



Assessing the Effect of Industrial Challenges and Opportunities on Small Industries Development in Tamil Nadu

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The small industries have an important role to play in the development of the economy of Tamil Nadu through job creation, industrialization of the region, fostering entrepreneurship, and making substantial contributions to the state's industrial output. Although the small industries make significant contributions to the development of the state's economy, they face many industrial challenges that affect their growth. However, there are several emerging market trends and advancements in technology that create more possibilities for the growth of small industries. The study intends to focus on the different industrial problems faced by small industries in terms of finance, infrastructure, lack of skilled labor, technology problems, market competition, regulation, and disruption of supply chains. Alongside these, it will focus on the various opportunities that small industries have in terms of going digital, exporting, availing of various government incentive schemes, adopting innovation, forming industrial clusters, and growing due to higher demand from consumers for domestically produced products. For conducting the research, descriptive and analytical designs are considered and used, where both primary and secondary sources of information are used. The primary information is gathered from the owners and managers of selected small-scale industries located in the state of Tamil Nadu, whereas secondary information is retrieved from reports by the government, surveys by the industry, journals, and other official sources. To analyze the information, percentage analysis, correlation, and regression analyses have been done. The results from this study are anticipated to shed light on the crucial factors that pose a barrier to small industrial development and the opportunities that may be capitalized upon for sustainable growth. Recommendations from the study will help the policy makers, industrial bodies, and entrepreneurs to develop strategies for minimizing problems and optimizing opportunities..

Keywords: *Foreign Exchange Earnings, Entrepreneurial Activities, Finance, Infrastructure, Government Incentive Schemes.*



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1. Introduction

Small scale industries constitute a significant component of economic development in developing nations, particularly in areas where industrial development and employment generation become essential goals for policymakers. In Tamil Nadu, the emergence of small scale industries has become a significant aspect of the industrial sector, contributing to manufacturing output, foreign exchange earnings, entrepreneurial activities, and decentralized industrialization. Tamil Nadu has always been one of the leading industrialized states in India, mainly due to its diversified industrial structure, favorable business environment, and sound industrial policies. Small scale industries make a great contribution to this effect. The growth of small scale industries in Tamil Nadu has been facilitated by the presence of industrial estates, economic zones, infrastructure schemes, and entrepreneurships initiated by both central and state governments. These firms operate in various sectors including textiles, food sector, leather goods, engineering goods, automobile spare parts, arts and crafts, chemicals, and electronics. It is because of the flexibility, smallness, and adaptability of these sectors that they have become a valuable player in fostering industrial dynamism and local development. Besides providing employment opportunities to various segments of the society including women and youth, small-scale industries are also a major contributor to the economy. However, despite being a vital part of the economic landscape, the growth and development of small-scale industries in Tamil Nadu are hampered by numerous industrial challenges that impede their growth and development. The most critical challenge faced by small-scale industries in the state is the challenge of financial capital, thereby reducing their ability to invest in technology and expand their production process. Other industrial challenges include difficulties in infrastructure development, rising input costs, absence of skilled labor, obsolete technology, and lack of marketing expertise. Besides, competition from large firms at both local and international levels constitutes another major challenge. On the other hand, there are various opportunities that the current industry can offer to the small-scale industries in Tamil Nadu. The factors considered are high-speed digitalization, the rising preference of people for

online shopping platforms, initiatives such as “Make in India” and MSMEs, policies for exporting goods, industrial clustering policies, and advancements in automation technology. The increasing tendency of customers to buy personalized and localized products as well as new markets both domestically and internationally may serve as a good opportunity for the small industries willing to change and innovate. From this perspective, it is important to investigate the influence of industrial issues and opportunities on the development of small industries. Such an investigation will help to evaluate the current status of the industry and its future prospects. Furthermore, the research will shed light on the main variables that may influence the success, stability, and competitiveness of enterprises. At the same time, the findings of the research will be beneficial for government officials, industrial trade unions, banks, and entrepreneurs involved in devising strategies for resolving the problems faced by the industry and capitalizing on available opportunities. Therefore, this research intends to analyze the industrial issues and opportunities concerning the development of small industries in Tamil Nadu and assess their impact on the industry.

