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## **Performance and Challenges facing Small Scale Industry in India**

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### **Abstract**

The role of small-scale industries has always been supported in a country like India with various opinions such as employment, equality, latent resource, trickling effect, insurance against social tension, distributive effect, creation of social eco-system and decentralization etc. The other arguments in favor of this are making provision for self-employment and capital formation. The Study Focus on of SSIs has received many responses from various economists. The study Mainly Focused on the performance and Challenges of the small-scale sector has a direct impact on the growth of the overall economy in terms of number of units, production, employment and exports. It may help to understand its role in the economic development of the country.

Key Words: SSI Performance and Challenges, Production, Employment, Exports, GDP.

### **1.INTRODUCTION**

The small scale industrial sector comprising micro and small enterprises has been recognized as an engine of growth all over the world. This sector is characterized by low investment requirement, operational flexibility, location wise mobility, and import substitutions. They have been the prime mover of industrial development in many developed economies. The small scale industrial units are the roots and fruits of economic activities. They provide way of life to more number of people and increased economy level in the Country. With less amount of capital investment, this sector contributes more towards GDP, provides more employment opportunities, offers unique product and service offerings, and serves customers with personal attention. Though the large and medium types of industries make the infrastructure and skeleton of an economy, the blood, flesh and skin of a flourishing economy is made up of small scale industrial units.

### **SMALL SCALE INDUSTRIES (SSI) IN INDIA**

Small scale industries have made considerable contribution to the socioeconomic development of almost all the countries including India. In our country, the increasing pressure of population and unemployment has made this contribution even more significant. In India, ever since the days of Mahatma Gandhi, the small scale industry movement has been largely regarded as a vehicle for uplifting the weaker sections of the population whether it is handloom weavers, handicraft workers, rural women spinning at home, the rural artisans or the urban craftsmen-all of them look to specific support in being able to compete with the modern industrial sector. The small scale industry is phenomenal in our country that it has started thinking global in the wake of liberalization in the nineties. The SSI sector as an important segment of Indian economy, accounts for 95 per cent of the industrial units; 40 per cent of output in the manufacturing sector; employment to over 17 million persons; 35 per cent of total exports.

### **Definition of Small Scale Industry**

Defining small-scale industry is a difficult task because the definition of small-scale industry varies from country to country and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country. Every country has set its own parameters in defining small-scale sector. Generally, small-scale sector is defined in terms of investment ceilings on the original value of the installed plant and machinery. But in the earlier times, the definition was based on employment. Fixed capital investment in a unit has also been adopted as the other criteria to make a distinction between small-scale and large-scale industries. This limit is being continuously raised upwards by the government. The Small Scale Industries Board in 1955 defined, "Small-scale

industry as a unit employing less than 50 employees if using power and less than 100 employees if not using power and with a capital asset not exceeding Rs. 5 lakhs".

#### **MICRO ENTERPRISE:**

A micro-enterprise is one where the investment in plant and machinery (the original cost excluding land, building and items specified by the Ministry of MSME in its does not exceed Rs.25 lakh.

#### **SMALL ENTERPRISE:**

A small enterprise is one where the investment in plant and machinery (see above) is more than Rs.25 lakh but does not exceed Rs.5 crore.

#### **MEDIUM ENTERPRISE:**

A medium enterprise is one when the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

#### **SSI Investment Level:**

- **Micro-enterprise:** investment in equipment does not exceed Rs.10 lakh.
- **Small enterprise:** investment in equipment is more than Rs.10 lakh but does not exceed Rs.2 crore
- **Medium enterprise:** investment in equipment is more than Rs.2 crore but does not exceed Rs.5 crore.

#### **MANUFACTURING ENTERPRISES**

The enterprises engaged in the manufacture 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 enterprises are defined in terms of investment in plant & machinery.

