



MICRO-SMALL ENTERPRISES: EMERGING ISSUES IN INDIA

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Abstract

As an important means of industrialization in any economy is consistently development of micro small industries. This paper discussed the problems of small-scale sector in India which hamper it in achieving its full growth potential. The main problems of this sector arise from certain critical constraints. This study also highlight stiff competition with big manufactures and lieu of financial resources small-scale industries do not get raw material of good quality, and in some cases they do not get enough supplies even of the inferior quality of raw materials. This paper also explain real grass root level problems of micro small enterprises like inadequate finance , technological obsolescence , faulty planning , inefficient labour handling and out dated methods of marketing. This paper also describes the growth of the small-scale sector over the years. This study suggest to government to provide the sound financial, marketing, infrastructural support and adequate training to entrepreneur to overcome the problems to achieve the full growth potential.

Key Words: Micro, Small , Inadequate Finance, Technological Obsolescence.

Introduction

The small-scale industry sector today constitutes a very important sector of the Indian economy. It has emerged as a highly dynamic and vibrant sector for last six decades; it has made significant contribution towards building a strong and stable economy of India. Promotion of as a priority sector has always been a corner stone of Indian industrial policy, and the government has always awarded top priority to SSI on account of the significant role it plays in balanced and sustainable economic growth of the country.

Review of Progress of Small-Scale Industry

At present, 95% of industrial units in the country come under SSI sector, 34.29% of national exports, 6.86% of GDP, employment to 193 lakh persons and production of 7500 items in the industrial SSI sector. About 358 items are reserved for exclusive purchase from the SSI sector. Continuous government support to SSI sector, have helped this sector to emerge as a dynamic and vibrant sector of Indian economy. Taking into consideration the higher potential for growth in SSI sector, the role of the Ministry of SSIs is to strengthen and facilitate the SSI sector to enable it to stay alive in market-led global economy and create additional employment.

The SSI, which from a core sector in the Indian economy in terms of employment, growth has recorded a high rate of growth since independence despite competition with the large-scale sector and MNCs. Selected growth indicators of small-scale industries during 1990-91 and 2004-05 are given in table 1.1 below.

Current definition of Small scale industry as per MSMED ACT-2006

After enactment of the Micro Small and Medium Enterprises Act, 2006 the definition of small-scale enterprises have been changed. The enterprises classified into two categories, manufacturing enterprises and service enterprises. In case of manufacturing enterprises the investment limit for micro enterprises is up to Rs. 25 lakh and for small enterprises more than Rs. 25 lakh and up to Rs.5 Crore.

In case of Service enterprises the investment limit for micro enterprises is up to Rs. 10 lakh and for small enterprises more than Rs. 10 lakh and up to Rs.2 Crore.

Table 1.1: Progress of SSI

Year	No. of units (in Lakhs) Regd.	No. of units (in Lakhs) Unregistered	Total of units (in lakhs)	Production (Rs.Crore) at Current Prices
1990-91	7.90	59.97	67.87	78802
1991-92	8.72	61.91	70.63	80615
	(10.38)	(3.23)	(4.07)	(2.30)
1992-93	9.94	63.57	73.51	84413
	(13.99)	(2.67)	(4.07)	(4.71)

Year	No. of units (in Lakhs) Regd.	No. of units (in Lakhs) Unregistered	Total of units (in lakhs)	Production (Rs.Crore) at Current Prices
1993-94	10.63	65.86	76.49	98796
	(6.94)	(3.62)	(4.07)	(17.04)
1994-95	11.61	67.99	79.60	122154
	(9.22)	(3.23)	(4.07)	(23.64)
1995-96	11.57	71.27	82.84	147712
	(-0.34)	(4.82)	(4.07)	(20.92)
1996-97	11.99	74.22	86.21	167805
	(3.67)	(4.14)	(4.07)	(13.60)
1997-98	12.04	77.67	89.71	187217
	(0.42)	(4.65)	(4.07)	(11.57)
1998-99	12.00	81.36	93.36	210454
	(-0.33)	(4.75)	(4.07)	(12.41)
1999-2000	12.32	84.83	93.15	233760
	(2.67)	(4.26)	(4.07)	(11.07)
2000-2001	13.10	88.00	101.10	261297
	(6.33)	(3.74)	(4.07)	(11.78)
2001-2002	13.75	91.46	105.21	282270
	(4.96)	(3.93)	(4.07)	(8.03)
2002-2003	14.68	94.81	109.49	314850
	(6.76)	(3.67)	(4.07)	(11.54)
2003-2004	15.54	98.41	113.95	364547
	(5.86)	(3.79)	(4.07)	(15.78)
2004-2005	16.38	102.15	118.59	429796
	(5.40)	(3.80)	(4.07)	(17.9)
2005-2006	*	*	123.42	497842
			(4.07)	(15.83)
2006-2007	*	*	361.76	1198818
2007-2008	*	*	377.36	1322777
2008-2009	*	*	393.70	1375589
2009-2010	*	*	410.80	1488352
2010-2011	*	*	428.73	1653622
2011-2012	*	*	447.66	1788584
2012-2013	*	*	467.56	1809976
2013-2014	*	*	488.46	N.A.

