



SMALL SCALE INDUSTRIES IN INDIA: ISSUES AND CHALLENGES

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Abstract

The unorganized manufacturing sector is known as small scale industries in terms of investment in plant and machinery. This sector is characterized by low investment requirement, operational mobility, location wise flexibility, and import exchanges. The SSI sector remains an integral part of Indian economy and playing an important role in the country due to their unique organizational and economic character, social and political role in employment and income generation, utilization of balanced resources and reducing regional imbalances etc. This sector employs the largest manpower next to agriculture, contribute significantly to India's GDP and export earnings besides meeting the social objectives. The finest advantage of this sector in the Indian economy is very significant towards poverty eradication, job creation, rural-development, creating regional balance in the promotion, growth of various development activities and increasing standard of living of the people. The contribution of small-scale industries (SSIs) has been remarkable in the industrial development of the country. Under the changing economic scenario, SSI has been facing problems of huge population, large-scale unemployment and lack of capital resources. Continuous encouragement to SSI sector by the Govt. in terms of infrastructure development, fiscal and monetary policies have helped to develop as dynamic and vibrant sector of Indian economy.

Key Words: Small Scale Industries (SSIs), Indian Economy, Resource, Policy, Growth, Development, Sector, Country, Employment, Policy and Government Etc.

Introduction

The industry is the sector of the economy concerned with the production of goods. Small scale industry (SSI) is a term which applies to the small entrepreneurs who are involved in manufacture and production on a micro scale. It mostly refers to an agro centred rural industry which doesn't need huge capital influx and large infrastructure.

Small scale Industry is the greatest suitable type of entrepreneur in the developing countries. 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 exchanges. They have been the prime mover of industrial development in many developed economies. This sector accelerates quick development of the nation by providing employment opportunities to rural and less skilled masses and caters to the consumption requirements of these people by resorting to indigenous production making use of local resources. With less amount of capital investment, this sector contributes more towards GDP, foreign reserve, generate gainful employment opportunities, create and sustain an entrepreneurial base, offers unique product and service, improve the standard of living of the people, induce regional dispersal of industrialization in rural and backward areas that are so necessary for less developed economies.

Small Scale Industries in India

The concept of 'small scale industry' is not new in India, rather an age old traditional system in the ancient period. India had a glorious past of sophisticated handicraft industries and her self- styled village economy categorized by harmonious combination of agriculture and handicrafts. During the Mughal period, India had a considerable variation of arts and handicrafts. In some handicrafts, specialization of jobs had advanced towards such an extent that particular classes of artisans undertook distinct processes in the class of production; and the products commanded the wide range of foreign markets. At that time no other country produced products that could be imported to India in exchange for cotton and silk goods which were in worldwide demand. Europe had to pay in billions for the increasing volume of Indian exports.

Still, industrialization in modern logic never took place in this part of the globe until the arrival the East India Company. The industrial revolution in the eighteenth century had a great influence in the world market as a whole which transformed the character and composition of foreign trade of countries like India. In the early eras of the British regime, the East India Company paid some consideration to the growth of industries since many Indian industrial goods figured in their exports. The Famine Commission of 1880, the Industrial Conference held in 1908 and the Industrial Commission of 1916 advocated a greater share of government expenditure in industrial activities in India to make the nation industrially better equipped. After the First World War, Government of India Act, 1919 made industries a regional relocated subject influenced by the Indian Industrial Commission (1916-18) which had expressed himself in favor of protective policies for developing modern industries in India. This policy also found support from the Fiscal Commission, 1921 which advocated grant of fiscal protection or 'discriminatory protection' to deserving industries in the initial stages of development or in cases where they



were under pressure from unfair foreign competition. This policy of discriminating protection induced some noticeable acceleration in industrial development in that period.

Observing at the history of India's manufacturing sector during British regime, one finds that India's small-scale original handicrafts had to contest with the Europe's large-scale manufacture of machine-made commodities on an uneven playing ground wherever the 'East-India Company and the British Government at home adopted a strategy of crippling the local industries' throughout the promotion of export of industrial raw materials out of India and dumping in it British manufactured goods. But the impacts of imports were not always identical for all sectors of the economy.

India adopted mixed economic planning as a method to achieve economic development after achieving freedom in 1947. Along with the Large Scale sector, the thrust was on Small Scale sector because of its small size, indigenous technology, employment strength and its suitability for rural area with limited techno-economic structure.

The Govt. took up the policy of fast-tracking industrialization since Second Five Year Plan. The Policy resolution 1948 highlighted that cottage and small-scale industries can warrant the best utilization of local resources, achieve 'local-self-sufficiency' in the manufacture, increase employment creation through the restoration of displaced people and warrant balanced economic progress. Industrial Policy Statement 1977 announced the concept of District Industries Centres (DICs) for SSIs to ensure supply of raw materials and machinery, the market survey of the district, generating new business ideas, an arrangement of credit facility, maintenance of quality of commodities etc. The Industrial Policy Statement 1980 took some path breaking measures like increase in investment constraint for tiny, small, and ancillary units, removal of industrial location restriction, removal of provisions regarding expansion, increase in private participation.

The Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI) established by the Government of India in October 1999. In September 2001 the Ministry of SSI and ARI were divided in two Ministries, namely, Ministry of Small Scale Industries and Ministry of Agro and Rural Industries.

Issues of SSIs

Notwithstanding of recommendable influence to the nation's economy, the SSI sector did not get the requisite backing from the concerned Government Departments, Banks, Financial Institutions and Corporates, which caused handicap in economy, National and International Markets. Small-scale industries in India could not progress satisfactorily due to various problems confronted with while running enterprises. As a result, several small-scale units became sick and a large number of them have finally close down.

1. Project Planning Problems

Poor project planning was an important issue faced by small scale industries. These entrepreneurs did not attach much significance to feasibility studies i.e. both technical and economical and jumped into entrepreneurial activity out of mere interest and excitement. They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of appropriate infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to the technical and financial viability of the projects is not at all given due weight-age.

2. Infrastructure Problems

Intended to build up the industrial culture and infrastructural facilities were mandatory without these no industrial enterprise can continue and sustain for long. Infrastructural are necessary to exist in order to assistance the smooth and continuous economic growth in overall and industrial growth in specific.

Indian economy is characterized by poor infrastructure which is the biggest challenge for small units to develop. Maximum small units and industrial estates establish in towns and cities are having one or more problems like absence of raw materials, power supply, water, and drainage problem, poor roads, and marketing problem. Thus the absence of adequate infrastructure adversely influences the quality, quantity and production schedule of the enterprises which eventually effects in under-utilization of capacity.

3. Financial Problems

The scarceness of adequate and timely finance and credit is that the main setback within the development of SSI units. The capital base of the tiny industrial units is sometimes very weak since they often have the partnership or sole proprietary style of organization. Normally SSIs be contingent on internal sources of finance (personal savings, the loan from relatives, and the loan from local money lenders) than that of institutional financing by banks and other financing institutions.



The Much lesser proportion of desirable investment comes from organized sectors like banks, monetary institutions, and government channels. The artisans running household industries either run their units with no substance capital they take the loan from native moneylenders or the traders who supply raw material to them. The solvency of small borrowers is generally weak and thus they face unwilling creditors who may be made to loan only at a very high rate of interest.

After nationalization, banks have begun financing this sector. These enterprises are still struggling with the problem of inadequate availability of high-cost funds. These enterprises are promoting various social objectives and in order to facilitate then working suitable credit on simple terms and conditions must be provided to them.

4. Manpower Problems

The key asset of any enterprise is its manpower. The success of a small enterprise rotates throughout the entrepreneur and its employees, providing the employees are skilled and competent. Because unproductive human factor and unskilled manpower create countless problems for the existence of small industries. Non-availability of sufficient skilled manpower in the rural sector creates problem to small-scale industries.

Further non-availability entrepreneurs are challenged with various other problems like absenteeism, high labor turnover indiscipline, strike etc. These labor related problems result in poorer productivity, depreciation of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

5. Managerial Problems

Managerial insufficiencies create another critical problem for small scale units. Latest business demands vision, knowledge, skill, aptitude and wholehearted devotion and dedication. Competence of the entrepreneur is essential for the success of any business enterprise. Various small scale units have turned sick due to the absence of managerial competence on the part of entrepreneurs. An entrepreneur who is required to undergo training and counselling for developing his managerial skills will add to the problems of entrepreneurs.

The small scale entrepreneurs have to face several problems linking to overdependence on institutional agencies for capitals and consultancy services, lack of credit-worthiness, education, training, lower productivity and host of marketing and other problems.

6. Machinery/Equipment Problems

Machinery and other equipment in several small industries have grown obsolescent. On account of this reason however their costs of production are high, the quality is inferior as compared to the large-scale units.

Small-scale units are striving hard to employ modern machinery and equipment in their process of production in order to compete with large industries. Most of the small units use outdated and traditional technology and equipment. The absence of suitable technology and equipment create a major stumbling block for the growth of small-scale industries. Furthermore, the small-scale units often do not care on the changing tastes and fashions of the consumers.

7. Poor Technology Base

The predominance of a low level of technology is one of the critical problems of SSIs in India. The SSIs sector of our nation is accordingly suffering from technological backwardness. Obsolete methods of production are mostly being applied in both the agriculture and industrial sector of our nation. A small percentage of firms operate with sophisticated technology base while the majority of firms use outdated. Sophisticated current technology is being applied in productive units at very limited scale as it is very much expensive. Besides, it is very challenging to implement modern technology in India by SSIs sector with its unqualified, untrained and unskilful workforce. Therefore due to the usage of poor and outdated technology, the productivity of this sector is very low and poor product quality. Due to their small size, they cannot enjoy large-scale production economies.

