

# **A STUDY ON SMALL SCALE INDUSTRIES AND ITS IMPACT IN INDIA**

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## **ABSTRACT**

*The small scale industries play a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. By less capital intensive and high labour absorption nature, SSI sector has made considerable contribution to employment generation and also rural industrialization. Under the changing economic scenario, SSI has to face number of diverse problems like vast population, large scale un-employment and underemployment and scarcity of capital resources and the like. Hence, the government has been providing some special facilities through different policies and programs to overcome the problems and for the growth and development of small scale industries. The efforts of the government have resulted in the phenomenal increase in the number of units in the SSI. The government also introduced various schemes and incentives for the promotion of SSIs. Constant support to SSI sector by the Govt. in terms of infrastructure development, fiscal and monetary policies have helped to emerge as dynamic and vibrant sector of Indian economy.*

*Over the past six decades the sector has been highly vibrant and dynamic. It has acquired a prominent place in the socio-economic development of the country. Mostly this sector exhibited positive growth trends even during periods when other sectors of the economy experienced either negative or nominal growth. It is a well recognized fact that a vibrant small-scale sector holds the key to economic prosperity in an economy like India. However, SSI has been facing multiple problems, which make them uncompetitive and sick. In such a context, the paper attempts to highlight the importance of SSI in Indian economy*

**Key Words:** *Small Scale Industries, Socio-Economic Development, Economic Reforms.*

## **I. INTRODUCTION**

Economic development of a country is directly related to the level of industrial growth. The expansion of industrial sector leads to a greater utilization of natural resources, production of goods and services, creation of employment opportunities and improvement in the general standard of living. India has also been striving to develop the country's industrial base since independence. It has framed various policies aimed at development of industries in the public and private sectors. Special emphasis has been laid on SSI. SSI plays a key role in the planned development with its advantages of low investment, high potential for employment generation, diversification of the industrial base and dispersal of industries to rural and semi urban areas. The SSI sector has been appropriately given a strategic position in planned economy for socio-economic, equitable growth. P.N.Dhar and H.F.Lydall in introduction to their book, "The Role of Small Enterprise in Indian

Economic Development” have observed that ‘The promotion of small scale industries has been widely recommended as one of the most appropriate means of developing industry in over populated backward countries’,(Ministry of Small Scale Industries , Government of India ,2006).

The definition of small scale sector is broadened from small-scale industries to small scale enterprises that include all business enterprises in the services sector which provide service to industrial sector in addition to small scale industries taking into account all these factors, at present, Reserve Bank of India uses an expanded definition of small scale industries, which constitute of Small scale industrial undertaking which are engaged in the manufacturing, processing and preservation of goods in which the investment in plant and machinery not to exceed Rs. 5 crore. These would include units engaged in mining or quarrying servicing and repairing of machinery. These tiny enterprises investment in plant and machinery should not exceed Rs. 25 lacs. It also constitutes of decentralized and informal sector like handlooms and handicrafts. The industry related to services/ business enterprises, food and agro-based industries, software industry also form big part of small scale industries in India.

The development of SSI is being given due importance by the government in order to provide additional employment opportunities, to mobilize resources and capital equitable distribution of national income and promote the industrialization. No doubt, in India the SSIs with their dynamism, flexibility and innovative drive increasingly focusing on improved production methods, penetrative marketing strategies and management capabilities to sustain and strengthen their operations, their share is only 30.8 per cent of total exports as on 2007-08 which are about 34.28 per cent of total exports as on 2000-01 and reduced by 3.48 per cent from 2000-01 to 2007-08. From the Table-4, it is evident that the share SSIs exports to total exports have been constantly reduced over the years i.e., from 2000-01 to 2007-08.

