be beneficial for SMEs. Collaborative efforts like this have the potential to boost the value of inventive endeavours. Small and medium-sized businesses (SMEs) nonetheless face significant challenges in meeting customer demands for products and services, albeit having less cash. Among the many ways in which SMEs facilitate open innovation is via their partnerships

with other parties. In the conventional vertical integration model, companies engage in internal innovation to create goods and services, which they then sell to outside parties. In contrast, open innovation encourages collaboration across different entities rather than within the organisation. Every step of an organization's or company's innovation journey—from brainstorming sessions to actual open innovation—is affected by the personalities involved. The success of the company's open innovation efforts will be impacted by individuals' attitudes and inclinations towards innovation. One way in which a company's culture develops is by the rate at which its personnel embrace innovation. Organisations may better grasp new possibilities with the support of open innovation that is rooted in their culture. The reason for this is because the success of the innovation process is influenced by human or individual aspects. Therefore, it is crucial to consider these elements in order to achieve the most ideal innovation process.

With the spread of the COVID-19 epidemic, the already formidable task of optimising performance for SMEs has taken on an even greater burden. Any company, no matter how big or little, will experience this. An organization's or company's capacity to innovate relies on the flexibility of its personnel, particularly when it comes to implementing new technology and maintaining competitiveness in today's ever-changing market. Open innovation is a difficulty for organisations or corporations during the COVID-19 epidemic. A worldwide catastrophe is about to unfold as a result of the devastating effects of the epidemic on many facets of society's social fabric, as well as the economic system. To what extent small and medium-sized enterprises (SMEs) are prepared to engage in open innovation—and, more specifically, how well they can adapt to the ever-changing dynamics of global markets—is heavily dependent on the actions of people. Consequently, human capital is crucial for innovation creation and commercialization, and it is also vital for the innovation process to survive and succeed, particularly in the seemingly ever-changing market environment of today.

REVIEW OF LITERATURE

DAWA SHERPA et.al (2022) Across the world, micro, small, and medium-sized businesses (MSME) are lauded as engine rooms of economic and social progress. For a country such as India, which has a large workforce but limited capital, it is crucial to recognise and support enterprises, particularly MSMEs. These businesses require small investments but make a significant impact on the economy. They help industrialise underdeveloped and rural regions, increase exports, generate economic development, and employ a large number of people. A more uniform distribution of the nation's income and wealth is assured, and regional inequities are lessened, as a result. The two most common types of micro, small, and medium-sized businesses are those that provide goods or services and those that do not. The manufacture of items is the main activity of manufacturing firms, while service enterprises provide various services. These two sectors are also divided into micro, small, and medium enterprises. Many individuals in Gangtok, Sikkim are engaged in the MSME sector, either directly or indirectly. As of March 2006, there were 1060 MSME in Sikkim and approximately 2.61 crores in India, providing employment to around 6 crores individuals. The Industrial Policy of the State Govt., known as the Sikkim Industrial Promotion and Incentive Act, 2007, plays a crucial role in facilitating the rapid industrial growth of the state. Additionally, a range of subsidies has been implemented to encourage industrial growth in Sikkim. These include subsidies on state capital investment and captive power generating sets. This will incentivize a greater number of individuals to become part of the MSME sector.

Viswanatha S R et.al (2021) The goal of the Department of Micro, Small and Medium-sized Enterprises (MSME) is to promote the growth and development of MSME sectors including Khadi, Village, and Coir Industries so that they may contribute to a more robust economy. We will do this by working together with the appropriate state governments, relevant ministries and agencies, and other interested parties. The department will provide support to existing businesses, facilitate the adoption of innovative technologies, and promote the establishment of new enterprises.

Neba Bhalla et.al; (2023) When there are changes to the tax structure, it's important to assess how they will impact the sector and businesses involved, as tax and the economy are closely linked. This research looks at how the Goods and Services Tax (GST) affected the bottom lines of MSMEs in India. The data came from 404 registered MSMEs who filled out a standardised questionnaire. Partial least square equation modelling revealed that GST has a generally beneficial influence on company performance. Business friendliness, operational efficacy, and profitability have all seen gains as a result of changes in the tax system, technological advancements, and public understanding of and adherence to tax laws, as shown in the route model. All of these things have contributed to a lessening of the working capital funding bottleneck. The compliance cost for enterprises has been greatly increased by the GST system, which has had a detrimental influence on their performance. In addition, the study analysed how the size, turnover, and form of MSMEs affect their performance in relation to the GST compliance system. The results could be valuable for policymakers and emerging economies as they consider tax reform factors that can improve performance and drive economic growth in the future, with the support of MSMEs' improved performance.

RESEARCH METHODOLOGY

A researcher's research style is the overarching plan that guides their data collection and analysis procedures. The thesis's analytical section has made two attempts to address the subject. Phase two of the research focused on primary data, whereas Phase one examined secondary sources. There were two types of research methods employed in the study: exploratory and confirmatory. In order to compile data on the effects of GST on SMEs, this study used an exploratory research strategy informed by a literature review. study hypotheses are developed by reviewing the current literature in order to achieve the study goals.

The study project's goals may now be realised thanks to the strategy developed after a thorough examination of the relevant literature. The questionnaire used in this research was custom-made. A number code was used to record replies to questions in order to obtain data from the main survey. This survey was sent to tax experts, policymakers (i.e., federal and state government officials), and business owners (Trade and Industries). In order to implement the ideas, a tool was developed. The things were either altered or made from the ground up based on what was found in the literature review. Before the questionnaire was employed on a large scale, a pilot test was conducted with a convenience sample.