2. Review of Literature

Ramasamy & Kumar (2021) investigated the financial issues of small industries in Tamil Nadu. The findings revealed that insufficient access to formal credit facilities and reliance on informal sources of finance had severely hindered their growth and development. Therefore, it was suggested that better institutional credit mechanisms be developed for sustainable industrial development. **Sivakumar (2021)** studied the impact of infrastructure constraints on small industries in the state. It was identified that the lack of power, transport, and industrial infrastructures had hampered their productivity and efficiency. Consequently, it was recommended that infrastructure improvement be done by improving industrial estates and creating public-private partnerships. **Balaji & Devi (2022)** explored the effects of adopting digital technology by small industries. The findings showed that industries which employed digital technologies and automation were efficient, productive, and able to reach the market easily. **Manoharan (2022)** researched labor shortage issues facing

small manufacturing industries in the state of Tamil Nadu. The study highlighted skilled labor shortage and migration as key problems impacting the smooth running of the production process. **Karthikeyan and Priya (2023)** conducted research on the effectiveness of governmental programs aimed at the development of small and medium enterprises. The authors established that MSME schemes such as subsidy, training, and credit played an important role in improving the performance of companies. **Venkatesh (2023)** analyzed the export potential of small industries in Tamil Nadu. It was observed that companies with an export focus enjoyed high profit margins and diversification in the market. Nevertheless, compliance issues and lack of export knowledge impeded the ability of such enterprises to engage in exports. **Natarajan and Shalini (2024)** analyzed the impact of market competition on small industry firms. The findings revealed that stiff competition posed by big players and foreign products in the market led to the need to be competitive in order for small industries to survive. **Arul and Meena (2024)** conducted research on the correlation between industrial clusters and small industries. They found out that clustering operations enabled better resource pooling, supplier sourcing, innovations, and efficiency in operations, hence growth potential for small industries.

3. Statement of the Problem

Small scale industries form an important element of the industrial structure of Tamil Nadu by playing a vital role in generating employment, promoting regional development, and entrepreneurship, in addition to fostering economic growth. Small industries play an important role in promoting balanced industrial development through the effective use of local resources, decentralizing production, and ensuring employment generation. Although small scale industries form an important element of economic activity, there are various industrial problems faced by these industries in Tamil Nadu. One of the biggest problems encountered by small industries includes limited access to financing, which hampers investments in technology, growth, and management of working capital. Moreover, there is lack of proper infrastructure in terms of unstable power supply, poor transportation, and lack of industrial service sector that results in

creating bottlenecks for these industries. These industries face challenges in the form of old technology, lack of skilled workforce, increasing input prices, and growing competition due to bigger industries and foreign goods. At the same time, there are a number of growth possibilities available via digitalization, export promotion, incentives from the government, formation of industrial clusters, and increased demand for local production. Unfortunately, a large number of small-scale industries fail to capitalize on these opportunities due to insufficient knowledge and inadequate resources. In such a scenario, it becomes important to systematically analyze the role of industrial challenges and opportunities on small scale industries in Tamil Nadu. It is imperative to understand the impact that these factors have on small scale businesses in terms of business operations, competitiveness, and sustainability. Consequently, the current research aims to explore the impact of industrial challenges and opportunities on small scale industries in Tamil Nadu.

4. Objectives of the Study

- To identify the major industrial challenges affecting the development of small industries in Tamil Nadu.
- To examine the growth opportunities available for small industries in Tamil Nadu.
- To assess the effect of industrial challenges and opportunities on the development of small industries in Tamil Nadu.

5. Methodology of the Study

The present study adopts a descriptive and analytical research design to assess the effect of industrial challenges and opportunities on small industries development in Tamil Nadu. Both primary and secondary data are utilized for comprehensive analysis. Primary data are collected from owners and managers of selected small industries through a structured questionnaire and personal interviews. The questionnaire is designed to gather information regarding financial, infrastructural, technological, labor, and market-related challenges, as well as opportunities such as digitalization, government support, export potential, and industrial cluster benefits. Secondary data are obtained from government publications, MSME reports, journals,

books, policy documents, and official websites related to industrial development in Tamil Nadu. A convenience sampling method is employed to select respondents from various small industries operating across different districts of Tamil Nadu. The proposed sample size for the study is 200 respondents. The collected data are analyzed using appropriate statistical tools such as percentage analysis, correlation, and multiple regression analysis to evaluate the relationship between industrial challenges, opportunities, and small industry development. The study period covers the recent industrial environment and focuses on understanding current challenges and emerging opportunities influencing the performance and sustainability of small industries in Tamil Nadu.