The policies of liberalization, globalization and marketization (Government policies are more inclined towards encouragement of the industries then selling of the assets) brought out fundamental changes in the business environment in which industries operate. The New Economic Policy followed by Structural Adjustment Programme introduced by Government of India in 1991 substantially changed the rules of business games as far as entry, pricing and host of other decision variables are concerned. This changed the market structure, character and focus of marketing strategies. The changed economic environment has forced Indian corporates to cope with process of liberalization and globalization. In India, the entry of Multinational Companies (MNCs) has been promoted and encouraged while impacts of MNCs on business and industrial development have resulted in increased competition and equity participation in manufacturing, processing and marketing of goods and services.

## **II. THE SMALL SCALE INDUSTRIAL UNDERTAKING**

An industrial undertaking in which the investment in plant and machinery, whether held on ownership terms or on lease/hire-purchase basis, does not exceed Rs. 10 million (Rs. 1 crore) is regarded as a small-scale undertaking. These include manufacturing and service units.

### **III. ANCILLARY INDUSTRIAL UNDERTAKING**

An industrial undertaking which is engaged or is proposed to be engaged in the manufacture or producing of parts, components, sub-assemblies, tooling or intermediates; or the rendering of services is termed as an ancillary undertaking. The ancillary undertaking is required to supply or render or propose to supply not less than 50 percent of its production or services, as the case may be, to one or more other industrial undertakings as the case may be. The investment in plant and machinery, whether held on ownership basis or on lease or on hire purchase, should not exceed Rs. 10 million..

### **IV. TINY ENTERPRISES**

A unit is treated as a tiny enterprise where the investment in plant and machinery does not exceed Rs. 2.5 million (Rs. 25 Lakhs) irrespective of the location of the unit. Many shops, schools, parlours, Photostat and STD booths in your vicinity are all examples of tiny units.

### **V. SMALL SCALE SERVICE AND BUSINESS ENTERPRISE (SSSBES)**

An industry related service/business enterprise with investment up to Re.0.5 million (5 Lakhs) in fixed assets, excluding land and building, is treated as an SSSBE. E.g. advertising agencies, Marketing consultancy, Auto repair, services and garages, Tailoring, Desktop printing etc. The service sector has emerged as the major segment of the economy.

### **VI. WOMEN'S ENTERPRISES**

A Women Entrepreneur's Enterprise is termed as an SSI unit/industry-related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/they individually or jointly have a share capital of not less than 51 percent as partners/shareholders/directors of a private limited company/members of a cooperative society.

### **VII. EXPORT ORIENTED UNIT (EOU)**

A unit with an obligation to export at least 30 percent of its annual production by the end of the third year of commencement of production and having an investment ceiling up to Rs. 10 million (Rs. 1 crore) in plant and machinery is termed as an export oriented Small Scale Industries (SSI) unit

In India no separate definition of medium enterprises exists and as such there is no specific definition of Small and Medium Enterprises (SMEs.) Administratively, in the Indian context, the industry universe is divided into three major segments.

These cover SSI units (both in the Factory and Non/Factory sectors) and power loom units. Such units mostly use power driven machinery and possess superior production techniques. Units in this sub-sector are generally located in close proximity to large industrial centers or urban areas. These industries are moving away from the traditional products to knowledge-based products. Traditional SSI comprises of tiny and cottage industry segments like handlooms, khadi and village industries, handicrafts, sericulture and silk, rubber and coir. These

units are labour- intensive, are generally located in rural and semi-urban areas and are artisan based. Usually the capital invested is also nominal.