8. Raw Materials related Problems

The availability of raw materials has been a major problem in our country. Small units face serious problems in procuring the raw materials whether they usage locally prevailing raw materials or imported raw materials. The problems rise due to the faulty and improper supply of raw materials. Some of them are very scarce at times and abundant at others causing great price variations. There are frequently artificial scarcities created by dishonest manufacturers and suppliers to rig the prices up. This is particularly true for small scale and cottage industries. Bad conditions of road links especially during raining season



lead to uncertainties in the procurement of essential raw materials and construction materials from outside which creates artificial shortages.

9. Transportation allied Problems

Efficient, economical and quick means of transport of wide varieties is important for the development of trade and commerce. The insufficient transport system has resulted in crippling disincentives of unwarranted transportation cost, undue delay in movement of materials and problems of marketing. In India, most of the SSIs industries are located far away from road and railways. Generally, the railway which is the low-cost means of transportation is not available in the rural area. Similarly, the roads connecting the rural places with the urban places are not very good. At many places, the roads cannot be used during the rainfall seasons. As a result, goods cannot be transported to rural areas very easily. Accordingly, it is also a major problem of small SSIs in India to supply products in the market and get raw materials on time.

10. Marketing Problems

The market is the ultimate destination of all industrial concerns whether small or big where the produced are being bought and sold. The vital role of marketing in accelerating industrial development lies in selling the goods and services produced by these units. It is a tricky technique involving detection of what the consumers want, then planning and developing a product or service which satisfies those demands and finally determining the greatest way to price, promote and distribute that product. Most of them do not have any well-formulated marketing strategy, market research programs, innovative advertisement techniques etc. Most of the SSIs do not have adequate monetary support to develop marketing section and many are not aware of modern low-cost marketing techniques (blogging, sending emails, developing the website for the company). In the absence of organized marketing, their products compare unfavorably with the quality of the product of large-scale units. The small scale industrial sector also faces a number of difficulties in marketing their products due to growing competition among themselves and in recent years due to the emergence of stiff competition from foreign goods. Thus, the above problems do not allow them to stay in the market.

11. Extreme Competition

The SSIs face ruthless competition from the large domestic firms and multinationals companies with upgraded technology, managerial competence, skilled workforces, marketing skills, improved product quality, and a broad range of products. The small firms find it difficult to maintain their existence as the cases of merger and acquisition is continuously increasing.

12. Competition from Large-Scale units and Imported Articles

Small-scale units find it very difficult to contest with the product of large-scale units and imported articles which are relatively very cheap and of better quality than small units product.

13. Delayed Payments

The small firms find it problematic to get back their dues from the large firms and even from Govt. departments due to complex payment process and dishonesty. Due to the absence of funds, they cannot hire credit collection machinery (like factoring services). The large companies force them to offer long credit period and even pay advance to ensure timely supply of materials.

14. Socio-Psychological Problem

Social set up of the rural area and psychology of rural inhabitant in India is also playing a very significant role in the development of SSIs. Mostly, Indian rural population is a traditional society based upon culture, class, and caste and is having traditional opinions views, and approaches regarding their work as well as business. All of this has made the nature of rural market altogether different from urban market. The rural population is uneducated and unaware regarding the situation of the market. Illiteracy still prevails in spite of different government programs of literacy. Rural psychology thus plays a very significant role in defining the rural market structure of the Indian economy.

15. Mind-set Problems

In India, the mentality of the percentages of SSIs entrepreneurs has not still modified. They still expect protection policies and special treatment for the SSIs. Fortunately, this trend is small in the new generation entrepreneurs. Workshops, success story based technique may help diminish this propensity even more.

16. Social welfare areas neglected

The MNCs are more enthusiastic to manufacture consumer goods to maximize their revenue. The qualitative services like health, education etc. which require huge investment but generate less and time taking the return on investment, would be neglected.

17. Other Problems

Besides the above problems, small-scale units have been of constrained by a number of other problems also. They include unorganized nature of the operation, the problem of sickness, an inadequate database for the small scale sectors, burden of local taxes, logistic problems, old & orthodox design, lack of adequate warehousing, lack of information and the high degree of obsolescence etc. Due to all these problems the development of small-scale industries could not reach a prestigious stage.

Conclusion

The promotion of SSI is essential in developing economies like India to achieve equitable distribution of income & wealth, economic self-dependence & entrepreneurial development. To empower the SSI sector to take its rightful place as the growth engine of the Indian economy, it is necessary to support the Micro, Small and Medium Enterprises (MSMEs), educate and empower them to make optimum utilization of the resources, both human and economic, to achieve success. The SSIs need to be educated and informed of the latest developments taking place globally and helped to acquire skills necessary to keep pace with the global developments. 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 through Small Industry Development Organisation (SIDO), and National Small Industries Corporation (NSIC) Ltd. Technology Resource Centres (TRC) provide latest and right technology for attaining global reach by SSI units.

Therefore, the need of the hour is strong and flourish small scale sector. Indian economy will become capable of fulfilling needs of the huge population as well as to provide a sound base for industrial progress only with the help of strong small scale sector. For strong small scale sector, there is need of promotive measures rather than protective measure.

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