

SMALL SCALE INDUSTRIES IN INDIA: OPPORTUNITIES AND CHALLENGES

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Abstract: Small scale industries (SSI) refer to those small entrepreneurs who are engaged in production, manufacturing or service at a micro scale. Small scale industries play a focal role in the economic and social development of India in the post-independence era. Small scale industries constitute the backbone of a developing economy with its effective, efficient, flexible and innovative entrepreneurial spirit. Round the world SSI units have been accepted originator of economic growth and for promoting equitable development. The contribution of SSIs to the Indian economy in terms of employment generation, reducing regional imbalances, promoting inter-sectorial linkages, magnifying exports and fostering equitable economic growth potential has been quite marvellous. This sector through more than 6000 products ranging from traditional to high-tech, consisting over 36 million units widely dispersed across the country provides employment to over 80 million persons, contributes about 8% to country's GDP beside accounting for 45% of manufactured output and 40% to the export from the country. [1] The SSI sector has the prospective to spread industrial growth round the country and can be a considerable associate in the progress of comprehensive growth. The target of proposed National Manufacturing Policy of enhancing the share of manufacturing sector in GDP to 25% and to create 100 million jobs by end of 2022, as well as to take India from its present 2 trillion dollar economy to 20 trillion dollar economy can be achieved with the help of SSI units. The paper attempts to discuss the role of small scale industries in developing the economy and explore the various problems faced by it.

Keywords- SSI, economic growth, GDP, performance of SSIs

I. INTRODUCTION-

Small scale industries in India and abroad exhibited considerable robustness and pliability in maintaining an unswerving rate of growth and employment generation during the global recession and economic slowdown. The Indian economy during the current fiscal years has shown considerable growth performance by contributing to create livelihood opportunities to millions of people, in magnifying the export potential and in increasing the overall economic growth of the country. As a catalyst to the socio-economic transformation of the country, the SSI sector distinctly crucial in addressing the national objective of bridging the rural-urban divide, mitigate poverty and generating employment for the admirable community of the country. SSI sector comprises almost about 80% of the total industrial units in the country. In India SSIs occupy 36 million units, contribute to 45% of industrial production, 40% to the export sector through more than 6000 products ranging from traditional to high-tech and provides employment to about 80 million persons. Therefore the small scale industries (SSI) in a developing country like India occupy a special place in the industrial structure. In view of the vast potential of small scale industries, the government has given this sector an important place in the framework of Indian economic planning for economical as well as ideological reasons.

II. MEANING OF SMALL SCALE INDUSTRIES

A small scale industry is an industrial undertaking in which the investment under fixed assets in plant and machinery or equipment, whether held on ownership term or on lease or hire purchase, does not exceed ₹ 10 crore for manufacturing enterprise and ₹ 5 crore for service enterprise. However, the investment limit changes overtime as prescribed by the government.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two classes:

1. **Manufacturing Enterprises:** The enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant and Machinery.
2. **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment. [2]

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises is shown in Table I.

Table I- Limit for investment in plant and machinery / equipment

| Enterprises | Investment in plant and machinery / equipment | |
|-------------|---|-----------------------------|
| | Manufacturing Sector | Service Sector |
| Micro | < ₹ 25 lakh | < ₹ 10 lakh |
| Small | > ₹ 25 lakh but < ₹ 5 crore | > ₹ 10 lakh but < ₹ 2 crore |
| Medium | > ₹ 5 crore but < ₹ 10 crore | > ₹ 2 crore but < ₹ 5 crore |

Industrial units are generally classified as small, medium and large scale units considering their size, capital invested and the number of human resource employed. The concept of small business has been defined by different countries in different ways, however the definition changes over time. The criteria adopted in different countries are shown in Table II.