## **VIII. CHARACTERISTICS OF SSI IN INDIA**

Small-scale industries have certain unique features, which distinguish it from the Large-scale sector. There are some salient characteristics of small-scale businesses. In most small businesses the owners themselves are managers and so they can operate independently. They can give customized service to their clients, which in many cases is their USP (Unique Selling Point). Since most small businesses are a one-man show and they do not have to go through a hierarchy to get permissions to make changes. Small business can respond quickly to environmental trends. Nimbleness and agility are characteristics that allow small entrepreneurs to understand market conditions and rapidly respond to changes. Small businesses have tremendous capacity for employment generation through their labour intensive techniques. Small businesses actually create more jobs than big businesses. This feature of a small-scale unit is of great significance in a country like India where the number of unemployed people is phenomenal. Small businesses are largely local in operation; however the market for its products may be local, regional or even international 'SIDBI report (1999)'. The capital investment in the small sector is generally low and the time taken for production to commence is also less. As a result of short gestation period the units give quick returns and consequently the pace of economic development quickens. Another feature of the Indian economy and most of the developing economies is the scarcity of capital. The modern large scale sector requires colossal investments whereas the small sector is just the opposite. Not only is the employment capital ratio high for the SSI but the output capital ratio is also high. SSI's are helpful in balanced regional development. Dispersion of small business in all parts of the country helps in removing regional imbalances by promoting decentralized development of industries.

The following are some of the important role played by small- scale industries in India.

### **8.1. EMPLOYMENT GENERATION**

The basic problem that is confronting the Indian economy is increasing pressure of population on the land and the need to create massive employment opportunities. This problem is solved to larger extent by small-scale industries because small- scale industries are labour intensive in character. They generate huge number of employment opportunities. Employment generation by this sector has shown a phenomenal growth. It is a powerful tool of job creation.

### **8.2. MOBILIZATION OF RESOURCES AND ENTREPRENEURIAL SKILL**

Small-scale industries can mobilize a good amount of savings and entrepreneurial skill from rural and semi-urban areas remain untouched from the clutches of large industries and put them into productive use by investing in small-scale units. Small entrepreneurs also improve social welfare of a country by harnessing dormant, previously overlooked talent.

Thus, a huge amount of latent resources; re being mobilized by the small-scale sector for the development of the economy.

### **8. 3. EQUITABLE DISTRIBUTION OF INCOME**

Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive.

Thus small-scale industries ensures equitable distribution of income and wealth in the Indian society which is largely characterized by more concentration of income and wealth in the organized section keeping unorganized sector undeveloped. This is mainly due to the fact that small industries are widespread as compared to large industries and are having large employment potential.

### **8.4. REGIONAL DISPERSAL OF INDUSTRIES**

There has been massive concentration of industries in a few large cities of different states of Indian union. People migrate from rural and semi urban areas to these highly developed centres in search of employment and sometimes to earn a better living which ultimately leads to many evil consequences of over-crowding, pollution, creation of slums, etc. This problem of Indian economy is better solved by small- scale industries which utilize local resources and brings about dispersion of industries in the various parts of the country thus promotes balanced regional development.

### **8.5. PROVIDES OPPORTUNITIES FOR DEVELOPMENT OF TECHNOLOGY**

Small-scale industries have tremendous capacity to generate or absorb innovations. They provide ample opportunities for the development of technology and technology in return, creates an environment conducive to the development of small units. The entrepreneurs of small units play a strategic role in commercializing new inventions and products. It also facilitates the transfer of technology from one to the other. As a result, the economy reaps the benefit of improved technology.

### **8. 6. INDIGENIZATION**

Small-scale industries make better use of indigenous organizational and management capabilities by drawing on a pool of entrepreneurial talent that is limited in the early stages of economic development. They provide productive outlets for the enterprising independent people. They also provide a seed bed for entrepreneurial talent and a testing ground for new ventures.

### **8. 7. PROMOTES EXPORTS**

Small-scale industries have registered a phenomenal growth in export over the years. The value of exports of products of small-scale industries has increased to Rs. 393 crores in 1973-74 to Rs. 71, 244 crores in 2002-03. This contributes about 35% India's total export. Thus they help in increasing the country's foreign exchange reserves thereby reduces the pressure on country's balance of payment.

### **8.8. SUPPORTS THE GROWTH OF LARGE INDUSTRIES**

The small-scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing, components, accessories and semi finished goods required by them. In fact, small industries can breathe vitality into the life of large industries.