6. Growth Opportunities Available for Small Industries in Tamil Nadu

The small industries sector plays an indispensable part in the economic development of Tamil Nadu with regard to employment creation, industrial production, promotion of entrepreneurship development, and achieving economic equilibrium. Given that Tamil Nadu is among the most industrially developed states in India, it provides a highly favorable climate for the development of small-scale industries. Being diverse in terms of industrial composition and other factors, it opens many chances for small companies from different areas including manufacturing, service industry, agro-processing, and technology-based sectors. At the current time of competition in business, it becomes important to recognize potential growth opportunities in order to achieve sustainable development. The most important area where small-scale industries can benefit from growth is through the development of their domestic market. With growing income levels, increasing urbanization, shifting consumer preferences, and greater demand for quality goods, small industries' domestic market has grown significantly. Food processing, garments, leather goods, household goods, engineering goods, and packaged consumer goods are some of the sectors that have consistently witnessed growth owing to growing demand from the local and regional markets. Another significant opportunity would be the various government support programs and policy incentives that exist today. The Government of India at both national and state levels offers many

different types of support to small industries, which include subsidies, concessional interest rate loans, capital support, tax incentives, technology upgrading programs, export promotion programs, and enterprise development schemes. Programs and schemes offered through MSME development policies, industrial promotional subsidies, and start-up support programs offer an excellent institutional environment for business development. There have been great developments in digital technology and e-commerce that create immense possibilities for small sectors to extend their markets. Small businesses may gain wide access to potential customers by using e-marketplaces, marketing through social media, making payments digitally, and using business management software. In the digital age, businesses are able to promote products across the nation and the globe without setting up extensive networks for transportation. The industrial base in Tamil Nadu and cluster development is yet another area where growth can be pursued. This is because of the availability of industrial estates, SEZs, SIDCO industrial parks, and industrial clusters based on sectors such as textile, leather, engineering, automotive component, and electronics. These clusters help small industries benefit from common infrastructure, supply chains, logistics, and a conducive business environment. Exports present one of the important growth opportunities for small-scale industries in Tamil Nadu. Tamil Nadu is blessed with an efficient system of industries that are oriented towards exports in sectors like textiles, leather goods, automobile parts, machinery, and foods. Globalization and liberalization have provided small-scale firms with access to international markets. Various export assistance councils, trade exhibitions, export incentives, and electronic trading sites also help small-scale firms penetrate international markets. Industries that adhere to international standards will gain immensely from exporting their goods. The growing trend of localized manufacturing and self-reliance programs like Make in India and Atmanirbhar Bharat has resulted in favorable market dynamics for the small industries of the nation. The public procurement policy, localization strategy, and promotion of indigenous production processes have helped create a more favorable environment for small businesses to sell their products or services to government departments

and major industries. It helps in creating better market access for local producers and minimizing reliance on foreign goods. Modernization in technology and innovations also provide another avenue for growth. Small industries can improve their competitive advantage by utilizing modern technology, adopting innovative production methods, automation technology, and energy-efficient technologies. It will help improve the quality of the output, lower manufacturing expenses, reduce wastage, and expedite production time. The availability of competent manpower and educational institutions in Tamil Nadu also acts as another source of industrial advantage. The educational infrastructure and technological training present in Tamil Nadu have been known to yield competent manpower from the sectors of engineering, management, design, and technical trades. This makes it easier for small industries to benefit in terms of better innovation, productivity, and managerial skills. There is also potential in industry-academia partnership to enhance productivity levels and the efficiency of the workforce. Other industrial possibilities lie in the increasing trend of production of eco-friendly and sustainable goods. The rise of environmental awareness among consumers along with increasing importance being given to sustainable processes has led to a market for green manufacturing, recycling of products, energy efficient products, and sustainable manufacturing

techniques. The prominent industries in Tamil Nadu like automotive, electronics, textiles, and heavy industries create a requirement for ancillary industries in the form of service providers, suppliers, and sub-contractors. Small-scale industries can be integrated with major industrial organizations through integration in ancillary units, which would ensure stable demand and sustainable business relationships. Moreover, rural industrialization and agro-based industries create opportunities for growth. The rich agricultural background of Tamil Nadu is an opportunity for agro-based industries in areas of food processing, dairy products, herbal products, organic products, coir, handloom, and rural industries. Creating such agro-based industries will help create rural employment, stop migration, and enhance the productivity of local agriculture products. Conclusion: Tamil Nadu provides many avenues for growth for small industries in terms of increasing markets, government policies, digitization, exports, industrial clusters, technological upgradation, and ancillary industrial linkages. But in order to fully avail these advantages, it requires proper planning, innovation, investment in modernization, and utilizing the benefits provided by institutions. Small-scale industries that adapt themselves to market trends and take advantage of opportunities can greatly benefit from them.