Table II- Criteria of defining small business in various countries

| Criterion | Countries |
|-----------------------------------|----------------------------|
| Employment | USA and UK |
| Investment in Plant and Machinery | India, Pakistan, Indonesia |
| Investment and Employment | Japan, Korea, Philippines |
| Employment and Sales turnover | Korea(commerce) |
| Investment and Sales turnover | Malaysia |
| Production / Sales turnover | China, UK(commercial) |

Source: Gupta C.B. & Khanka S.S., 'Entrepreneurship and Small Business Management(2010)', Sultan Chand & Sons, NewDelhi, page 2.4

The small scale industries in India whether in manufacturing sector or service sector are split up into five parts:

1. Manufacturing industries: These units are producing merchantable articles for direct consumption and also for processing industries, example: khadi industries, food processing industries, power looms, etc.
2. Ancillary industries: The ancillary industries produce parts and components for large industries.
3. Service industries: Service industries are known for covering all light repairs shop that is essential to maintain mechanical equipment. These industries completely depend on machinery.
4. Feeder industries: These industries produce certain specialised products like electroplating, casting, welding, etc.
5. Mining or Quarries: These industries caters the demand of different types of stones and minerals of the Indian and foreign market.

III. OBJECTIVE OF THE STUDY

1. To study the needs and importance of Small scale industries or MSME
2. To focus on the huge growth potential and opportunities available for SSI
3. To review the performance and challenges faced by SSIs in India

IV. RESEARCH METHODOLOGY

The descriptive methodology has been used to collect the data, the data collected mostly from secondary sources from various journals, books, articles, government published annuals reports, website of different government agencies.

V. LITERATURE REVIEW

Although small scale industries continue to straddle the industrial sector round the world, the literature on their varied functioning are not many especially with reference to changing perspectives.

Srinivas K T, (2013) has studied the performance of micro, small and medium enterprises and their contribution in India's economic growth and concluded that MSMEs play a vital role in the inclusive growth of Indian economy.

J. Stamely and Michael (1998) in International Marketing under the chapter "Exporting not just for small business show the problems for small exporter and found that

- A relatively large domestic market and lack of exposure to other cultures, making the selection of markets and identification of customers in abroad difficult.
- The lack of managerial capabilities and general resource.
- Controlling the foreign operation, channel, policy and physical distribution.
- Different safety and quality standard.

Sumanjeet Singh and MinakshiPaliwal (2017) in “unleashing the growth potential of Indian MSME sector” had concluded that undoubtedly the MSME sector has huge potential for generating innovative entrepreneurship and massive employment but some problems confronting MSMEs are

- Lack of access to finance
- Lack of access to penetrate foreign market
- Lack of skilled manpower
- Lack of reliable and stable infrastructure
- Ineffective marketing network

Dr.Reetu Sharma (2012) in “problems and prospects of small scale industrial units (a case study of exporting and non-exporting units in Haryana) had concluded that SSI units are at a developing stage and more expansion is required but some problems need to be solved

- Underutilization of installed capacity
- The marketing activities to be strength for selling SSI manufactured products

VI. OPPORTUNITIES AND PERFORMANCE OF SMALL SCALE INDUSTRIES

Small scale industries are the second largest employer of human resource after the agricultural sector and produce a wide variety of products ranging from traditional to high-tech. SSI plays a pivotal role in the Indian economy as of being labour-intensive, helps to generate employment in rural as well as in urban areas. The SSIs had also played a cardinal role in the growth operation of Indian economy since independence despite of drastic competition from the big industrial houses and not immensely enriching support from the government. The following are some of the principal role played by small-scale industries in India.

1. Origination of employment:

The elemental problem that is confronting the Indian economy is escalating pressure of population on land and needs to create enormous employment opportunities. This problem can be solved to a larger scale by the help of small-scale industries as small scale industries are labour intensive in nature and has shown an outstanding growth in the last decade. The employment generation by SSIs is shown in Table III.