## **8. 9. BETTER INDUSTRIAL RELATIONS**

Better industrial relations between the employer and employees helps in increasing the efficiency of employees and reducing the frequency of industrial disputes. The loss of production and man-days are comparatively less in small- scale industries. There is hardly any strikes and lock out in these industries due to good employee-employer relationship.

Of course, increase in number of units, production, employment and exports of small- scale industries over the years are considered essential for the economic growth and development of the country. It is encouraging to mention that the small-scale enterprises accounts for 35% of the gross value of the output in the manufacturing sector, about 80% of the total industrial employment and about 40% of total export of the country.

## **IX. ROLE OF SMES FOR IN THE INDIAN ECONOMY**

After Independence, the foremost task for the government was to achieve rapid industrialization of the country within the overall framework of a welfare state. The plan objective of economic growth with social justice was kept in view in the overall strategy of industrial development. Large, medium and small industrial units have been assigned a mutually complementary role with a view to facilitate an integrated and harmonious growth of industrial sector as a whole. National accounts statistics classify manufacturing income into income from registered and unregistered units. Income contributed by enterprises governed by the Indian Factories Act 1948 (i.e. those units which employ on any day of the year 10 or more workers while using power and 20 or more workers with completely manual process of production) is the income from registered units. Unregistered manufacturing income is the income originating from the establishment other than registered factories. The categorization of large scale and small and medium enterprises by labeling the registered manufacturing as the large scale and the unregistered manufacturing as the SMEs is not correct because the registered manufacturing also includes the SMEs registered under the Factories Act. Industrial Policies of the Government of India and the respective State Governments have been encouraging the small enterprises so as to fulfill the objectives of decentralization of industries, employment generation and entrepreneurial development. In the absence of adequate data, exclusively on the SMEs sector, it was difficult to make realistic assessment of the performance of SMEs. It is clear from the inception of development programs, the revival of various stagnant village and cottage industries were given a prominent place in the country's economic agenda. The guiding principles were enshrined in the Directive Principles of State Policy in the Constitution of India, which enjoined upon the state to strive to minimize income inequalities and regional disparities, and promote cottage industries in the rural areas. Because of the historical background and the constitutional mandate, the Government of India, while framing the industrial policy, accorded special status and importance to the "Small and medium enterprises".

## **X. PRESENT POLICY FRAMEWORK AND FOCUS AREAS**

Policy –Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 intended to promote the development of these enterprises and also enhance their competitiveness. It provides the first- ever legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and sees to integrate the three fires of these, namely,

micro, small and medium. The act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises, and with a wide range of advisory functions. It offers the establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/ programmers for this purpose. It also makes provision for progressive credit policies and practices. As said by Prof A.K.Sengupta that government prefers procurements of products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the act.

The Ministry of MSME (Micro, Small and Medium Enterprises) has also taken a view, in the light of the liberalized provisions of the MSMED Act 2006, to do away with the restrictive 24% ceiling prescribed for equity holding by industrial undertakings, whether domestic or foreign, in the erstwhile Small Scale Industries (now MSEs). This coupled with an expected legislation on Limited Liability partnerships (introduced in the Parliament by the Ministry of Corporate Affairs, 2006) should pave the way for greater corporatization of the Small and Medium Enterprises- thereby enhancing their access to equity and other funds from the market of these products in keeping with the global standards. The Ministry of Micro, Small and Medium Enterprises has drawn up a road map and has been holding detailed consultations with stakeholders to generate condenses on further trimming this list (Prof. A.K Sengupta, Project Report, Planning Commission, GOI).