#### **SERVICE ENTERPRISES:**

The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment. **Manufacturing Sector Enterprises** Investment in plant & machinery Micro Enterprises Does not exceed twenty five lakh rupees Small Enterprises More than twenty five lakh rupees but does not exceed five crore rupees Medium Enterprises More than five crore rupees but does not exceed ten crore rupees **Service Sector Enterprises** Investment in equipments Micro Enterprises Does not exceed ten lakh rupees: Small Enterprises More than ten lakh rupees but does not exceed two crore

rupees Medium Enterprises More than two crore rupees but does not exceed five crore rupees.

#### **Promotion of small-scale industrial (SSI) sector**

The promotion of small-scale industrial (SSI) sector becomes inevitable to countries like India due to its inherent strength such as low capital intensity, short gestation period, the high employment potential, capacity to induce dispersal of industrial activities and widening of the entrepreneurial base. Advancements in social, economic and cultural life of human beings in the previous and current centuries brought a significant improvement in the way people think and live. The dawn of information age brought a notable change in the way goods, service and ideas are created, delivered and consumed by the people. In the industrial world at present, more and more manufactures try to communicate and convince more and more consumers. The complexity and peculiarities of the industrial, commercial, economic and government activities reach new peaks the manufacturers and consumers are found in all parts of the world, stretching beyond the national boundaries. This warrants more innovative way of doing business in the 21st century.

#### **MINISTRY OF SMALL SCALE INDUSTRIES:**

The Ministry of Small Scale Industries (SSI) is a defunct Indian government ministry. It was merged with the Ministry of Agro and Rural Industries to form the Ministry of Micro, Small and Medium Enterprises. The ministry was tasked with the promotion of micro and small enterprises (MSEs). The Ministry of Small Scale Industries and Agro and Rural Industries (SSI&ARI) was created in October 1999. In September 2001, the ministry was split into the Ministry of Small Scale Industries (SSI) and the Ministry of Agro and Rural Industries (ARI). The Ministry of Small Scale Industries merged with the Ministry of Agro and Rural Industries to form the Ministry of Micro, Small and Medium Enterprises in 2007. The Small Industries Development Organization (SIDO) was under the control of the ministry, as was the public sector undertaking National Small Industries Corporation Limited (NSIC). The small scale industrial units though seem to be small, when considered individually, have emerged as a dominant force that directs the growth of the economy of a country.

#### **Role of Small Scale Industry:**

Small-scale industries have played a very important role in the development of country. The government in its budget normally emphasizes on the contribution of the small and medium scale enterprises. The role of small-scale industries has always been supported in a country like India with various opinions such as employment, equality, latent resource, trickling effect, insurance against social tension, distributive effect, creation of social eco system and decentralization etc. The other arguments in favor of small-scale industries are making provision for self-employment and capital formation and they are skill light, import light and quick yielding. Analysis of the data on SSIs has received different responses from different economists in different studies, right from one of the earliest studies in 1961. The performance of the small-scale sector has a direct impact on the growth of the overall economy. The parameters like number of units, production, employment and exports will help to understand its role in the economic development of the country.

#### LITERATURE REVIEW

**Dhar and Lydall, Sandesara**, in their study have found out that the small scale industries are generating less amount of employment vis-à-vis large scale industry. These small-scale industries in the modern times have become more capital intensive rather than labour intensive.

**Biswanath Goldar**, in his study on productivity of the small scale sector found out that the SSIs have low labour productivity while capital productivity is very high. But the overall total factor productivity has been less. Goldar in his studies also further emphasized that the SSI should not be relied upon as a source of efficient employment generation.

**Ramsingha, K** in his study showed that the value added by a rupee worth of fixed investment in small factories is at least three times as large as that for a large factory. This has also been supported by a recent study by SIDBI and NCAER. Some of the studies have been undertaken on the factors that are proving a hindrance to growth of these small enterprises promoted by various entrepreneurs.

**Clacy and Lakhmakker**, in their study have found out that the small-scale industry freedom to choose gets effected in response to the fierce competition. Technology deployed by small-scale units has been static in spite of the availability of improved technologies on the Indian market.