Table III. Employment generation by SSIs

| YEAR | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Employment Generated (in lakh) | 260.21 | 271.42 | 282.57 | 294.91 | 805.23 | 842.00 | 880.84 | 921.79 | 965.15 | 1011.69 | 1061.40 | 1114.29 | 1171.32 |
| Growth % | - | 4.31 | 4.11 | 4.37 | 173 | 4.57 | 4.61 | 4.65 | 4.70 | 4.82 | 4.91 | 4.96 | 5.12 |

Source: Annual report, Government of India, Micro, Small and Medium Enterprises (2012-13) &(2015-16)

2. Equitable distribution of income:

Small scale industries trigger the equitable distribution of wealth and income within societies in ways that are economically positive and without being politically turbulent, which is chiefly categorized by more concentration of income and wealth in the organised sector keeping behind the unorganised sector underdeveloped.

3. Assembling of resources and entrepreneurial skill:

Small scale industries can assemble an adequate amount of savings and entrepreneurial skill from semi-urban and rural areas remain unblemished from the clench of large scale industrial sector, also helps to improve the social welfare in the country by identifying hidden talents from the weaker section of the society and investing the intellectual skill for producing or manufacturing commodities. The investment by small scale industries had increased over the last decade as shown in Table IV.

Table IV. Investment by small scale industries

| YEAR | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|-----------------------|-----------|-----------|-----------|------------|------------|------------|------------|------------|------------|
| Investment (in crore) | 868546.79 | 920459.84 | 977144.72 | 1038546.08 | 1105934.09 | 1182757.64 | 1268763.67 | 1363700.54 | 1471992.94 |

Source: Annual report, Government of India, Micro, Small and Medium Enterprises (2015-16)

4. Regional dispersion of industries:

There has been an enormous agglomeration of industries in few metropolitan cities of different states of India. People in search of employment migrate from semi-urban and rural to these developed metropolitan cities to earn a better standard of living which

ultimately leads to malicious outcome of over-populated, pollution, creation of slums, etc. Small scale industries can overcome this problem of Indian economy by utilising local recourses in terms of raw material, investment, intellectual skill, etc, thus brings about dispersion of industries in various parts of the country and promote balance regional development.

Table V. Top 10 states in terms of number of MSME establishment

| Rank | State | Number of establishments |
|------------------|----------------|--------------------------|
| 1 | West Bengal | 5269814 |
| 2 | Uttar Pradesh | 5238568 |
| 3 | Maharashtra | 4545581 |
| 4 | Tamil Nadu | 3282197 |
| 5 | Andhra Pradesh | 2781291 |
| 6 | Kerala | 2364085 |
| 7 | Rajasthan | 2270936 |
| 8 | Gujarat | 2218464 |
| 9 | Karnataka | 2188860 |
| 10 | Madhya Pradesh | 1958550 |
| Total | | 32118346 |
| All India | | 45363786 |

Source: Annual report, Government of India, Micro, Small and Medium Enterprises (2015-16)

5. Export enhancement:

Small scale industries have registered a magnificent growth in export over the years. The value of products exported by the SSIs has increased from 155 crores in 1971-72 to 124417 crores in 2004-05. The SSI units contributes about 40% of India's total export, thus this helps India in increasing the foreign exchange reserve and reduces the pressure on country's balance of payment.

Table VI. Total Exports of the country and share of SSI Sector (Rs. in crores)