Source: Annual report, Government of India, Ministry of SSIs, 2004-2005, Annual report MSME- 2006-07, 2010-2011, 2013-14, 2014-15.

Note: The data for the period up to 2005-06 is of small scale industries (SSI). After 2005-06, data is related with micro, small and medium enterprises (MSMEs). The growth for the year 2010-11 is based on the average growth rate for the previous three years. ** : Provisional, # : Projected, N. A. : Not Available.
*Details of registered and unregistered units not available as from 2005-2006 onwards, only Total no. units is described by the Annual reports of MSME.

Data set out in table 1.1 reveal that there was a total number of 67.87 lakh small-scale industries in 1990-91 which wet up to 118.59 lakh units in 2004-05 indicating approximately 100% increase during a period of 15 years. Likewise, the total production of small-scale units has recorded Rs. 429796 crores at current prices in 2004-05 as compared with production of Rs. 364547 crores in 2003-04 indicating an increase of 17.9%. Over the last five decades, the small-scale industries sector has acquired a place of prominence in the economy of the country. It has contributed significantly to the growth in the number of the Gross Domestic Product (GDP), employment generation and exports. During 1991-92 to 2004-05, the SSI



sector registered continuous growth in the number of units and production. During this period the average annual growth in the number of units was around, 4.7%. While production grew by 13.8% annually.

Apart from quantitative growth, there has been significant improvement in the quality of products of many small-scale industries due to stiff competition in the liberalized business environment of India. This is reflected in the increased variety of items produced to the standards and specifications prescribed by the Railways, Defense Services and several large-scale industries engaged in the production of sewing machines, machine tools, automobiles, tractors, bicycles, electronic and electric appliances, coach building and other railway's equipments and machinery.

Current Definition of Small Scale Industry as per MSME ACT-2006

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Review of Literature

Punam Aggarwal & Vibha Mahajan (2003) suggested that SSI should restrict themselves with respect to technology up gradation quality consciousness, cost and price competitiveness and of course introduction of professionalism in their routine matters.

Prahlad Kasturi (2003) in his observation regarding the globalization suggested that entrepreneurial development greatly assist SSIs find their niche in the global trading regime. Governments need to be proactive and provide needed support to SMEs that are generating sales, exports and employment and helping with economic expatriates who are demonstrating the depth of entrepreneurial talent and ability in managing highly complex and globally. Competitive industries with proper encouragement and training, new entrepreneurs of SSIs can help India gain a leadership role in the new global order.

Neelam Jain (2004) highlighted the problems of SSI i.e. inadequate availability of finance, marketing problems, cheap & low quality products, technology obsolescence, lack of infrastructure facilities, technical skills etc. which SSI sector confront, following the process of globalization. The SSI units have to increase their strength in the sense that these units are not only to keep the existence but also have to develop themselves to the extent possible.

Ritu Sharma (2012), discussed the problems of small scale industries with special reference to exporting and non exporting units in Haryana. Study revealed that non-exporting firms largely faces problem of finance on the other hand exporting units faces the problems of ineffective executives, technological lag. A term of payment is also a big issue for both kinds of firms. Anshu Taunk and Abhimanyu Kumar (2013) highlighted that presently Indian SSI are facing stiff competition as Imported goods are available in domestic market at lower price. On the other hand inadequate finance and poor infrastructure is also big problems of SSI sector in India.