## **XI .IMPACT OF SMALL BUSINESS ON NATIONAL ECONOMY**

Small business has played a very crucial role in transforming the Indian economy from a backward agrarian economy to its present stature. Its benefits range from creating job opportunities for millions of people, including many with low levels of formal education. It has nurtured the inherent entrepreneurial spirit in far flung corners of the nation resulting in the growth and development of all regions. It has been instrumental in raising the standard of living of the multitudes. The small scale sector has contributed specifically in the following areas. The SSI sector in India is the second largest manpower employer in the country next only to the agriculture sector. India is characterized by abundant labour supply and is plagued by unemployment and underemployment. Under these circumstances the small-scale sector is a boon. For every Rs.0.1million of investment, the small-scale sector provides jobs to 26 people as compared to 4 jobs created in the large-scale sector (C.B Gupta, S.S Khanka, 2003). It helps in industrialization of rural and backward areas. Many small units produce sub-parts, assemblies, components and accessories for the large scale sector especially in the electronic and automotive sectors. The most significant contribution of the SSI has been in the field of exports. There has been a significant increase in the exports from this sector of both traditional and non-traditional goods including jewellery, garments, leather, hand tools, engineering goods, soft ware etc. Development of entrepreneurship is one of the major objectives of SSI's. Small business taps the latent potential available locally. This way they facilitate the spirit of enterprise, which results in overall growth, and development of all the regions /sectors of the nation

## **XII. PROBLEMS OF SMALL BUSINESS**

While the small entrepreneurs can set up a unit even with less capital, enjoy quick returns and have the flexibility to handle the vagaries of the market, they have to face many problems. Paucity of finance is a major problem for SSI's. The small entrepreneurs possess a weak financial structure and find it extremely difficult to obtain credit because of lack of collateral security. This acts as a big handicap, especially in the initial stages, in most of their operations like their ability to hire the best workers or to purchase the latest machinery and equipment or to acquire sophisticated technology. Poor availability of power and other infrastructure is another barrier for development. Though infrastructural bottlenecks are problems for big businesses too, yet they can overcome these problems to some extent because of their financial strength e.g. generating their own power, or even influencing the government in framing its policies sometimes. The small entrepreneur on the other hand has to battle with them. Obsolete Technology for SSI's is the problem which does not allow firm's to be competitive. Most small businesses use old technologies because they cannot afford better. The problems of SME's are classified as under:

1. Market Structure Problems
2. Logistic Problems
3. Managerial Problems
4. Economic Problems
5. Communication Problems
6. Socio-psychological Problems.

As a result the quality of their goods is inferior and the cost of production is higher than in case of other big ventures. This has acted as a serious handicap especially after opening up of the economy when they have had to compete with imported goods. The small entrepreneur cannot supply standardized goods of high quality and as a result cannot compete with products of large companies or MNCs. They usually do not have a brand name or loyalty, as there are hardly any funds for advertising or sales promotion. All these increase their marketing woes. Poor managerial and organizational skills do not allow SSI's to be efficient and effective. Usually the entrepreneur has to perform a multitude of diverse functions invariably without having any exposure to professional education or formal training. The large sector on the other hand can hire the best qualified and trained people.

High incidence of sickness is prevalent in SSI as 7 out of 10 small businesses usually fall sick and die within 3 to 5 years. Main causes for this are a wrong choice of product, poor managerial skills, lack of experience, poor quality of products because of the use of old technologies, etc

Apart from the above-mentioned problems the small entrepreneur has weak bargaining power to deal with suppliers and financial institutions, has to face bureaucratic red tapism and is unable to invest in Research and Development. After the opening up of the economy the small sector has been finding it extremely difficult to compete with the high quality goods available in the market.