**Pattnaick, S.M.**, in their study found out that small firms bear a very heavy burden in dealing with government. There is a need to come out of the inspector raj syndrome to simplify the umpteen laws and regulation ranging from Labour Compensation

Act to the Unionization Act, which needs to be merged.

#### SIGNIFICANCE OF THE STUDY

The limited literature review shows that small-scale industry development is dynamic and a comprehensive one-time study is not possible, which explores the causal relationship among the variables that help in judging the performance of the small-scale industries for all times. In this study the authors have tried to find the causal relationship among the three variables GDP, SSI output and SSI exports and also have compared the performance parameters in the pre and post liberalization era.

#### OBJECTIVES OF THE STUDY

- To evaluate the performance of the small scale industries taking into account the parameters like employment generated, exports, number of units and productivity per employee in the pre-liberalization and post-liberalization period.
- To test the bi-directional causal relationship between exports of SSI with GDP, and total output in SSI with GDP.
- To evaluate the Challenges faced by the small scale industries.

#### RESEARCH METHODOLOGY

The study is based on the data on Number of units, total production, productivity per employee, small scale exports and GDP compiled from the secondary sources i.e. Handbook of Statistics on The Indian Economy, Reserve Bank of India, 2006-2007. The study is based on the data available for the period 2006-2009 for performance evaluation of Small Scale Industries. This study majorly focused on micro, small and medium enterprises located in industrial areas and prominent markets of Tamil Nadu. Various manufacturers, service providers, start-ups from the food industry, IT industry and textile manufacturing industry were interviewed as a part of the study.

#### Data Collection:

Both primary and secondary data was collected for the study. Secondary data was collected from specific reports, articles and other internet sources. Primary data was collected by personally interviewing people or sending them questionnaires. To capture a wide spectrum of problems different kinds of SSIs were interviewed including manufacturing Study of SSIs. The Manufacturing sector enterprises, services sector enterprises, food industry, start ups and enterprises registered as Small Scale Industry (SSI). The questionnaires were

prepared by appropriate secondary data collection and analysis. Collected data was then compiled, critically analyzed and the research was concluded with policy recommendations.

### **Importance of Small Scale Industry:**

Small Scale enterprises are an integral part of the economy. They provide employment opportunities to the weakest and poorest strata of the society, giving them a way out of the perpetual poverty that they seem doomed to. SSIs tap into the raw, latent entrepreneurial potential of the country acting as seedbeds of innovation. In the pre independence period organized industrialization did not gain much traction but after independence 'in all the Policy Resolutions from 1948 to 1991, recognition was given to the micro and small enterprises. They were termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital.

### **Challenges faced by SSI Units:**

#### **Finance:**

All the companies require capital to meet their fixed as well as variable costs but most of the SSI Units owners lack required capital to establish and operate the firm, thus they have to resort to borrowing. 'The reliance on debt for finance depends greatly on the size of the firm. Smaller the entity greater is the reliance on debt as a primary source of finance. Micro enterprises depend on debt as a primary source for both early and growth stage while small and services primarily transact in cash and tend to keep minimal records. Manufacturing enterprises and the ones with order-driven services tend to need more finance because of longer working capital cycle and higher capital expenditure.

#### **Marketing:**

A small entity and having a perpetual shortage of finance, the SSIs are unable to market their product as well as the large enterprises which works to their disadvantage. They do not focus on packaging methods or sales and advertising. Most of the firms undergo losses during first five to six years just due to lack of consumer demand. But eventually they make a place in the market based primarily on the quality of their product and contacts that they gather during business transactions. They also use different kinds of marketing techniques such as Campus Ambassador Programmes and influential marketing. They tie up with trading agencies to learn the latest trends in the market and get in touch with brokers to

get initial contracts. Marketing also greatly differs from business to business. For example to market food products media campaigns are used and to market intermediate products distributors are assigned that sell the product in different areas. Government has launched many schemes and has various mechanisms in place to help small firms in the marketing domain but it continues to be a major problem.