| YEAR | TOTAL EXPORT | EXPORT BY SSIs | % SHARE OF SSIs IN EXPORT |
|-----------|--------------|----------------|---------------------------|
| 1971-1972 | 1608 | 155 | 9.6 |
| 1976-1977 | 5142 | 766 | 14.9 |
| 1981-1982 | 7809 | 2071 | 26.5 |
| 1986-1987 | 12567 | 3644 | 29.00 |
| 1991-1992 | 44041 | 13883 | 31.5 |
| 1992-1993 | 53688 | 17778 | 33.1 |
| 1993-1994 | 69571 | 25307 | 36.4 |
| 1994-1995 | 82674 | 29068 | 35.2 |
| 1995-1996 | 106465 | 36470 | 34.3 |
| 1996-1997 | 117524 | 39248 | 33.4 |
| 1997-1998 | 126286 | 44442 | 35.2 |
| 1998-1999 | 141604 | 48979 | 34.6 |
| 1999-2000 | 159161 | 54200 | 34.0 |
| 2000-2001 | 202510 | 69797 | 34.47 |
| 2001-2002 | 207746 | 71244 | 34.29 |
| 2002-2003 | 252790 | 86013 | 34.03 |
| 2003-2004 | 291582 | 97644 | 33.49 |
| 2004-2005 | 361879 | 124417 | 34.38 |

Source: DC(MSME) and Ministry of Commerce & Industry [3]

6. Supports the growth of large industries:

The small scale industries play a pivotal role in serving big industries by providing accessories, components, small parts and semi finished goods required by big industries.

7. Better relation between employer and employees:

In small scale industries better industrial relation between employer and employees helps in increasing employee's efficiency and minimise the chance of industrial dispute, leading to comparatively less loss of production and man-days.

VII. CHALLENGES FACED BY SSIs

In spite of expedient contribution by the SSIs towards the Indian economy, SSIs does not get the indispensable support from the concerned Government departments, financial institutions, Banks, credit societies and corporate thus the SSIs are becoming handicap in the face of competition at national and international markets. The major problems faced by the SSIs are discussed below:

1. Scanty credit assistance

Scanty and timely supply of credit is one of the major problems faced by SSIs in India. Scarcity of finance and weak creditworthiness is the main barrier for the development of SSIs in India. The creditworthiness of these small borrowers is generally weak and therefore they face unwilling creditors who may be persuading to lend only at high rate of interest.

2. Uneven and poor quality of raw material

SSI units face extreme problems in procurement of raw materials whether from local or international market. The problems arise due to absence of sufficient quantity of raw materials, poor quality of raw material at exorbitant price. The entrepreneur of SSI units has lack of knowledge about the procurement from foreign market. Large scale industries enjoy economies of large scale operation hence can procure the quality raw material at very reasonable price, thus can sell the products at cheaper price as compared to SSIs.

3. Absence of organised marketing process

SSI units do not have any organised marketing process and even does not appoint any marketing organisation for marketing of products or services and hence their products compare unfavourably with the quality of the products of large scale industries. They suffer competitive disadvantages in comparison to large scale industries, as large scale industries infuse large amount of money on branding and promotion activities.

4. Inadequate infrastructure

Inadequate infrastructure is a major problem for the SSI units to grow and prosper. Most of the SSI units are located in semi-urban, urban and rural areas where the power supply is inadequate to run big machines, several times power cut off, and poor road connectivity. Thus absence of adequate infrastructure adversely affects the productive schedule of the enterprise leading to under-utilization of capacity. More over the machineries, equipments and technology employed by the SSIs are out dated, where the large scale organisation enjoys the competitive advantages.

Beside the above mentioned problems SSI units suffer from a number of other problems also poor managerial capabilities, lack of adequate warehousing for free supply of goods, lack of skilled manpower, lack of appropriate information, etc. Due to all these problems the progress and development of Small scale industries could not reach the distinguished stage.

Conclusion

The furtherance and advancement of SSIs is essential for the development of Indian economy to achieve impartial distribution of income and wealth, economic self-dependence and economic sustainable developments. To boost the SSI sector so that it can take deserved place in the growth mechanism of Indian economy, it is essential to support MSMEs by educating them to make optimum utilisation of inbuilt capacity to be successful both under human and economic activity. Some appropriate measures to be taken by the government in providing financial assistance at minimum formalities, a platform to be built by government to help the MSMEs in procurement of quality raw material and train them for organised marketing process.

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