Industrial sickness is the key event of modern industrial age; and incidence of sickness has been growing in such a large proportion that a large number of new units covering all types of units in small, large and medium sectors are added in this category. The rapid growth and magnitude of industrial sickness is puzzling issue not only for present but also for all time to come, especially for India coming into 21st Century. The society is also



affected by the phenomenon, of sickness as unemployment in the wake of retrenchment of workers, spreads widely leading to them out of job. It also affects availability of goods and services and price soar up. The share holders loss their hard earned savings creditors lose their cash and future prospect of business, Besides entrepreneurs, managers face numerous problems, difficulties in wake of closing down their units or at low productivity that leads financial loss,(Sengupta, Prof. A.K, Project Report, Planning Commission Government Of India)

Therefore the strategy for attacking sickness may be classified in two categories; First is preventive and second is curative for the eradication of sickness. These measures can be considered at several stages and levels of organization and stakeholder such as government agencies, institutional finance, entrepreneurs and workers.

The constraints for the SSI in India for export competitive include product reservations, regulatory hassles, both at the entry and exit stages, insufficient finance at affordable terms, inflexible labor markets and infrastructure related problems - like high power tariff, and insufficient export infrastructure. Some important characteristic are identified as the greatest obstacles to the internationalization of SMEs by UNICEF.

First one is lack of entrepreneurial skills which does not allow optimum utilization of opportunity and resources. Lack of managerial and marketing skills does not allow optimum coordination, production, pricing and revenue generation for the firm. Lack of accessibility to investment and financial resources become obstacle for the expansion of firm and also generation of further revenue, employment generation and being helpful min in socio economic enhancement of the people. Lack of government incentives for internationalization of SMEs has also discouraged SSI's from being competitive and become a large firm then just being SSI's. Lack of accessibility to information and knowledge does not allow firm to be updated and forward moving for the attainment of firm's objective. Competition of indigenous SMEs in foreign markets is big threat cut throat competition for market share could of the main thereat for the firm. Due to low marginal revenue and slow it becomes quite difficult in accessing the financial resources, lack of capital. Inadequate behaviors of multinational companies against domestic SMEs due to substandard product and services, high risk and low revenue generation, Lack of government supply-supporting programs are not effective enough. Product and service range is very thin and its usage differences are limited. Due to substandard product and services there is huge risk in selling and marketing in abroad market. Language barriers and cultural differences, also plays major in discouraging the firms. Inadequate intellectual property protection does not allow technology to be transferred and it does not allow up gradation of the technology. Encroachment of SSIs by Medium and Creamy layer industries, and it did not allowed growth of the SSI's units. Infrastructural problems like high power tariff, insufficient export infrastructure not affordable for small units due high cost. Red tapism and regulatory hassles both at entry and exist stages create lots of problems for the firms to be operational or for the expansion. Insufficient finance at affordable terms is not available even thou government scheme are there, due to low percentage of revenue generation and high risk (Bharathi Dr. G. Vijaya, Subbalakshumma Dr. P. and Reddy P. Harinatha 2011). Demand for international quality standards in the WTO regime is increasing by each passing day and most of the firms are using obsolete technology and system. Due to recession and economy slowdown cost reduction by customers is going on that is also creating problems by low demand. There is need of fund for modernization and technology up gradation, stringent statutory laws of government, exploitation by major industries, increase

of MNCs with modern technology & machines (Ministry of Small Scale Industries and Agro & Rural Industries , 2007).

### **XIII. SUMMING UP**

The small scale industries play a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. Small scale industries are discussed all over the states and they satisfy local demand. Thus they play a critical role in the development of regions. The government announced some policies and programs to support entrepreneurs of handlooms to sustain employment in rural areas and to improve the quality of life for handloom weavers. Various steps were taken to improve credit flow to SSIs, the government has also introduced various schemes and incentives for the promotion of SSIs and provide institutional infrastructure for SSIs. liberalization and globalization government's support and subsidies are bound to decrease, therefore, strengthening of SSIs for export competitiveness becomes the dire need in India.

No doubt, in India the SSI with their dynamism, flexibility and innovative drive increasingly focusing on improved production methods, penetrative marketing strategies and management capabilities to sustain and strengthen their operations. SSI has been very helpful in generation of revenue mainly through export of goods and addressing the problems such as employment and same time it has raised the socio-economic condition of people.

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