### **Government Regulations:**

Employee Provident Fund Registration and ESI (Employee State Insurance) Registration, and construction permits from the Municipal Corporation, to name a few – the sewerage, fire, electricity, environmental departments. For the food industry there are other licenses such as Food Safety and Security License, Health Care License and Police License. Not only the application process for these licenses is cumbersome but the information required to apply for them is difficult to come across too which is the reason why most of the people hire Chartered accountants and Lawyers to get registered. Even after registration and licensing there are problems such as trade barriers. Some state governments do not allow transportation of particular manufactured products into their states without registration. The owner comes to know about these regulations only when he finally has to face the barrier.

### **Competition SMEs:**

Generally facing low competitiveness in terms of knowledge, innovation, prudent investment, business operation, and good management, which are important factors required to elevate the quality level (OSMEP, 2007 a). The large enterprises have the capability of realising economies of scale and therefore reduce the prices of their products. They also spend a formidable amount in marketing their brand either via advertising campaigns, distributors or other means. The SSIs are unable to do such extensive marketing due to shortage of finance which renders them less competitive.

### **Lack of Skilled Labour:**

Even though MSMEs employ 40% of nation's population, according to the entrepreneurs lack of skilled labour is a perpetual problem for SSIs. Educated and skilled people prefer jobs in Large Enterprises due to higher wages and job security as compared to small industries that cannot afford to pay very high wages. So, they have to hire unskilled people and conduct on the job training programs. Eventually the labour tends to perform better giving

better results. It is also a challenge to retain labour as in the micro and small enterprises they generally are not bound by formal contracts.

### SSI Products

- Food
- Textiles
- Jute,
- Textiles
- Hosiery Garments
- Woolen products
- Paper products & painting
- Leather products
- Rubber products
- Chemical products
- Mineral products
- Metal products
- Machinery parts
- Electrical machinery parts

### Limitations of the study:

Insufficient database for small-scale industry is one of the major limitations of the study. The data are not available for all the years. The two major sources of information, viz., Small Industries Development Organization (SIDO) and CSO provide estimates of information based on partial returns and information on unregistered small-scale units is based on estimation is a obvious limitation for all research in this area.

### CONCLUSION

In developing countries like India, Small Scale Industries play a pivotal role in terms of employment and growth of economy. The spectacular expansion of the small-scale sector during the past four decades is as much the result of the policies and programmes of the Government as of the initiative and enterprise of the small entrepreneurs. The performance of the small scale sector in the spheres of production, employment and exports has been impressive. In spite of liberalization and the opening of the economy, the small-scale sector has not only shown constant growth but also outperformed the large-scale sector. Tamil Nadu has been one of the pioneering states in India in encouraging small-scale industries. It occupies the second place in the growth of small-scale industries. The study concludes that Finance is a major obstacle in the growth of micro, small and medium enterprises. The lower and middle class is capable of driving itself out of poverty; it is ambitious and active in taking up new ventures and starting businesses but most ideas are being nipped in the bud because of lack of capital. Not only does it

discourage aspiring entrepreneurs but also plays a huge role in holding back the growth of existing firms. In fact many other factors slowing down growth arise due to lack of finance. For example, technological up gradation becomes a problem only because firms lack enough capital to install new machines, skilled labour can be hired and retained by giving them higher wages etc. Another problems that ails most of the enterprises is Marketing.

Finance is the lifeblood of any business. Adequate finance at the right time at the lowest cost without administrative hassles will give the greater fillip to the growth of SSI. The suggestion made, if implemented, will undoubtedly make the SSI competitive viable and meaningful. Proper treatment to SSI in so far as financing is concerned will help them to contribute significantly to the national economy. The strategies suggested in the study would make the SSI highly competitive and strong to meet all the challenges of the new environment created by globalization. This in turn helps the priority sector to contribute its share to the gross domestic product of the country. In the wake of globalization, the Bank should adopt all the strategies mainly to ensure adequate loans to the Small Scale Industry in india.

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