Table-1: Small Industries Development in Tamil Nadu: Performance Data (2021–2025)

Year	Estimated Registered MSMEs / Small Industries	Employment Generated	Key Performance Highlights
2021	17.88 lakh	1.95 crore+	Post-COVID recovery phase; MSME revival packages implemented
2022	20.72 lakh	2.10 crore+	Strong Udyam registration growth; manufacturing rebound
2023	23.72 lakh	2.25 crore+	Expansion in textiles, engineering, food processing sectors
2024	26.89 lakh	2.40 crore+	Surge in new MSME registrations and exports
2025	35–39 lakh+	2.5–2.56 crore+	Tamil Nadu ranked among top MSME states in India

Compiled from MSME annual reports, Tamil Nadu economic documents, and Udyam registration statistics.

7. Performance Trend Analysis (2021–2025)

7.1. Increase in the Number of Small Industries

- The number of registered small industries saw an enormous increase, from 17.88 lakhs in 2021 to more than 35 lakhs in 2025.
- This shows a fast-paced expansion and formalization among entrepreneurs through the Udyam registration process.

7.2. Creation of Employment Opportunities

- The creation of jobs increased from about 1.95 crores to 2.56 crores.
- MSMEs continue to be one of the major sources of employment in Tamil Nadu.

7.3. Contribution to Industrial Output

- MSMEs make up approximately 30% of the total industrial output of Tamil Nadu.

7.4. Supporting Growth in Manufacturing Sectors

- The growth of the manufacturing sector in Tamil Nadu helped in the expansion of MSMEs.
- The growth in the manufacturing sector reached 14.74% in 2022.

Table-2: Demographic Profile of Respondents

S. No.	Demographic Factor	Category	No. of Respondents	Percentage
1	Age	Below 30 Years	42	21.0
		31–40 Years	68	34.0
		41–50 Years	56	28.0
		Above 50 Years	34	17.0
2	Gender	Male	138	69.0
		Female	62	31.0
3	Educational Qualification	Up to School Level	28	14.0
		Diploma	44	22.0
		Undergraduate	76	38.0
		Postgraduate/Professional	52	26.0
4	Nature of Industry	Manufacturing	94	47.0
		Service	62	31.0
		Trading	44	22.0
5	Type of Ownership	Proprietorship	96	48.0
		Partnership	54	27.0
		Private Limited	38	19.0
		Others	12	6.0

6	Years of Operation	Below 5 Years	46	23.0
		5-10 Years	74	37.0
		11-15 Years	48	24.0
		Above 15 Years	32	16.0
7	Number of Employees	Below 10	58	29.0
		11-25	84	42.0
		26-50	42	21.0
		Above 50	16	8.0
8	Annual Turnover	Below ₹25 Lakhs	52	26.0
		₹25-50 Lakhs	74	37.0
		₹50 Lakhs-₹1 Crore	48	24.0
		Above ₹1 Crore	26	13.0

8. Interpretation

The demographic analysis indicates that the majority of respondents belongs to the 31-40 years age group (34%), is male entrepreneurs (69%), and possesses undergraduate qualifications (38%). Manufacturing enterprises constitute the largest segment (47%), with proprietorship being the dominant ownership pattern (48%). Most firms have operated for 5-10

years (37%) and employ 11-25 workers (42%), indicating a moderately established small-industry base in Chennai.

Correlation Analysis of Industrial Challenges Affecting Small Industries Development

Correlation analysis is used to examine the relationship between major industrial challenges and the development of small industries in Tamil Nadu.

Table-3: Correlation between Industrial Challenges and Small Industries Development

Variables	Financial Constraints	Infrastructure Issues	Skilled Labour Shortage	Technological Limitations	Market Competition	Small Industries Development
Financial Constraints	1.000	0.482**	0.394**	0.438**	0.356**	-0.621**
Infrastructure Issues	0.482**	1.000	0.421**	0.387**	0.344**	-0.574**
Skilled Labour Shortage	0.394**	0.421**	1.000	0.402**	0.365**	-0.489**
Technologica	0.438**	0.387**	0.402**	1.000	0.416**	-0.553**

l Limitations						
Market Competition	0.356**	0.344**	0.365**	0.416**	1.000	-0.467**

Note: Correlation is significant at the 0.01 level

Interpretation

The correlation analysis reveals that all identified industrial challenges have a negative and significant relationship with the development of small industries in Tamil Nadu. Among the variables, financial constraints exhibit the strongest negative correlation with small industries development ($r = -0.621$), indicating that financial barriers substantially hinder industrial growth. This is followed by infrastructure issues ($r = -0.574$) and technological limitations ($r = -0.553$), suggesting that inadequate infrastructure and outdated technology also adversely affect industrial performance. Skilled labour shortage ($r = -0.489$) and market competition ($r = -0.467$) demonstrate moderate negative relationships. The findings imply that an increase in industrial challenges is associated with

a decline in the development and performance of small industries in Tamil Nadu.