Respondents from the working and practitioner communities praised the poll for its usefulness, clarity, and ease of reading. The instrument was further refined with the use of respondent feedback. To gather as much data as possible, a postal survey and an internet survey were both used. This study used a "descriptive" research design. Using empirical data analysis, as in a "descriptive study," to determine the connections between the variables. The preferences of small and medium-sized enterprises (SMEs) in Agra with respect to different forms of financing are examined in this research.

- Sample Size: 268 SME Units
- Sample Unit: Small and Medium Enterprises

DATA ANALYSIS AND INTERPRETATION

Table 4.1 The Best Describes Form Of Your Business Organization

Form of business organization	Frequency	Percent
“Sole proprietorship”	142	53.2
“Partnership”	1	.4
Private Limited Co.”	125	46.5
Total	268	100.0

Table exhibits the best describe form of the business organization, 53.2% of the respondents said; it is “Sole Proprietorship,” It is “Partnership” for 0.4%, and for 46.5% it is “Private Limited Co.”

Table 4.2 Under Which Category of Area Your Business Comes

Category of area your business	Frequency	Percent
“Rural”	269	100.0

Table displays under which category of area the business come, 100% of the respondents said it is “Rural.”

Table 4.3 What Is Your Designation In The Organization?

Designation	Frequency	Percent
“Owner/ Co-Founder/ Majority Stakeholder”	79	29.4
“Member of Top-Level Management”	16	5.9
“Head of Accounts / Finance Division”	173	64.7
Total	268	100.0

Table exhibits the designation of the respondents in the organization, 29.4% of the respondents are “Owner/ Co-Founder/ Majority Stakeholder,” about 5.9% of them are “Member of Top-Level Management.” Respondents who are “Head of Accounts / Finance Division” are 64.7%.

The impact of implementation of GST on profitability of SME’s

The effects of implementation of GST on profitability of SME’s The researcher has used a Statistical tool that is Regression analysis for the study where the Dependent Variable is profitability of the company and the Independent Variable is implementation of GST.

Table 4.4 Regression Analysis Model Summary

Model Summary					
Model	R	R Square	AdjustedR Square	Std. Theerror in the Estimate	Level of Significance
1	.426 ^a	.448	.434	.2455	0.01
a. Predictors: (Constant), Implementation of GST					

Results of the Regression analysis were significant with the Level of significance less than 0.05 i.e. our value is 0.01. The percentage which is achieved through the regression analysis was 44 percent using the R square, which denotes the independent variable implementation of GST explains 0.44 the behavior of dependent variable profitability of the company.

The table shows that the value of the R square is 0.448 and the estimated value is at the significance level is 0.01. This clearly indicates that GST has negative impact on the profitability of the Indian SME’s.

The impact of implementation of GST on productivity of SME’s

The effects of impact of implementation of GST on productivity of SME’s The researcher used a statistical tool that is Regression analysis for my study where my variable is where my Dependent Variable is productivity and the Independent Variable: Implementation of GST.

Table 4.5 Regression Analysis Model Summary

Model Summary					
Model	R	R Square	AdjustedR Square	Std. error in the Estimate	Level of Significance
2	.316 ^a	.341	.334	.2225	0.01
a. Predictors: (Constant), Implementation of GST					

Results of the Regression analysis were significant with the Level of significance less than 0.05 i.e. our value is 0.01. The percentage which is achieved through the regression analysis was 34 percent using the R square, which denotes the dependent variable 0.34 explains the productivity of the company in the negative way.

Table shows that the value of the square is 0.334 and the estimated value is 0.2225 which shows the significance level is 0.01. This clearly indicates that GST has negative impact on the productivity of the Indian SME’s.

CONCLUSION

Due to the importance of small businesses to the Indian economy and the distribution of commodities and employment in the nation, the government has passed a number of laws and instituted a number of programmes to assist smaller companies. This study aims to determine how strictly smaller Goods and Service Local (GSLs) in Palghar Taluka adhere to the Goods and Services Tax (GST). The preceding chapters' work on the selected topic is summarised and presented in this chapter, along with recommendations and conclusions. The Indian economy is greatly impacted by SMEs. As a result of their hard work, SMEs are able to meet the demands of a worldwide market that accounts for 80% of their exports and for which they account for 45% of the Indian market. Evidence suggests that "small and medium scale enterprises" (SMEs) are a beneficial force in India's economy, since they own 95% of the industrial sectors in the country's market. About 42% of the working-age population has jobs. It is believed that small and medium-sized businesses constitute the backbone of India's economy since they produce and sell over 8,000 different items.

Businesses, no matter how big or little, employ a disproportionately large number of people and contribute significantly to GDP. Despite this, SME management often lacks the knowledge and understanding necessary to propel their companies forward. The cost restrictions are handled fairly haphazardly in the plans that were provided to these "small and medium-sized enterprises (SMEs)".

Furthermore, most of the business sector does not use the tools provided to the planning job. Fewer individuals are participating in the programme and making use of the resources to progress in recent years. Small and medium-sized enterprises (SMEs) need to make preparations to expand their business and earn a sustainable profit since it has been shown that SMEs should have a strategy to ensure the longevity of their company. Even before the first five-year plan, small and medium-sized businesses were crucial to India's policy development. An important part of the policy's fervour was stressing the need to assist India, a country that is now economically weak, rise up the regional rankings and provide equitable opportunity to its youth.

Development has done much to narrow the financial disparity between rural regions and the outskirt cities around them, and large firms are more like parents for employment in this sector. The corporation has amassed a wide variety of products, made them affordable, and cornered a sizable portion of the domestic market. Even if "small and medium-sized companies (SMEs)" don't exactly wow when it comes to exports, there are a few electronics manufacturers that are part of the export sector market.

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