Objectives of the Study

- To identify the different challenges/problems faced by micro-small scale enterprises in India.
- To analyze problems of micro small enterprises to provide measures to overcome these problems.

Data Sources and Methodology

The present study is based on secondary data and mostly collected from the Annual Reports published by the Ministry of Micro, Small and Medium Enterprises, Research journals and internet resources.

Problems of Small-Scale Industries in India

The small-scale sector, however, is facing several problems, which hamper it in achieving its full growth potential. But the main problems of this sector arise from certain critical constraints. Due to stiff competition with big manufactures and lieu of financial resources small-scale industries do not get raw material of good quality, and in some cases they do not get enough supplies even of the inferior quality of raw materials. This sector generally pays higher prices for raw material, and this increasing cost of raw materials raises the prime cost of production and declines the profit and its ability to compete with large-scale industries.



The second equally great problem is the traditional and obsolete method of production without modern implements, which leads to technical inefficiency of SSIs this is also an important reason for increasing the cost of production.

The existing methods of marketing of the products of small-scale industries are defective. There are no sound channels of communication between small-scale producers and ultimate consumers. In many cases, these producers do not know the domestic and international markets where their products are consumed and who purchase them. Lack of adequate statistical data about the small-scale sector is still posing a serious menace in their development and growth. Without reliable statistical regarding production cost, labour, wages prices and extent of market, it was quite impossible to assess their economic potentialities.

Majority of small-scale industries need adequate financial resources for the modernization and expansion of their enterprises. Due to low wages and poor working conditions of these units, skilled and trained human resources are not attracted towards them. Small-scale industries also do not have adequate funds to invest on advertisement of their products so that it could be brought into the knowledge of their ultimate consumers.

The small units depend more on their own funds and borrowed funds from non-banking and non-government sectors because of the fact that institutional lenders like banks and government financial corporations are generally unwilling to advance money to these small scale units, since they have yet to establish themselves. These small units are not in a position to give the guarantee required by the banking sector.

Financial Institutions ask for a lot of information and data for financial support, consequently results in delaying tactics. Marketing is another major hurdle for MSME. The many problems which they face in marketing their products are lack of standardization, ignorance of manufacturers about the export market and the method and procedure of export, poor designing, poor quality, poor bargaining power, absence of marketing research, competition, etc.

One of the major handicaps of the small-scale sector has been the constraint of modern technology to ensure to improve quality and low cost of production. The sub standard quality of goods produced in cottage, and small-scale sector is due to non availability of qualitative raw materials at reasonable price.

The most difficult problem of the small industrialist in present business environment is financial difficulty owing to the problems of late payment of the bills.

Availability of factory accommodation had also been hurdle in the development of small scale industries. In this respect the small entrepreneurs do not want to block large portion of their capital in the construction of factory building and land acquisition.

The non-availability of raw materials in sufficient quantities has been one of the main problems of small-scale industries. They have to purchase the raw material from middlemen on credit due to weak financial position. In view of the serious shortage of raw materials, the industry feels that sizable imports will have to be continued for several years despite the efforts, which have been made to produce natural rubber in new areas.

The Estimated Committee of Parliament has expressed its dissatisfaction over the fact that small scale industries were suffering from chronic shortages of essential raw materials. In its 4th report on the Industries Ministry, the Committee has recommended that, considering the small-scale sector's contribution to industrial production and national economy, its raw materials requirements should be given the highest priority.

Handling labour, which is a major contributor to industrial production, is one of the most difficult tasks of the industrialist because of the human element involved in it. One has to keep abreast of the maze of labour laws, keep changing from time to times. Labour today is fully aware of its rights. It has, therefore, to be handled with patience and understanding.

Suggestions

The SSI units have to increase their strength in the sense that these units are not only to keep the existence but also have to develop themselves to the extent possible.

The SSI units must take care while appointing the employees and choose efficient work force in order to meet current challenges.



Government should take the corrective measures in order to ensure the high quality of raw materials availability to the micro and small enterprises.

Government should provide the adequate finance without cumbersome process, as finance is key for all kinds of development.

Effective marketing strategies should be adopted by the SSI units to compete in modern business environment.

Conclusion

In a nutshell, the major problems faced by SSI's sector are access to adequate credit, technological obsolescence, infrastructural problems, marketing constrains and excess of rules and regulations. It is also as important for SSI sector growth to develop robust financing mechanisms for this important sector.

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