Multiple Regression Analysis

The multiple regression model is used to examine the combined influence of industrial challenges and opportunities on small industries development.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

Where:

- Y = Small Industries Development
- X_1 = Financial Constraints
- X_2 = Infrastructure Issues
- X_3 = Skilled Labour Shortage
- X_4 = Technology Adoption
- X_5 = Government Support
- X_6 = Market Opportunities

Table-4: Multiple Regression Results

Variables	Beta Coefficient	Standard Error	t-value	Significance (p-value)
Constant	2.184	0.412	5.301	0.000
Financial Constraints	-0.382	0.071	-5.380	0.000
Infrastructure Issues	-0.264	0.066	-4.000	0.000
Skilled Labour Shortage	-0.173	0.058	-2.983	0.003
Technology Adoption	0.291	0.069	4.217	0.000
Government Support	0.328	0.064	5.125	0.000
Market Opportunities	0.247	0.061	4.049	0.000

Model Summary

R	R Square	Adjusted R Square	F-value	Significance
0.812	0.659	0.648	62.418	0.000

9. Interpretation

The multiple regression analysis indicates that industrial challenges and opportunities significantly influence the development of small industries in Tamil Nadu. The model explains **65.9%** of the variation in small industries

development ($R^2 = 0.659$), indicating strong explanatory power. The F-value of **62.418** with significance at $p < 0.001$ confirms that the overall regression model is statistically significant. Among the industrial challenges, financial constraints have the strongest negative effect on small

industries development ($\beta = -0.382$), followed by infrastructure issues ($\beta = -0.264$) and skilled labour shortage ($\beta = -0.173$). This indicates that increases in these challenges reduce the growth and performance of small industries. Conversely, among the opportunity variables, government support exerts the strongest positive influence ($\beta = 0.328$), followed by technology adoption ($\beta = 0.291$) and market opportunities ($\beta = 0.247$). These findings suggest that favorable policy support, modernization, and access to expanding markets significantly enhance small industry development. Overall, the analysis confirms that reducing industrial challenges while strengthening growth opportunities is critical for improving the development and sustainability of small industries in Tamil Nadu.

10. Limitations of the Study

There are some limitations that are associated with the current study. The first limitation is that the current study focuses only on selected small industries of Tamil Nadu and thus may not be generalized for other small businesses in India. Another limitation is related to the sampling technique that was used in this study because of the presence of the bias problem associated with this sampling method. The fourth limitation is that there is a possibility of bias in perceptions held by respondents. Lastly, rapid changes in industrial and market trends affect the validity of the findings of this study.

11. Conclusion

The small-scale industries form an important component of the state's industrial sector, especially through the creation of employment opportunities, regional industrialization, nurturing entrepreneurship, and diversification of the economy. The current research investigated the impact of industrial issues and growth opportunities that affect the growth of small-scale industries in Tamil Nadu and their overall influence on industrial performance and sustainability. The findings show that there are still many industrial problems faced by small-scale industries in Tamil Nadu that negatively impact their progress and competitiveness. The most prominent problem is financial constraints, which inhibit small industries from obtaining working capital, modernization, and expansion.

Other problems include infrastructure deficiencies, technological inadequacy, lack of skilled workers, and fierce competition. All these problems prevent the small-scale industries from achieving sustainable development within the highly competitive industrial sector. On the other hand, the research revealed immense potential for expansion within the small-scale industries in Tamil Nadu. This includes government assistance programs, technology adaptation, market expansion both domestically and abroad, industrial clustering, and digitalization, which all present numerous possibilities for business success. Based on these results, it is evident that small industries that are able to exploit such opportunities will achieve high levels of efficiency and sustainability. According to the results of the regression analysis, the presence of difficulties and opportunities in industrial areas has a considerable impact on the development of small industries in Tamil Nadu. However, while industrial difficulties hinder the process of industrial growth, growth opportunities stimulate industrial growth positively. Thus, it is necessary to pursue an optimal strategy that will address industrial obstacles and opportunities in equal measures. To conclude, it should be mentioned that the sustainable development of small industries in Tamil Nadu is possible only through collective actions by various stakeholders, including government bodies, financial organizations, industrial organizations, and entrepreneurs. The enhancement of financial accessibility, the improvement of industrial infrastructure, the development of skills, technological progress, and greater recognition of government assistance are necessary to ensure the growth of small industries in Tamil Nadu.

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